Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

12-Jun-2014

English - Or. English

DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
COMPETITION COMMITTEE

DAF/COMP/WP2/WD(2014)4
Unclassified

Working Party No. 2 on Competition and Regulation

FINANCING OF THE ROLL-OUT OF BROADBAND NETWORKS

-- Note by BIAC --

16 June 2014

This document reproduces a written contribution from BIAC submitted for Session IV of the 57th meeting of the Working Party No. 2 on Competition and Regulation on 16 June 2014.

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

Please contact Ms. Cristiana Vitale if you have any questions regarding this document [E-mail: cristiana.vitale@oecd.org].

JT03359277

English - Or. English

1. BIAC appreciates the opportunity this brief note outlining BIAC Discussion Points for the OECD Working Party 2 discussion on Financing of the Roll-out of Broadband Networks.

2. Investments in broadband infrastructure are of strategic importance for growth and innovation in all sectors of the economy and for social and territorial cohesion. Studies show that the need for broadband communications is growing exponentially and that the demand for capacity-intensive services is expected to increase in the future, as cloud computing, a more intense use of peer-to-peer technologies, social networks and video on demand services will develop further.

3. Despite the positive benefits of broadband networks, there are not sufficient incentives for broadband deployment under pure market conditions in certain geographical areas. Indeed, the cost structure of broadband deployment is such that there are usually regions within a given country (in particular those with a low population density) that would not be covered by roll-out of broadband infrastructure if potential investors have to base their business case solely on market terms. Here the State will play a relevant role using public funds to support broadband deployment.[1]

4. To better allocate public funds to the deployment of Next Generation Access (NGA) networks, States should base their decisions on principles such as:

- avoidance of crowding out of private investments;
- technology neutrality; and
- imposition of adequate wholesale access obligations on the subsidised broadband infrastructure.

1. Crowding out of private investments

5. Any State intervention should limit as much as possible the risk of crowding out or replacing private investments, of altering commercial investment incentives and ultimately of distorting competition. In the context of financing the roll-out of NGA networks the envisaged publicly funded broadband deployment activity should be targeted at market failures and, therefore, not be used in areas where market operators plan to invest or have already invested.

6. Where private investment has been made or committed, intervention by States can not only undermine the incentives to invest in the development of infrastructure for the subject project, but can also chill the incentives to invest or commit investment in other projects for fear that those investments will be overrun by State investments.

[1] As an example, the U.S. Federal Communications Commission introduced a universal service fee to support a program designed to provide internet connectivity to Americans in all regions through the deployment of broadband in underserved regions of the country. See FCC Creates Connect America Fund to Expand Broadband, Create Jobs. http://www.fcc.gov/document/fcc-creates-connect-america-fund-expand-broadband-create-jobs.

7. There are some instruments that granting authorities should take into consideration when designing State support measures. These will help to define market failure and consequently reduce the risk of crowding out of private investments. The following instruments are acknowledged as best practices:

- to conduct a detailed mapping and analysis of existing broadband coverage; granting authorities should clearly identify which geographic areas will be covered by current or planned commercial investment and thus the remaining areas that could benefit from the support measure in question;

- to conduct a public consultation on planned State support measures; granting authorities should give adequate publicity to the main characteristics of the measure and to the list of target areas by publishing the relevant information of the project and inviting interested parties to comment;

- to ask private investors for credible evidence of their investment plans; this should not mean a contractual agreement with the granting authority;

- to focus on covering the specific market failure, rather than engage in publicly-owned infrastructure;

- to base the decision on a competitive and objective selection process. This methodology will reduce budgetary costs and minimise the potential State support involved;

- to use public funds only when these provide a "step change", i.e. if this infrastructure brings significant new capabilities to the market in terms of broadband service availability and speeds.

8. All these instruments will provide for transparency of State aid plans of granting authorities, reduce the risk of crowding out private investments and improve legal certainty for investors.

2. Technology neutrality

9. As different technological solutions exist to provide broadband availability, granting authorities should not favour or exclude any particular technology. Potential recipients of funding for NGA networks should be entitled to propose the provision of the required broadband deployment using or combining whatever technology they deem most suitable. On the basis of objective tender criteria, the granting authority is then entitled to select the most suitable technological solution or mix of technology solutions.

10. A mix of technologies is often the best way to fulfil existing ambitious national broadband targets. For example, a study by TÜV Rheinland[2] from August 2013, commissioned by the German Federal Ministry for Economic Affairs clearly shows the cost saving potential of an efficient technology mix of CATV, VDSL, FTTC Vectoring and LTE-Advanced in Germany. This study concludes that the investment needs for nationwide NGA coverage of at least 50 MBit/s (which is the declared broadband coverage target of the Federal Government for 2018) with this mix of technologies are four to five times lower than the costs of a nationwide FTTH coverage. According to this study, the nationwide coverage of 50 MBit/s with the mentioned efficient technology mix would cost approximately €20 bn., where the costs of a nationwide FTTH coverage would amount to €85.5 – €93.8 bn.

[2] „Szenarien und Kosten für eine kosteneffiziente flächendeckende Versorgung der bislang noch nicht mit mind. 50 MBit/s versorgten Regionen", available for download under http://www.bmwi.de/DE/Mediathek/publikationen,did=597230.html.

3. Adequate wholesale access obligations to the subsidised broadband infrastructure

11. Effective regulated wholesale access obligations to a subsidised broadband infrastructure are an indispensable component of any State measure supporting broadband, and will thus need to be present and enforced. However, these should generally be aligned with the portfolio of access obligations laid down under sector-specific regulation where they exist, and are deemed effective. In fact, providing non-discriminatory access conditions should be sufficient to avoid unfair competition limitations. In remote areas, the granting authority should even consider adapting the number of wholesale access obligations where evidence demonstrates that there is limited demand for certain access points. This approach would reduce the amount of taxpayers' money used to deploy the broadband infrastructure needed without reducing the choice and competition in the areas concerned. An alternative approach may lead to the imposition of disproportionate obligations that in turn may result in less efficient aid measures and consequently in a waste of taxpayers' money.