



Mattia Nardotto, Ph. D.,  
Research Associate, Department Firms  
and Markets at the DIW Berlin

## FIVE QUESTIONS TO MATTIA NARDOTTO

# »All consumers can benefit from an open access policy in the broadband market«

1. Mr. Nardotto, you investigated the market for broadband communication networks using data from UK broadband. The incumbent broadband providers have a strong market position because they own the network. What options do new entries have to compete? Historically, the EU implemented regulation because the authorities were afraid that the incumbents could transfer their monopolistic power into the new rising broadband market. That's why an open access policy was strongly advocated in the '90s when the broadband market was starting to develop in Europe. The two main options under Europe's open access policy were bitstream and local loop unbundling (LLU). With bitstream, the incumbent continues to manage the connection and provide the service, and the investment from the entrant is minimal. It is similar to reselling. With LLU, you have a more facility-based competition and real access to the last mile. Access to broadband via LLU is a larger investment, because the entrant has to install machinery, run maintenance, and manage the flow of data in the local loop.
2. What are the effects of the open access policy in the UK? The studies show that there's been a lot of entry into the broadband market. Many companies decided to invest in LLU. We've found that there is no large effect on internet penetration when you compare LLU with bitstream or with competition from another technology. The reason is that new entrants can manage the connection: they can invest in their own technology more than they can with bitstream and provide higher quality than the incumbent. But because they enter the market from the top-quality level, we don't observe a large market expansion. What we see is a major improvement in quality. These entrants are very efficient. They know how to provide good quality – in fact, the best of them can match the speed of a cable operator, which is a very good service.
3. Which consumers benefit the most from the open access policy? In my opinion, all consumers benefit from open access policy, because these new operators provide different combinations of speed and prices in the broadband market. Previously, we had a very basic service provided by the incumbent and a good quality provided by the cable, but there was nothing in-between. Due to the increased competition provided by the new entries, neither cable nor the incumbent can exploit their market power, and all consumers who would like to have a kind of intermediate speed at a good price are able to find the best combination.
4. Is LLU the best trade-off? In general, I wouldn't say so. Clearly, the speed that can be achieved with fiber to the home (FTTH) is way better than any copper technology. If the goal was to have competition in the short and medium terms and a lot of people connected at a very good speed, LLU was a good solution. The companies that previously used bitstream were able to improve their internet speeds with LLU. But there are different opinions on that, because it is also true that these companies didn't invest in FTTH because they made a decision for LLU. But in the medium run, it paid off.
5. What are the differences between the broadband markets in the UK and in Germany? During the same time period as the one examined in this study, the incumbent in Germany was way stronger than was the one in the UK. Deutsche Telekom had more or less 50 percent of the market share—even more in 2005—while British Telecommunications (BT) only held 30 percent in market share in the UK. Deutsche Telekom is thus a very strong competitor in the German market. In the German market, you also have less cable coverage and less cable penetration. With this in mind, the open access policy was even more critical in Germany than it was in the UK, because Deutsche Telekom was very dominant in 2005. This is why German regulation was ahead of British regulation. In Germany, LLU started very early—at the end of the '90s—while it did not start in the UK until five years later.

Interview by Erich Wittenberg



DIW Berlin – Deutsches Institut  
für Wirtschaftsforschung e.V.  
Mohrenstraße 58, 10117 Berlin  
T +49 30 897 89 -0  
F +49 30 897 89 -200

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