Belgian Cable Observatory

Brussels, 12 September 2017
Context and status of Belgian broadband market
- A well-developed market
- Copper unbundling not a major success
- Fresh momentum for a rigid broadband market

Situation in retail standalone and bundled TV market
- Market dynamics: market evolution and market shares
- Consumer prices compared
- Service quality compared

Wholesale aspects: underlying market observations
- Wholesale pricing approaches in Europe
- Access prices for cable:
- Quality of cable access: Cable KPIs and comparison with BRUO/BROBA
Belgium enjoys a well-developed broadband market…

A European leader in coverage as well as take-up of high-speed broadband

**NGA coverage** (% of HH; FTTH, VDSL, DOCSIS 3.0; June 2016)

**Share of NGA broadband in all broadband lines** (% lines, December 2016)

Source: European Commission, IDATE
... but competition is weak…

Copper unbundling failed in Belgium

Success of local loop unbundling
... intra-modal competition has run out of steam

Competition essentially a duopoly between Proximus and local cable-co

Fixed residential BB market shares (% of subscribers)  Take-up of telco wholesale products

Source: BIPT
Opening of cable may provide fresh momentum for rigid broadband market

To create competition on the bundled offers, entrants need access to the different components of the bundled offers
• When a component is not easy to replicate, access needs to be imposed

Economic literature shows that infrastructure-based competition is stronger and more sustainable than service-based competition
• Entrant which rely on regulated access need to invest

But access is not easy to impose and requires a strong regulatory strategy
• Access prices
• Access quality
• Strong and quick regulator
• Good data and market monitoring
Situation in retail TV and bundle markets
Bundling is the name of the game

Convergence is progressing rapidly

Take-up of multi-play bundles (subscriptions; end 2016)

Source: IDATE based on BIPT
TV remains popular – especially if bundled with other services

3- and 4-play bundles make up almost 50% of TV market

Source: BIPT
Market dynamics: new entrant’s steady progress shows users appreciate choice

Orange Belgium making healthy progress

TV subscribers by operator

Quarterly TV net adds (000s)

Source: Van Dijk, operator reports  Voo: not available
However, Belgian users do not enjoy most favourable pricing conditions...

International benchmarks show prices levels are elevated in Belgium

3-play subscription (EUR PPP/month)

- Median offer (with line rental or cable TV subscription included)

<table>
<thead>
<tr>
<th>2014**</th>
<th>2015***</th>
<th>2016***</th>
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<tbody>
<tr>
<td>BE</td>
<td>55,16</td>
<td>55,09</td>
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<tr>
<td>DE</td>
<td>59,6</td>
<td>53,19</td>
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<td>NL</td>
<td>52,98</td>
<td>53,62</td>
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<tr>
<td>UK</td>
<td>49,55</td>
<td>42,81</td>
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Source: European Commission, BIAC 2016

Source: IDATE based on BIPT

* Weighted avg., incl. VAT; ** 30-60 Mbps, ***30 – 100 Mbps
... in particular the evolution of bundle prices may give rise to concerns

Long-term upward price trend for service packages

![Evolution of communications price indices](image)

Source: Statistics Belgium

2013 avg. = 100
No favourable trend for consumer - but competitive offer by cable entrant

Source: vanDijk, IDATE based on operator web sites
Quality of Service: no provider progressing on all aspects

Some progress on disruptions – but no so much on repair times

Improvements at ‘first-time right’, but three out of five players regress in respecting delivery dates

Source: BIPT * part of Telenet group
Wholesale aspects
Setting wholesale tariffs a crucial challenge for NRAs, competitors and markets

Cost-orientation is the most widely used approach in practice

Several methods to regulate access prices

- Price cap

- Benchmarking:
  - difficult to find correct benchmark

- Retail Minus and Economic Replicability:
  - Complex calculation of “minus” factor
  - Wholesale tariff dependent on retail price strategy, difficult to come with “disruptive” offer
  - Difficult to account for promotions

- Cost orientation
  - Should ensure access and cost orientation when costs are correctly calculated

=> Retail minus methodology was chosen by the Belgian Regulators

Source: BEREC
Wholesale prices

Cost-orientation seems to offer more attractive conditions for challengers

**Monthly fees** (EUR/access line; BE: bundles)

Source: BE: BIPT wholesale price calculator, reference offers
Quality of service: line activation

Threshold values are not directly comparable, but cable KPIs do not seem more challenging than Proximus’ BROBA and BRUO

Line activation (working days)

Source: reference offers
Quality of service: Repair time

**Repair time** (working hours*)

<table>
<thead>
<tr>
<th></th>
<th>80%</th>
<th>90%</th>
<th>95%</th>
<th>99%</th>
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<tbody>
<tr>
<td>cable</td>
<td></td>
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<tr>
<td>degradation</td>
<td>8</td>
<td>16</td>
<td>25.5</td>
<td>34</td>
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<td>interruption</td>
<td>17</td>
<td>17</td>
<td>34</td>
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</tbody>
</table>

BRUO/BROBA VDSL2

- w/o splicing:
  - 80%: 8.5 hours
  - 90%: 17 hours
  - 95%: 68 hours

- with splicing:
  - 90%: 68 hours
  - 95%: 102 hours

Source: reference offers; * assumption: working day = 8.5hrs
Conclusion of this edition...

... it’s too early to draw a conclusion!

- Opening of cable market is still very recent
- Encouraging start: more subscribers than any alternative operator’s TV bundle ever before in the Belgian market
- But....
- No tangible impact on retail price evolution
- Only one single wholesale customer
- Regulatory framework evolving, impact remains to be seen
- For the observatory: need of more precise data on the investment in infrastructures, broken down by type of infrastructures
Q&A

We’re happy to take your questions – here are ours …

- Are the selected indicators relevant to assess the effects of cable opening?
- Do our data give the right picture of the market evolution?
- Could you provide us with more precise data on network investment?
Thank you!