
Competition and Industry Structure in Local Access

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Purpose of this talk

**Construct a picture of the emerging relationship
between facilities and services in local residential
access.**

**Speculate on what this might mean for industry
structure, competition and regulation.**

**Provide a framework for debate.
Start an argument?**

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The naïve model of competition in local access

Simple head-to-head facilities-based competition.

- **Lots of people install copper pairs to
sell POTS.**
- **Lots of people install HFC to sell cable
TV.**

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Does not seem to be happening...

Uncertain business case.

- Can competition be sustained?
- Significant costs

Regulatory barriers (your country may differ)

- Long run unbundled pricing.

New approaches to service offering.

- Need technology to support multiple businesses.

What is actually happening?

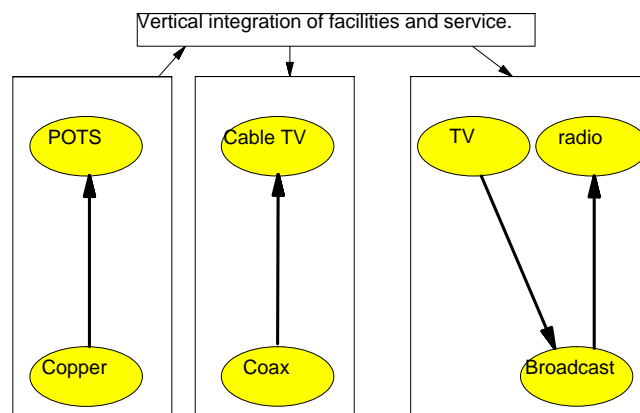
1) Wireline services.

- Incremental upgrade of existing technology
- Permit entry into new lines of business.

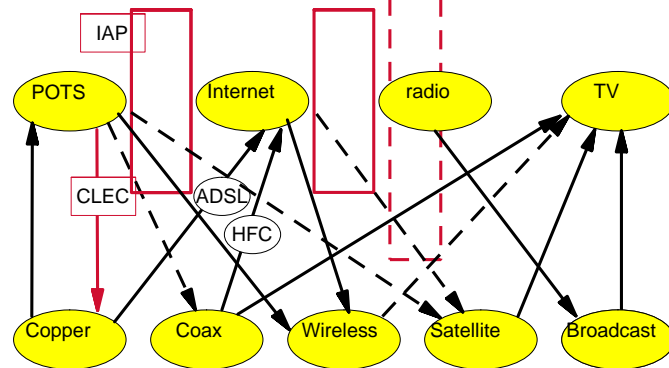
2) Wireless services.

- More greenfield (tower) investment.
- Waiting for the launch of satellite.

The old order



The emerging order



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This picture raises questions...

Is there adequate competition?

- What does competition mean?

Is there a need for regulation?

- Of what?

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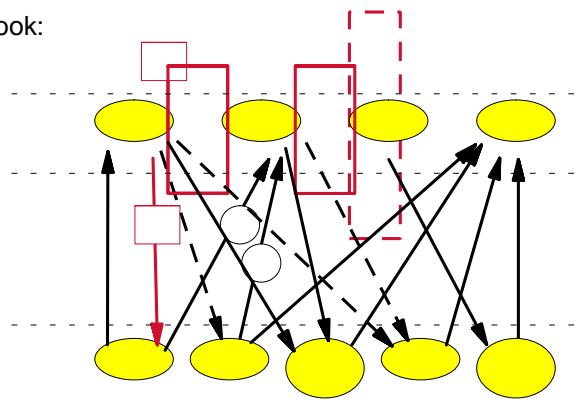
How to evaluate competition

Should we look:

HERE?

Or

HERE?



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The service-centric view

Consumer does not care about competition in facilities.

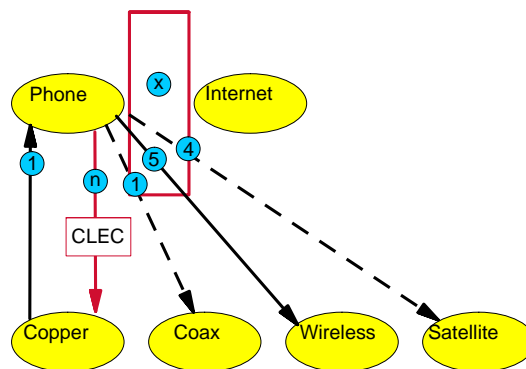
Consumer cares if there is adequate competition in services.

- **Actually, consumer only cares about shape of product space...**

This conclusion raises questions...

- **What constitutes a service?**

Telephone as an example



Two interpretations of this picture

- 1) This represents rich competition in telephone service.
- 2) This represents a number of distinct services, some of which are competitive.
 - **Distinguish each sort, and separately assess.**

Which approach is right?

There is no *a priori* answer.
It depends on the specifics.

What features constitute POTS?
(Is POTS the right baseline?)

Great debate material.

Another question...

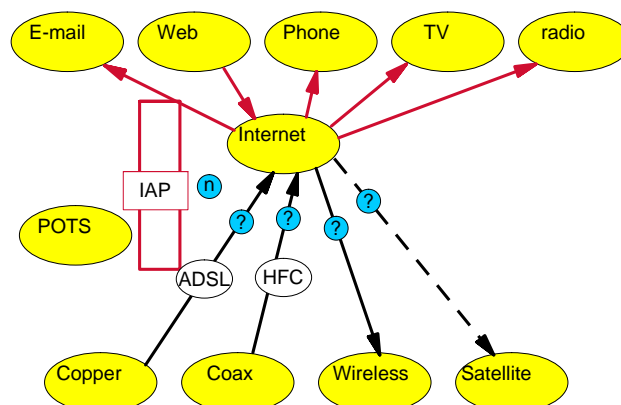
What does “facilities-based competition” actually mean?

One answer: not much.

Only can be discussed in context of particular service.

Internet as an example.

The Internet picture



Is Internet service competitive?

(At least) two sorts of service:

- **High performance.**
Two facilities-based providers.
No unbundling likely.
- **Basic**
Lots of providers over POTS.
Fight over the bones--low value subscribers.
- **Nomadic (wireless, satellite, etc)**
Too immature to be sure.
Love to discuss.

What is the effect of the Internet?

Internet seems to lead to open competition above it.

- **Vertical integration of Internet and applications not likely.**
Why? Open interfaces, diversity of content.

Integration of facilities and Internet service more likely.

- **Limited evidence to date supports this.**

Need to observe, and perhaps rethink, where we focus concern about depth of competition.

A new wireline facilities build-out?

Fiber to the ??

Not likely to be many such investments.

But might just make existing services more competitive.

But what if it is so much better it kills off all the current infrastructure?

So if it happens, must it be “unbundled”?

The regulator's dilemma

Better to regulate (or not) service than facilities.

- **But what is a “service”.**
- **Convergence blurs all boundaries.**

If there is a new generation of facility installed, is that pro or anti-competitive?