

ETNO Reflection Document on the European Commission's Public Consultation on the Digital Divide

Executive Summary

Widespread availability of broadband access is a worthy political, social and economic objective, and ETNO believes that broadband development offers advantages well beyond the Information Society sector. It is well recognized in the document that differences among the countries even in the EU 15 exist and that the situation in the new EU 10 members is in general well behind the EU 15 when broadband infrastructure coverage, especially in rural areas, is considered. The issue is even more significant since broadband and ICT services in general are important for economic development, for increased employment, competitiveness and welfare of the regions and population.

When considering broadband promotion and public funding, **it is essential to recognize and distinguish between the various types of public sector interventions in network deployment (supply side), and public investments that stimulate and drive demand for broadband.** Public policy approaches aiming at addressing the digital gap among regions must start from understanding the root cause of this divide and of the largely weak demand for broadband services.

ETNO strongly believes market-driven investments are fundamental to ensure a demand-driven development of broadband and a successful eEurope. In certain cases, however, public funding may have a role to facilitate the delivery of, and demand for, electronic services where they cannot be achieved by market forces. However, it must be stressed that such funding should not be applied to the roll-out of overlay networks in areas where a commercial offer already exists. To safeguard competition-based broadband development and avoid market distortion, public funds should only be used to bridge the digital divide in well-defined cases, based on clear criteria, and should be applied under fair, transparent and competitively-neutral conditions. Legitimate interests of private investors should not be impaired or endangered by regulatory interventions. Broadband access should not be included in the EU's Universal Service Obligation since this would definitely distort the market.

ETNO companies support a strong orientation of public authorities to foster demand-led approaches throughout a series of measures: financial and fiscal incentives, allocation of public funding to IT skills training, encouraging different schemes for PC purchases, etc.

1. Introduction

The aim to create an inclusive Information Society is a useful policy heading under which a host of actions to raise ICT knowledge and use can be developed with the aim of ultimately promoting increased employment, competitiveness and welfare improvements.

High levels of competition and market-led initiatives are guaranteeing a wide number of attractive offerings with constantly decreasing prices for end customers, making broadband services available to more and more users. However, as the ICT sector is growing, there is still a significant gap between more developed countries and regions and underdeveloped ones. It is well recognized in the Commission document that differences among the countries even in the EU 15 exist and that the situation in the new EU 10 members is in general well behind the situation in the EU 15 when broadband infrastructure coverage, especially in rural areas, is considered. In this context, it is worthwhile mentioning that ICT products and services bring even more positive effects especially in these underdeveloped regions.

For defining the role of the various players and the aim of different funding schemes it is **essential to recognize and distinguish between the various types of public sector interventions in network deployment (supply side), and public interventions and investments that stimulate and drive demand for broadband**. Public policy approaches aiming at addressing the digital gap among regions must start from understanding the root cause of this divide. In this context, it is very important to highlight also the existing gap between broadband coverage and broadband take-up in order to better identify the most appropriate policies to better address the digital divide.

The development and consolidation of the Information Society, especially on the demand side, requires the co-operation of a number of key actors that are a driving force for all the rest: Public administrations, universities, corporate organisations, private investors, etc... It is important to recognize that from this perspective, even though there are issues which have to be dealt with on the regional and local level, there is also a clear need for national strategies.

The high level of competition and market dynamics are guaranteeing a wide number of attractive offerings, with a continuous reduction in prices to end customers, making broadband services available to all users.

In order to shorten the gap between demand and offer, ETNO members wish to highlight the importance for EU governments to foster demand-led approaches throughout a series of measures, for example: financial and

fiscal incentives, and in particular allocation of public funding to IT skills training and certification, encouraging different schemes for PC purchases etc... ETNO companies support a strong orientation of public authorities to foster demand-led approaches throughout a series of such measures.

As the Commission correctly identifies in its consultation document, the demand for broadband services is affected by a wide variety of socio-economic factors (e.g. demography) that need to be diagnosed prior to undertaking initiatives to foster both the demand and supply of electronic communications networks and services. **For many EU Member States it is more appropriate and effective to address the socio-economic element of the digital divide.**

In the context of a growing market, widely recognised as being increasingly dynamic and innovative, ETNO distinguishes the following roles for Public Authorities regarding the various facets of the digital divide :

2. Limited role for public authorities on the supply-side

In its document, the Commission is considering the possible public funding on the supply side and guidelines for technology issues when related to funding issues. ETNO believes that funding issues should be dealt with in line with some general principles which will be stipulated in more detail in this chapter. However, with respect to technology issues, there is a strong belief that funding options should take a technologically neutral approach.

We believe that it is also inappropriate to consider any technology - specific initiative or policy to address the broadband coverage issue, even where technology choices are limited and broadband roll-out is very expensive. Such an action could distort the market by favouring one technology over another at a time when many new broadband technologies and commercial models are evolving quickly and are yet to realise their full potential.

