

Viviane Reding

EU Telecoms Commissioner

Towards a European Strategy of High Speed Broadband for All: How to Reward the Risk of Investment into Fibre in a Competitive Environment

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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Ladies and Gentlemen

It is a pleasure to be with you today to share in the discussions on the important subject for today's conference: "fibre investment for Europe's recovery".

We all know the European economy is in the middle of a crisis. The challenge we face is to move Europe towards a sustainable recovery. I believe the ICT sector will undoubtedly play a crucial role in that process. ICT matters in the context of economic recovery. Not only will deployment of or upgrade to high-speed broadband networks trigger civil works and employment today, it will provide a basis for enhanced productivity and competitiveness and unlock the innovation potential of Europe tomorrow.

That is why the call by the 27 Heads of State or Government at the European Council in March 2009 for the Commission to come up with a unifying broadband strategy by the end of this year is at once an important challenge but also a great opportunity. The Commission is committed to responding to this call for action. Not only do we need a European Broadband Strategy to prompt a speedy recovery from the economic crisis, we also need a broadband strategy at European level to extract the synergies from national strategies. This call for action therefore comes at a most crucial time.

Policy makers quite understandably and quite rightly see the benefits arising from a speedy deployment of optical fibre and Next Generation Access (NGA) networks. Deployment of these infrastructures – in particular with financial support from the public purse – could act to create jobs or a *short-term* fiscal stimulus.

But we also need to look beyond the short term towards the further horizon. ICT is a sector where modernization continues apace, despite the inevitable fluctuations caused by the business cycle. I am not talking about the green shoots of recovery. I am talking about long-term technological progress which will continue to allow us to reap productivity benefits, to grow our economy and to achieve higher standards of living. That is why I would suggest that just as important for Europe's recovery are the *long-run* economic benefits of high-speed broadband, that is the gains stemming from more productive businesses and organisations on the one hand, and from product innovation and more choice for consumers on the other. And let us not forget one key truth: the more participants, the higher the benefits accruing to society. For these reasons Europe cannot afford to get its ICT and Telecom policies wrong; too much is at stake.

Technological progress coupled with innovation is particularly evident in the ICT sector. Discoveries and *new things* in the ICT world often rapidly spill-over to other sectors of the economy. To give you an example: copper broadband networks and the wide-spread use of the web have wrought dramatic changes to the EU's newspaper, retailing and even financial services industries, resulting in new products, more choice and better access for consumers. Blogs, online auctions and web searches have enriched many people's lives.

We are currently witnessing the next wave of innovation in the ICT world at both the network and the applications layers. Current developments in applications are certainly fascinating: think of innovative music and video formats, online games or new modes of social interaction on the web. But in my remarks today I wish to focus on what is happening at the network layer. Modern telecommunications networks are the necessary condition for a rich universe of applications. Their design also shapes what people can do online.

Many Member States' governments are currently in a state of reflection about the challenges posed by broadband and the transition to new high-speed broadband, and are coming up with their individual proposals. To mention a few: the French government with its plan *France Numérique 2012* pursues the objective to equip all French households with an internet connection of at least 512 Kbit/s by the end of 2012. At the same time, several companies in France are jockeying in urban areas to become the supplier of choice for fibre-to-the-home (FTTH) connections. In Germany, the federal government in its *Breitbandstrategie* calls for connections of 50 Mbit/s to serve 75 % of the population by 2014. And in the UK, Lord Carter last week told us in his *Digital Britain* report that the government sets the objective of all British households to be served by broadband networks with bandwidths of at least 2 Mbit/s by the end of 2012, eased by the creation of a *Next Generation Fund*. These more political initiatives have of course been accompanied by further developments in the markets, and by the ongoing regulatory activities of no less than 27 national regulators in the EU.

It is of course understandable that national policy makers and regulators should engage with these challenges and many of the responses are to be commended. **But to make the most of the EU Single Market, and to prevent the various national initiatives from getting out of rhythm and resulting in disharmony, guidance is needed at European level. That is why, as I mentioned earlier, the European Council's call for a unifying broadband strategy represents an important opportunity.**

In response, the Commission is working on revised guidelines for State aid in the field of broadband, and on 12 June we issued **a second draft Recommendation on regulated access to NGA networks** for public consultation. An overall broadband strategy will knit these initiatives together.

There are many horizontal challenges for promoting high-speed broadband throughout Europe.

- No doubt we need to ensure **high-quality broadband**. This means focus not just on download, but on upload, latency and first-class accessibility to services and content. And we need to make sure there is **complete transparency** about these features. If not, users, whether businesses or consumers, will not be able to choose and take advantage of competition.
- Furthermore, we also need to **involve regional and local authorities** effectively in the deployment of new infrastructure, so that we don't leave communities in rural areas behind. Let me remind you that already in the Commission's Economic Recovery Plan the mobilisation of the Community budget was proposed to strengthen investment in "*broadband internet, including in areas that are poorly served.*" This was approved by the Heads of State and Government at the European Council in December 2008, and was re-enforced by the Competitiveness Council's endorsement of the target of 100% EU broadband coverage by 2013. The March 2009 European Council further endorsed the use of €5 billion of undisbursed EU funds for economic recovery, including up to €1 billion on broadband and innovative rural development projects.
- Let me also recall that **only seamless convergence between fixed and wireless will deliver the results in productivity we strongly need from high-speed broadband**. There is no question that today's way of working and living is increasingly nomadic. That needs to be reflected in both infrastructure and operators' business models.

