



Long Term Investment and Reindustrialisation Intergroup

#Invest4Future

Minutes of the conference of March 21st: “The Digital Revolution - How to finance network infrastructures?”

On March 21st, the Long-Term Investment and Reindustrialisation Intergroup of the European Parliament held a conference dedicated to the long term financing of digital network infrastructures in the European Union, in the presence of more than 200 participants, including Members of the European Parliament (MEPs), officials from the European Commission and Permanent Representations of Member States, as well as journalists and representatives of the civil society, in particular from the digital sector.

1) List of speakers

Dominique RIQUET, MEP, Chair of the Long Term Investment Intergroup,

Viviane REDING, MEP, Former Vice-President of the European Commission,

Sebastien SORIANO, Chairman of the French telecommunications and postal regulatory body (ARCEP)

Magnus FRANKLIN, Chief Correspondent, Telecoms, MLex

Edgar AKER, President of the FTTH Council Europe

Gaël SERANDOUR, Head of digital infrastructure, Caisse des Dépôts et Consignations (CDC)

Lise FUHR, Director General, European Telecommunications Network Operators' Association (ETNO)

David ZIMMER, CEO of Inexio, European Competitive Telecommunications Association (ECTA)

Dalibor VAVRUSKA, Managing Director, Global Head of Digital Connectivity Strategy and CEEMEA Telecom Research, Citigroup

Anthony WHELAN, Director for Electronic Communications Network and Services, DG CONNECT, European Commission

Günther H. OETTINGER, Commissioner for Digital Economy & Society, European Commission

2) Opening remarks and keynote speeches

MEP Dominique Riquet, Chairman of the Intergroup, opened the conference by reminding that EU investment needs for high-speed broadband infrastructures reach about € 200 billion per year until 2020. He outlined key issues: in a difficult context for public spending, how to harness private funds to the benefit of those investments? Is the European Fund for Strategic Investments (EFSI) a real solution? Could we take advantage of the revision of the Multiannual Financial Framework (MFF) to replenish the Connecting Europe Facility (CEF)? On a regulatory perspective, how does the fragmentation of the digital market hinder investments? What regulation to design to improve access

to the infrastructure? Should we really be aiming at broadband access anywhere anytime and for everyone?

He then left the floor for keynote speakers Viviane Reding, MEP and former Vice-President of the Commission in charge of Information Society and Media, and Sébastien Soriano, Chairman of the French Telecommunications and Postal Regulatory Authority (ARCEP).

MEP Viviane Reding presented her previous Commissioner experience in changing the EU telecommunications regulatory framework. She said that the long-term priorities of the digital agenda should not be changed. As such, she strongly pledged for protecting the digital independence of the EU and for leading the way in the global digital revolution. To that end, she insisted that regulation must be in line with technological innovation and that competition is key to liberate the energy and unlock investments. As such, she cited the first Telecoms Package in 2009 which, competition-oriented, allowed for a decrease in prices and a better penetration. Indeed, the coverage doubled since 2007, also thanks to the notion of functional separation then introduced. Acknowledging the crucial importance of investments in digital infrastructure, she pointed out the existence of an estimated € 90 billion investment gap in Europe. Scandinavian countries may be paving the way but Europe as a whole is still lagging behind Japan and South-Korea in terms of fiber deployment. She considered that 5G coverage is the next critical challenge, and a necessary tool to keep step with the new trends of connected cars and the internet of things. She judged that public investment will not be enough and pledged for Public-Private Partnerships. On an institutional level, she called for having a single telecommunication regulator in the EU. Such an evolution could be the prerequisite to a unique licensing fee for operators, designed for developing the industry and not just considered as an extra source of income for the government.

As a regulator, Sébastien Soriano objected on a supposedly inherent opposition between regulation and investment. When dealing with investments in telecommunication there is often confusion between the means and the outcome. To him, the real debate would be around identifying the proper regulatory framework for boosting investments. He referred to two examples where ARCEP proved to be a creative and flexible regulator: first, assisting in creating the framework in which Free Mobile, a French telecom company, rented the network of the incumbent telecom operator Orange and assessing when Free Mobile should become autonomous; second, assessing price coherence with the development of fiber networks. Mr. Soriano claimed that investment rises through emulation and stimulation between the actors. He objected on Mrs. Reding's proposal for a unique European regulator and defended the model of national regulators coordinated in the Body of European Regulators for Electronic Communications (BEREC). Telecommunications are neither the problem nor the solution to meet the digital revolution. Leadership in digital technology will not be through telecommunications as for instance there is only a weak link between digital infrastructures and start-ups development. He considered that after many years of wavering, the EU should build on the forthcoming revision of the Telecoms Package to select a clear objective: Supporting competition? International roaming? Net neutrality? It has been difficult to understand what the ultimate goal will be, whereas it is precisely the role of the EU to design a strategic orientation to meet the challenge of the digital revolution. Mr. Soriano proposes two pillars. The first pillar is ensuring connectivity for all. For instance, albeit everyone agrees on the importance of connectivity, there is no clear policy in this field: How to ensure that 5G coverage will reach every road in Europe? What policy to have every home benefit from a 30 Mbps Internet connection? The second pillar is promoting openness of the digital environment. He praised internet neutrality as the cornerstone of

innovation in the digital environment. But this is only a first step and to him, platform regulation is the new frontier.

