

Regulatory reform in the Telecommunication sector in France

Michel Roseau

Ladies and Gentlemen,

Dear colleagues,

It is a great pleasure for me to join you for this debate on telecommunications reform and to address this eminent international assembly. I would like to congratulate both APEC, OECD and, of course, our Korean hosts, for the high-quality of talkings and organisation.

Firstly, I would like to give you some key-ideas about the process resulting in introducing more competition in the sector of telecommunications in France

The French telecommunications sector has been considerably transformed over the past five years. Our basic organisation was traditionally based on the monopoly held by France-Telecom. This company had in charge the management of the fixed telephony network with tariffs decided by political authorities. The structure of markets changed radically due to the fall of networks costs, technological progress that led to the end of the natural monopoly that was the reason for the end of the legal monopoly, accelerated development of demand for new services. New operators emerged, causing a huge decrease in tariffs and a huge growth of volumes. Basically, the economic stakes moved from the heart of the network (the long distance communications market) to the borders (the local loop market).

Two main factors led the Government to give up the old system of legal monopoly:

- Firstly, technological progress that reduces fixed costs and allows the entrance of new players with real hopes for mid-term profitability;
- Secondly, faith in competition benefits in order to improve global economic efficiency and global welfare for providers as for consumers.
- Well, maybe, a third factor is the European Community regulations on Telecom;

The French Telecommunications Act of 1996 dismantled the old monopoly system, entrusting the authorities in charge of regulation the task of ensuring – I quote – *“an effective and fair competition among network operators and telecommunications service providers, in the interest of users”*. In the meantime, State authorities accepted a drastic change in their role, abandoning direct administration of the network and concentrating on regulation stakes.

The regulatory role is shared by three institutions:

- The Competition Council, which is keen on applying competition rules notwithstanding specific structures of telecommunications markets;
- The telecommunications regulatory authority, which aims at safeguarding and allowing for a satisfactory evolution of the structural economic equilibrium of the telecommunications sector;

- And the telecommunications Secretary whose role is now very limited indeed, consisting in making a decision about prices for few segments still under monopoly.

A step-by-step approach has been implemented:

- *Stage one* consisted in the legal separation of the operating and the administrative functions. This was achieved by creating a company incorporated under ordinary law, in which Government still retains a majority interest.
- *Stage two* consisted in abolishing monopoly and exclusive or special rights. This stage was accompanied by a series of measures aiming at preserving a high-quality service to users. As you know, there is a strong public choice for universal service in France and the new operators have to support special duties as regards universal services.
- *Stage three* consisted in setting down legal rules designed to introduce competition in a market that remains dominated by the incumbent operator. These rules are related to interconnection, licensing conditions for network and service operators, tariff monitoring and technical provisions enabling newcomers to pursue their business.

This gradual approach has been successful. Opportunities of new businesses were offered quickly to new entrants as the incumbent operator was under growing pressure to share the networks and the data transportation facilities. Asymmetrical regulation on the incumbent operator was the key tool to reach successive competition equilibriums, imposing on France-Telecom cost-oriented interconnection tariffs.

The fixed telephony market:

During the period of public monopoly, the pricing of telecommunications calls was based on huge cross-subsidies, both between the various segments of market (network access and local communications Vs long distance calls) and the various segments of users (business Vs residential). The monopoly system was based on a huge discrepancy in pricing, with a very low pricing of network access compensated by a high fare for long distance calls. This system allowed an extensive coverage of the national territory with costly investments throughout remote areas. Access to the network was granted at a reasonable price for all the consumers, located in Paris or in a remote village of Brittany. As a consequence, the stress put on global social welfare hinders the system from reaching economic efficiency. Massive financial transfers between users of international services and local users made the system work but the lack of transparency led the sector far from the economic optimum.

The opening of markets in 1998 led to a new system of prices based mainly on real costs. New comers chose to enter the profitable segment of long distance calls and the fall of prices on this segment due to competition led the incumbent operator to raise the pricing of network access. As a consequence, an appropriate pricing of network access allowed new comers to operate successfully in the local loop market.

The available data on prices show that the monthly retail access network price increased from 7 € in 1995 to 13 € in 2002. In the meantime, the communications prices have been roughly divided by two. The telephone bill decreased by an average 30% for business customers and by an average 10% for residential customers. But we must acknowledge that there are winners and losers within residential customers. People consuming few communications have to fully support the raise of line rental without substantial benefits in communications. On the contrary, people consuming a lot of communications have a different structure of their telephone bill with a smaller part devoted to the line rental.

Nevertheless, for customers with special needs, the concept of universal service has been introduced with prices different from those resulting from normal market conditions. I have to mention that the universal service does not involve competition distortions as the net cost burden is shared by all operators either they have many universal service users or not.

The mobile telephony:

The mobile telephony market has experienced a very high growth for the past five years. The equipment rate evolved from a low 9% in 1997 to a quite high 62% in 2002. Each year, 7 or 8 millions people newly decide to connect with a mobile phone. This development has been accompanied by a decrease in prices by 20% between 1997 and 1999. The prices have been stable since 1999 but several measures tend to deepen the competition between operators. Three companies are operating with GSM licences. Two of them – France-Télécom-Orange and Vivendi-SFR – have been designated as powerful operators because they have the capacity to influence the interconnection market (i. e. their market share is over 25%). They are now compelled to propose cost-oriented prices for terminating interconnection services. Moreover the choice for the transportation operator is now completely free for calls from fixed telephony towards mobile telephony.

Internet:

Internet also experienced a huge growth over the past three years. Traffic has doubled between 1998 and 2001. In the last two years, prices for Internet access have decreased by an average 60%, ranging from 50% up to 75% depending on different kinds of pricing formulas. The main stakes now lie in the unbundling of the local loop which is necessary to strengthen competition in high-speed internet traffic. ADSL technology is now available and delivers reasonable hopes for a rapid development of the high-speed market. The incumbent operator took strong advantage of being the unique operator owning reserved phone lines to connect ADSL. But all Internet access providers should now be allowed to propose ADSL connection without competition disadvantage. Indeed the Competition Council made very important decisions in order to force France-Télécom to let other competitors order quickly and freely ADSL access thanks to an Extranet server.

As a conclusion, I must add that a new European regulatory framework recently enacted will strengthen competition in the next few years. This framework creates special duties for so-called powerful operators which proved to have a significant market power. These operators are under close control concerning their pricing policy for retail as for interconnection markets. As a consequence, the action of national regulation authorities throughout the European Union will be under close supervision if we consider that the common law of dominant positions and competition rules will apply more and more in the specific field of electronic telecommunications economy. We are now experiencing a new approach that is based much more on free competition rather than on a regulatory scheme. The strategic role of the fixed telephony network is no longer alive for international calls, data transmission markets and also for the local loop. And all the operators -small-size, medium-size or major companies- should fairly compete in order to deliver best services at a low price with satisfactory profitability in all the segments of the telecommunications markets.

Thank you very much for paying attention to this short disclosure of the regulatory and competitive stakes in telecommunications in France.