Telecom in Spain Not in Line With E.U. Average

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Since the liberalization of the Spanish telecom sector in 1998, a growing number of operators have entered the market and prices have come down. However, market concentration and prices in the sector are generally still higher than the European average, and take-up rates lag behind.

The report "Competencia y Regulación en los Mercados Españoles de las Telecomunicaciones" ("Competition and Regulation in Spanish Telecommunications Markets") aims to contribute to the debate over which measures should be taken to offset these imbalances and meet the latest challenges. In particular, the report calls attention to subscription-based audiovisual content, next-generation networks and the process of technological convergence.

The authors of the report, Ángel Luis López and Sandra Jódar Rosell, note that Telefónica currently controls 80 percent of retail revenue from all landline services, 50 percent of all cell phone services and more than 60 percent of all Internet services. The incumbent operator's dominance is strongest in the retail broadband market. Competition is stagnant with landlines but is improving in the wireless segment, thanks in part to the entrance of Yoigo and mobile virtual network operators.

Much Remains to Be Liberalized

Landline business, the second largest segment in the telecom market, is declining, due partly to the gradual replacement of landlines with wireless and VoIP services. Spain has 43.9 active landlines per 100 inhabitants and a higher market concentration than that of Europe as a whole. Telefónica controls nearly 80 percent of these lines, while ONO, its main competitor, has only a 10 percent share. Fixed monthly fees are similar to those in neighboring countries and local calls are cheaper than the European average, whereas national long-distance calls are more expensive.

Wireless services have emerged as the largest Spanish telecom sector, reaching a penetration of 114 percent by mid 2008, a rate that is lower than but approaching the European average. In 2008, Movistar, Telefónica's wireless brand, controlled a market share by users of 45 percent, followed by Vodafone (31 percent). Although the competition has begun to open a path for itself, boosted by the presence of virtual network operators, market concentration is still slightly higher than the European average. Wireless rates tend to fall over time, but those in the low-consumption range are higher than the European average, and rates in the high-consumption range are the highest in Europe, both with prepaid and postpaid plans. Moreover, Spanish customers pay for the establishment of the call, which is not the norm in European countries.

In 2008, broadband penetration in Spain stood at about 20 lines per 100 inhabitants, lower than the average for both the E.U.-15 (25 lines per 100 inhabitants) and the OECD (21 lines). This can be attributed not so much to network quality – although operators do not offer the full promised speed – as to social and demographic factors and, in particular, the fact that prices are relatively high. New operators, as a whole, are losing market share in terms of the number of lines. Telefónica controls 56 percent in this area, while newcomers control only 43.68 percent, 10 percent below the E.U. average. Telefónica's best offer is 56 percent more expensive than the average best offers of other European incumbents, and the best offer in Spain costs 11.7 percent more than the average best offer in the E.U.

The subscription-based audiovisual segment comprises four technologies: satellite (the incumbent technology), cable, DSL and mobile TV via streaming. It is still small – as of September 2008, only 25 percent of households had subscribed to some form of pay television; but compared to other segments, it is clearly growing. According to data from the Spanish telecom regulator CMT, companies captured more than 600,000 new subscribers between the third quarters of 2007 and 2008, although Spain is almost last in Europe in terms of penetration. DSL TV has achieved a 14 percent share, and pay audiovisual services via digital terrestrial television (DTT), which have registered more than 600,000 subscribers in 2009, will increase the number of channels currently available, and thus, the competition and perhaps the size of the market as well. In international terms, pay TV in Spain is relatively expensive.

Stimulating Competition Without Stifling Investment

The report underscores that regulatory measures must be, above all, effective. Next-generation networks, for example, may entail hefty outlays for infrastructure, but they also open up new opportunities for market expansion. Competition from new operators must be boosted without choking their margins, though not to the point of discouraging investment in infrastructure by both the new operators and the incumbent.

"A fiber optic network is better than no network at all," say the authors. Given that it is neither possible nor beneficial to replicate networks throughout the national territory, they argue that regulation must seek to promote the creation of new networks in those segments and areas where it is possible, and the use of existing ones by newcomers where it is not.

Regulatory measures must also be flexible, as they will apply to an evolving sector. An example of this evolution is the process of technological convergence, which casts doubt on the very definition of a market that has traditionally been compartmentalized into segments, but may soon become a market for electronic telecommunications as a whole.

This change will potentially turn operators into multi-product companies, able to offer comprehensive service bundles, including voice, data and audiovisual content, which will affect prices.

In fact, 40 percent of current landline customers already offer bundled services – usually voice and Internet access – and 40 percent of the market for subscription-based TV works this way. The recent industry agreements to offer triple-play services will play an increasingly important role in providers' competitive strategies and increase the complexity of interrelations.

Regulatory initiatives must be able to adapt to the market's growing complexity and to changing costs, which are increasingly difficult to project. "One-size-fits-all solutions should not be sought for a heterogeneous market," insist the authors.