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## **Europe’s new telecoms framework: Functional separation is a dead end, says a new study**

**Paris, Wednesday, 11 June 2008** – Believing that the transition to a competitive telecommunications market is still incomplete, Viviane Reding, the European commissioner for Information Society and Media, suggests imposing “functional separation” of incumbent operators (the former monopolies) into two distinct entities, one to manage network infrastructure and the other to provide retail services to customers.

According to a new study from the Institut économique Molinari, Brussels is making a mistake. Not only is this measure unnecessary, but it is harmful and arbitrary.

### **An unnecessary measure**

The British example, often used to show the pertinence of imposing a drastic reorganisation of this sort, is far from conclusive. The failure of unbundling following Britain’s opening of access in 2001 led in particular to the functional separation of BT (the incumbent operator) and the creation of Openreach to manage the network.

Although Britain experienced a significant relative increase, it should be noted that other countries achieved higher levels of unbundling using different means. This is especially true of Germany and France, which did not turn to functional separation.

### **The fibre optic network threatened**

The vertical dismantling of incumbent operators will result in the creation of monopoly structures with no incentive to innovate or deploy the fibre optic network. This is the case in Britain, which has been slower to bring fibre into the home than other countries including the United States, France Germany, Japan and South Korea.

Functional separation could thus cause considerable harm both to the industry and to consumers by compromising the availability of very high-speed access.

### **A blind measure**

This will create an irreversible situation in which the new monopoly structure will be incapable of adapting to a fundamentally dynamic context. Technological advances, market evolution and operators’ investment decisions can modify the situation from one year to the next. Other platforms such as cable, WiMax or the broadband mobile network could soon be offering the same services in many places.

The dynamism of Europe's telecommunications industry depends on the hundreds of billions of euros that will be invested in it over the coming years. This sector does not need more uncertainty or regulatory complications but rather stability and flexibility.

Members of the European Parliament should contribute to it by rejecting functional separation.

**Titled *Telecommunications: functional separation, a cure worse than the disease*, the study is available at:**

<http://www.institutmolinari.org/pubs/note20082en.pdf>

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