3) Roundtable on High speed internet, “everywhere for everyone, but how?”

The conference then moved to a roundtable moderated by Magnus Franklin, chief correspondent for Telecoms at *MLex Insight* and composed of actors from all sectors of digital infrastructures : incumbent and competitive telecom operators, public and private financial sector, Fiber Network Operators industry and Regulation; and Anthony Whelan, Director for Electronic Communications Networks and Services (DG Connect), European Commission. Each speaker introduced himself and his general point of view in ensuring access to high-speed internet.

Edgar Aker, President of the Fiber-to-the-home (FTTH) Council Europe, scoped the difference in scale between Europe and China, in 2015 in Europe 42 million fiber-km were installed, as comparison 135 million fkm in China alone.

He pleaded for universal agreements to consider the fiber-based networks the only replacement to digital land infrastructures. Optical fiber should be explicitly selected by regulators who then would leave to the market the deployment. Claiming the importance to connect homes to the fiber networks, he cited two examples which highlight the need for a stable and speedier connectivity: the virtual reality device Oculus Rift or Samsung Gear and all connected objects in general, which require low latency that can only be provided with the optical fiber. Also he addressed the potential of cloud computing which is nowadays limited to cloud storage. He said that 5G and fiber networks are complementary and that one could not exist without the other. He said the network must be robust to absorb the huge demand that will result from the transformation of society. He hoped the legislator will design the appropriate framework. On the best way to ensure access to broadband, Mr. AKER figured competition should be on infrastructure levels in urban areas and in lower levels in rural areas.

Gaël Sérandour, Head of digital infrastructures at Caisse des Dépôts et Consignations (CDC), recalled the French government’s initiative to ensure broadband access to at least half the country and presented CDC’s role as an operational pivot in France for delivering the Juncker Plan in close relationship with the other National Promotional Banks and Institutions (NPBIs), the European Commission and the European Investment Bank (EIB). He argued in favour of aggregating intermediary sized projects in investment platforms in order to diversify the investments, mitigate the risks, thus getting eligibility besides the European Fund for Strategic Investments (EFSI) and becoming more attractive to private investors. Indeed he insisted on the difficulties met in France by medium-sized projects regarding to financing, in particular through long-term bank debt. He mentioned the project of a pan-European Broadband fund which could offer intermediated, mezzanine as well as subordinated debt instruments. These could help reassure the market and the bank lenders. He also said that Caisse des Dépôts will continue to invest in equity in broadband projects on a local scale.

Also he considered that major networks operators and smaller ones should not be opposed. Historically broadband deployment has been the role of the majors and it will remain the same in the future. Public-private partnerships do not restrain competition as there is effective competition in winning the bid and networks are neutral and open-access.

Lise Fuhr, Director General, European Telecommunications Network Operators' Association (ETNO) pleaded for support for a high level of investment in networks. She quoted the € 100 billion investment gap in digital infrastructures. She pointed out that the major companies she represents are also challengers outside their own market. ETNO position already represents a consensus between different interests. She said that investments are a means to the providing of services and not an end in itself. Connected cars, broadband access and digitizing of services are the final goal. She explained how ETNO is in favor of infrastructure competition and on focusing on users. She disagreed with Mr. Aker's claim of a formalization of fiber as the exclusive technology in the future. Fiber may become important or predominant locally but we should not impose to an operator the types of technology: this would be inefficient and slow down availability of high-speed broadband.

David Zimmer, CEO of Inexio (European Competitive Telecommunications Association – ECTA), warned of the threat of the eventuality of a monopoly 2.0 after 20 years of a well-working competition regime as the access regime is today under a lot of pressure. He said that competition enabled by a strong ex-ante regime for access to incumbents' networks is the best way to ensure investments, innovation, better service and lower prices. He gave the particular example of Germany where 50% of investments in new generation networks are made by competitors, therefore ensuring their access and protecting these investments is fundamental. He finally explained that rural areas attract so few investments in broadband because of 4 factors: deployment cost, market share, consumer prices -that we don't want to increase- and financing costs. He believes in Public-Private Partnerships but he warned that they must not become local monopolies. There must remain a physical access to these infrastructures to enable competition.

