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FINANCING OF THE ROLL-OUT OF BROADBAND NETWORKS

-- Note by Denmark --

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*More documents related to this discussion can be found at:
<http://www.oecd.org/daf/competition/>*

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FINANCING THE ROLL-OUT OF NEW GENERATION ACCESS NETWORKS

1. Reliance on market forces and extent of public sector involvement

1. The Danish Government wants a world class digital infrastructure to be the foundation for digitization and growth throughout the country.

2. The Danish Government has a broadband goal of 100 Mbps downstream and 30 Mbps upstream to all by 2020. The goal is to be achieved through a market driven and technology neutral approach.

3. In 2013 the Danish Government published the broadband and mobile strategy “Better broadband and mobile coverage”. The strategy among other things underlines the importance of an active involvement from the municipalities (se below), coverage requirements in spectrum auctions, and better, more detailed mapping of the access to broadband (se below). The various initiatives in the strategy are currently being implemented.

4. The need for adequate broadband infrastructure has also been addressed in two other significant government commissioned reports - The Danish Productivity Commissions report on Infrastructure and the final recommendations from the Growth Team for ICT and Digital Growth.

5. Both the report and the recommendation underline the importance of an adequate broadband infrastructure and highlight areas where further initiatives could be undertaken. *The Danish Productivity Commissions report* finds that overall it appears well documented that broadband penetration affects productivity positively. The effects on productivity by upgrading to higher capacity on existing broadband connections are, however not as well documented. Moreover, the report finds indications of network externalities associated with penetration of broadband. However, it is not clear that there are significant network externalities associated with upgrading capacity on existing broadband connections.

2. Form of public sector participation

6. As a part of the Danish broadband and mobile strategy from 2013 the Danish Government has decided to aid NGA roll out on the island of Bornholm with 60 mio. DKK. The tender process will be completed in 2014.

7. The reason behind the participation was that Bornholm was suffering from very low access to NGA and limited competition compared to the rest of the country. Also, there was no indication that market players would bridge this gap between access levels on Bornholm and the country as a whole. This was subsequently documented through an address level mapping of access to NGA infrastructure now and within the next three years. The initiative is aimed at areas with no NGA coverage and with no NGA coverage otherwise planned in the future to limit the impact on the market.

8. Furthermore, municipalities have the option of supporting roll-out of high speed broadband in areas with poor coverage to create better conditions for local business. This can be done either by setting coverage requirements in a tender or by rolling out passive infrastructure to be made available for all

market participants. No municipalities have taken advantage of this option yet. The option was introduced in a guidance issued in January 2014 and several municipalities are currently considering initiatives.

3. Central or local level involvement

9. Government, regions and municipalities play different roles.

10. The *government's* primary role is to secure a predictable regulatory framework for the telecom sector that supports competition and long-term investment. If the government finds that specific limited areas are suffering from market failure it has the possibility to further roll out of digital infrastructure through financial aid. This is however perceived as a severe intervention, which should be avoided if possible because of the potential to crowd out or delay market investments and distort competition. This has only been done once in the current measure being implemented for the island of Bornholm.

11. The *region* as a medium sized entity plays a growing role as a coordinator. The regions coordinate actions taken by the municipalities in the area and foster public-private dialogue on strategic investment in new infrastructure. Also the regions as primary responsible for the Danish health sector have great purchasing power which can be used to increase demand for higher speeds.

12. The *municipalities* have knowledge of local broadband issues and various regulatory tools, which can be used to lower the access costs for operators wanting to enter or upgrade their infrastructure. This includes low cost for access to public owned structures, sites that can be used for masts and antennas and the possibility to demand deployment of empty pipes from telecom companies that wants to dig.

13. As mentioned above, the municipalities have the possibility to hold a public tender that can include broadband coverage requirements if the aim is to create better conditions for local business. Even though some municipalities have expressed interest in the possibility, no one has completed such a tender.

4. Differentiated involvement for rural and urban areas

14. Geographical areas, no matter where in the country, are treated the same. Focus is on whether or not the area is served with NGA networks. Areas with inadequate access to high speed broadband may occur in both rural and urban areas. Therefore, the overall approach does not differ.

5. Impact on private investment decisions of services allowed on networks

15. Provision of services is not regulated as such but regulation is in place to ensure network neutrality if needed. Other than network neutrality, regulation focuses on consumer rights and transparency. This ensures open competition for services provided.

6. Determination of need for public intervention

16. The Danish government follows the development in access to broadband infrastructure closely in the yearly broadband mapping and regularly assesses the need for new policy measures or other types of intervention. As the government does not have any current plans of new interventions there is no set procedure for determination of the need for public interventions.

17. It follows from the EU guidelines on state aid for broadband that a detailed mapping is necessary as well as close dialogue with the market actors before any form of public support is considered. This will ensure that the target area neither have nor can expect sufficient NGA-infrastructure.

18. The Danish government is working on a more detailed mapping of the access to broadband. The mapping is expected to be an important tool for municipalities and other public entities to locate local areas where the access to broadband might not be adequate.

7. Displacement of private investment and distortion of competition

19. State aid has not been used in Denmark previously for broadband roll out. For this reason, there is no subsequent evidence yet.

20. It should be noted that the EU guidelines on state aid for broadband roll-out will be followed closely which should ensure minimal impact on private investments as the target areas would be areas where the market has not established infrastructure and has no plans to do so in the near future.

8. Distortion of provision of broadband access services

21. As a consequence of the EU guidelines it is not possible to implement an aid program in an area where the market has planned roll out. The guidelines have to be observed in case of a public tender as described above for Bornholm. This includes open access at a wholesale level to networks established with public aid.

22. The Danish Business Authority in accordance with EU law regulates the telecoms sector. This regulation extends to networks that have been built as a result of public intervention. Additionally the Danish Government has undertaken a general analysis of the competition on the telecoms sector, which is currently being carried out.