We also need to uphold the **principle that high-speed broadband ultimately is about high-speed access to the open internet**. Only then can we make Europe a leading continent of innovative high-speed services, and not just high-speed infrastructure and thereby fully reap productivity gains from ICT.

As regulators, we must also face up to the challenge that investment can only thrive in a predictable regulatory environment. This challenge is particularly pressing in a Europe of 27 national regulatory authorities. That is why a speedy adoption of the new electronic communications regulatory framework is so important. The new provisions relating to NGA provide solid foundations on which we can build intelligent guidance which safeguards competition and stimulates investment. **In this time of economic crisis, we need to seal the deal on the new regulatory package so that we can move on to the other pressing regulatory issues that we face.**

The capital outlays potentially needed for deploying FTTH, VDSL or DOCSIS 3.0 networks throughout the EU are clearly significant. **Regulatory incentives will influence what regulated firms and access seekers are likely to do on this front. And regulation will also, to a certain extent, define the parameters of competition – just as in the past ten years of successful liberalisation. It goes without saying that a healthy competitive process will in turn have positive repercussions on investment.** I am in no doubt that it is this competitive process which has been responsible over the last years for ensuring low prices, broad choice, and the successful take-up of new services.

So the central question is: **what measures should regulators take in the EU Single Market so as to get timely and efficient investment into NGAs while maintaining effective competition?**

It is the answer to this question which will give stakeholders the regulatory certainty they need. That is why the Commission has just opened a **public consultation on a new draft Recommendation on NGA**. The Recommendation proposes to guide current regulatory decision-making in the Article 7 process to take into account the following principles:

- First, it should be recognized that actual deployment patterns of NGAs and market conditions are rather diverse, and that therefore no single regulatory remedy (let us say only bitstream, only fibre unbundling or only duct access) is likely to be appropriate in all circumstances and at all stages of market development. Therefore we recommend that when granting access to the last mile, NRAs should select the remedy best fitted to the circumstances at hand.
- Second, it is widely acknowledged that in many (though not all) instances investment into NGA networks entails significant risk. Therefore we **recommend that access prices imposed by NRAs on dominant firms should be duly adjusted for risk, mainly – but not only – by means of a higher risk premium for purposes of deriving a regulated firm's costs of capital. That is why we favour a risk premium for NGA investment, be it in VDSL or Fibre-to-the-Home (FTTH).**
- Third, **co-operative arrangements with a view to joint deployment of networks are a fact of life. We recommend that such arrangements deserve the regulator's support if they serve to diversify the initial investment risk into FTTH networks, or if they result in infrastructure-based competition by means of multiple fibre lines in FTTH roll-out. But I strongly believe that this support by regulators should not apply in a mere VDSL context.**

- Fourth, today's alternative operators often depend for their business models on access to existing local exchanges and other crucial elements of a regulated firm's network architecture. Therefore, **we recommend that competitors need a clearly defined migration path to be able to adapt to the changed world.**

The draft Recommendation has attracted a lot of interest already.

From the one side, I have heard the criticism that the Recommendation does not recommend a generalized roll-back or even a dismantlement of *ex ante* regulation. Firms, it is said, need to be given regulatory holidays – by means of the law, by means of overly broadly defined markets, by means of new markets or by means of a dogmatic preference for passive over active remedies – otherwise they will simply not invest.

We all know that this is a criticism which simply is not going to fly. **I have spent the last years fighting for effective competition in telecoms markets. I am not going to turn my back on our policy of liberalization and pro-competitive *ex ante* regulation. After all, this policy has led to successful and often deep market entry in the past, and it has contributed to wide usage and take-up of services. The last thing we need is new monopolies, and the poverty and artificial scarcity of services that would inevitably go with it.**

From the other side, I hear the opposite, basically the wish to institute a regulatory regime which gives cost-oriented access (as today) to whatever network element and wholesale service of an incumbent firm, to any access seeker at any given point in time.

The difficulty I have with this argument is that it ignores the fact that new high-speed networks are not there yet and need to be built in the first place. **Investors in these networks therefore need to be able to make financial returns commensurate with the risks they incur. Cost-oriented access as in today's copper world may under these new circumstances need to be modulated, subject of course to the continued possibility of market entry and sustainable new entrant business models.**

What I think this shows, is that the draft Recommendation that we have put into public consultation cannot be categorised simplistically as being pro-incumbent or pro-alternative operator. In the weeks to come, the Commission will of course listen very carefully to all sides in this debate and see where we can further perfect our draft Recommendation before its final adoption. But let me also be very frank with you: **It is not the role of the Commission to take sides between incumbents or new entrants; but to make sure that there is effective competition in a Single Market that triggers investment, innovation and consumer benefits.**

Yes, my last point brings me to the Single Market. We should not lose sight of the fact that one of the fundamental purposes of the draft Recommendation is to increase the coherence of the regulatory responses adopted by the national regulators. Let me be clear on this point: **we need a level-playing field in the EU single market, and this presupposes a level of consistency of approach to regulation. I fully accept that regulators need to regulate appropriately according to the circumstances they find, but they should do so on the basis of a consistent approach. It is only where this regulatory landscape is clearly defined that investors can enjoy regulatory certainty.**

Ladies and Gentlemen, the contours of a European strategy of high-speed broadband for all are becoming increasingly clear. We as policy-maker will seize this opportunity to fight for good and sound rules. You and your firms may hopefully profit from the possibilities offered by this moment of disruptive transition, and I commend your present efforts of actually being the first to offer services over fibre in many markets.