Dalibor Vavruska, Managing Director and Global Head of Digital Connectivity Strategy and CEEMEA Telecom Research (Citigroup), believes that connectivity will play highly prominent role in the future economy and every day's life (connected objects, virtual reality, artificial intelligence, big data, the Cloud etc.). This rapidly changing environment highlights the need for a clear long-term policy vision, which may go beyond the investment horizon of the current market participants. The GSM standard and Europe's subsequent global leadership in 2G is a good example. In twenty years, optical fiber is likely to be widespread, in some areas possibly in a form of power grid like monopoly. Long-term infrastructure investors may be interested in funding fibre deployment, but possibly under an industry model, which resembles the power grid and offers highly predictable returns. Meanwhile, small regional companies can often deploy fiber more cheaply than bigger nationwide ones. Those two economic realities pose fundamental challenges, but also opportunities, for the established telecom operators, whose shareholders may in some cases benefit from voluntary opening or separation of basic infrastructure. Regulators may attempt to enforce structural separation as well, but such moves could prove complex and impractical. Alternatively, they could set policy visions and encourage market participants to achieve certain outcomes, including those that attract substantial external funding for long-term infrastructure rollouts. Better interest alignment of the existing market participants under clear policy guidance, even if this means certain changes to the current industry model, may be important for long-term success of the industry players as well as the broader digital economy and society.

Anthony Whelan (DG Connect) agreed with Mr. Soriano's claim that the EU must provide direction and ambition in a 5-to-10-year horizon, after a focus on liberalisation from 2002 to 2009 and efficiency from 2007 to 2009. He pointed out the merits of EFSI to mobilise large fundings and mentioned alternative means of financing, beyond the black and white opposition of private vs public

financing. He also stressed the European Commission's difficulty, in a free market, to be intrusive in the direction it wants to give. Its role must be to find incentives and work for co-investments to overcome the early obstacles. Also it is important to avoid the one-size-fits-all approach and to take the most of experiences throughout the EU.

4) Closing remarks by Commissioner Oettinger

Commissioner Oettinger introduced his closing speech in comparing the coming needs for digital infrastructures with the need for quality roads at the time car was invented. Pointing out that "we need digital highways for connectivity", he estimated that the emergence of sectors like eHealth and connected cars are about to create huge needs in terms of conveying information. He emphasized the crucial articulation between local, regional and European scales of action for investments in digital infrastructures. Commissioner Oettinger praised the constitution of the Long-term Investment and Reindustrialisation Intergroup as a very relevant forum to discuss investment matters especially in digital infrastructures. He then pointed out the political potential in venturing into a global and transnational project in order to connect "Europe from Lisbon to Vladivostok" and cited neighbour countries as potential partners in this regard, namely Ukraine, the Western Balkans and Turkey. He stressed that another important aspect of European integration is the bridging of cross-border telephone and mobile internet coverage gaps, and thus called for cross-border telecommunication infrastructures.

The EU does its part in helping design the global regulatory framework for 5G with investments of € 700 million for the period 2014-2020. Investments in digital infrastructures must be considered a priority he said but we especially need to harness private funds which account for the largest share of the total investments. To that end the EU would need incentives and to create a favorable triangle between risk assessment, Return on investments (ROI), and asset management considerations for investments in digital infrastructures. This framework needs to be European-wide and to resist the legislative instability resulting from the political changes in 28 Member States. Moreover, some States have stepped backwards and dismantled favorable frameworks for investments. For instance the decrease of the Connecting Europe Facility budget for telecommunications, from 9 billion euros to one billion euros is to be attributed to the Member States in the Council of the European Union. The Commissioner also stressed the importance to not revive a "monopoly 2.0", but to remain focused on ensuring a fair level of competition in the sector. "The telecommunication industry is the future of telecoms and needs to function in the appropriate regulatory framework", he said. The Commissioner also warned that the EU must accept that consumption prices cannot decline forever and must be linked to investments completed. He reaffirmed his belief that connectivity is the foundation of any modern and competitive society and said that he will present on April 6 a communication on "digitizing the European economy". He concluded his intervention by setting the discussion in a broader context. He claimed that the challenges the EU faces today are the same the rest of the world is working out to overcome. By achieving the necessary investments in digital infrastructures, the EU can surpass the United-States in terms of deployment and join South Korea as a world leader in high-speed broadband access.

MEP and Chairman of the intergroup D. Riquet concluded the conference by pleading for constancy in our policy objectives by promoting effective true competition, stability of the regulation and support for investment.