ETNO needs to stress some major issues which we believe have to be tackled especially when considering the regulation and funding of new, strongly growing markets and when promoting solutions to improve broadband coverage. The need for substantial infrastructure investment, particularly with regard to broadband is well recognized. Most critical are less developed rural areas where the infrastructure is especially expensive or where there is no or less demand for use of broadband services. Encouraging investment and promoting innovation are of the highest importance for the future development and penetration of broadband Internet. Fast growing markets heavily depend on investments in infrastructure and innovation. Substantial investments into the rollout of broadband have already been undertaken by private entities. Private investors consider at least two factors, on the basis of which they decide how to allocate their financial resources: the risk of investment and the level of profit expected. In general, operators - both incumbents and new entrants - will only invest in a market if they can earn a reasonable rate of

return on their investments and if their profitability is not decreased or questioned by regulatory interventions. The need for more investments raises a strong need for a **stable framework based on competition rules and less regulation.**

As mentioned, it is of major importance to create a **transparent and stable environment, in which rules are clearly defined and followed - so that investment costs can be recovered by investors - as any inappropriate regulatory intervention may have a detrimental impact on the rollout of broadband services.** As ETNO represents key players and investors in this field, it is essential for us that the extensive deployment of broadband infrastructure takes place in a market-driven and sustainable environment that meets the requirements of end-users and service providers alike. **So far, efforts to develop Europe's market have been successful and investments have created high levels of broadband availability throughout the Union.** In view of these facts, broadband access should not be included in the EU Universal Service Obligation since this would definitely distort the market.

ETNO considers that in certain, well-defined cases, public funds are needed to overcome the digital divide, and therefore **supports the idea to use public funding for the development of underdeveloped rural areas where viable business cases are not expected.** In these areas, public funds should always accompany private investment to ensure a long-term business case. There is a range of options for public intervention on the supply side, primarily concerning infrastructure deployment, but also on the level of operation and even service provision. At one end of the spectrum, local communities or regional authorities can and should co-ordinate the necessary digging activities and encourage duct-sharing under commercial conditions. **At the other end, quasi-public companies may destroy price mechanisms, create entry barriers, cause increased regulation -and, ultimately, be the source of unsuccessful investments.** At the same time, network-sharing should not be forced upon players to the detriment of competitive network planning.

The EC should ensure that current assisted areas which have not yet closed the development gap, should continue to enjoy Regional Aid/Structural Funding within the next Structural funds framework (2007-2013).

Market-driven investments are fundamental to ensure demand-driven development of broadband and a successful eEurope strategy. In certain cases, however, public funding may have a role to facilitate the delivery of, and demand for, electronic services where they cannot be achieved by market forces only. While ETNO supports the use of public funding in certain, well-defined cases as a means to increase the development of electronic communication infrastructures and services, especially in rural areas, **such funding should not be applied to the roll-out of overlay networks in areas where a commercial offer already exists.** When developing public initiatives, it is of utmost importance to **safeguard competition-based broadband development and avoid market distortion.** Public funds should only be used to bridge the digital divide in well-

defined cases, based on clear criteria, and applied under fair, transparent and competitively-neutral conditions.

Based on experience from some member states (UK etc) it seems that there is no need for new public policy actions at the European level to stimulate the provision of broadband in remote, rural or sparsely populated areas of the EU. ETNO agrees with the European Commission's viewpoint (page 53) "to strengthen the application of current policies" instead of conceiving new policies. The EU has adequate policies in place to address the key influences for increasing broadband deployment which are competitive market conditions, adequate EU Structural Funding of broadband projects and EU funding of research and development of cheaper broadband access technologies.

Therefore, the following aspects should be considered before implementing any funding mechanisms in some areas (stressed in ETNO Reflection Document RD173 (2003/04)):

1. There should not be any other commercial offering of broadband likely to be available within a reasonable timeframe.
2. Public Funds allocation as upgrade of existing infrastructure also with possible active components but the rest limited to passive components.
3. Operation and service contracts by means of a tender; delivery under transparent and non-discriminatory conditions to ensure open access for all market players including incumbents.
4. Prices for 'funded' services will probably not be market-based, but should not be set in a way that sends the wrong price signals to the market.
5. Accounting separation of such operations should be mandatory.
6. Non-discrimination of rights-of-way should be monitored carefully in accordance with the Framework Directive, Article 11.
7. Non-discriminatory access to publicly operated or installed networks by all operators must be guaranteed.
8. Funds allocation is done in a transparent, non-discriminatory and technologically neutral way (encompassing all types of platforms, wireless or wireline).
9. The principle of technological neutrality should not prevent the consideration of quality-of-service issues where public funding is involved.

Finally, in this context, it is worthwhile pointing out that also the OECD stresses that direct public intervention in the deployment of broadband infrastructure can be highly problematic, even though it may present a policy option in certain cases.

3. Focus of public authorities' activities to be on the demand side

Public authorities are today faced with the challenges posed by the main social and economic trends of our times, together with growing expectations regarding the quality of their services to their "customers", i.e. citizens and businesses. In order to accommodate these expectations, the public sector should promote the integration of ICT into the administration and develop more electronic public services. Besides modernizing and improving the efficiency of its own services, public authorities should act as a driving force for the wider adoption of ICTs by firms as well as in the daily life of citizens.

Governments may be able to act as a catalyst in a way that the private sector cannot. Therefore, Public Authorities need firstly to act as an agent incorporating ICTs and:

- **Promote on-line public services, the interoperability of applications and the co-operation between public authorities** in order to act as an incentive for the participation of other stakeholders: citizens and firms.
- **Play a leading role in the use and promotion of the Information Society through their own internal transformation**, by means of providing appropriate ICT budgets and change management policies to adopt new models and methods of working and interaction.
- **Promote the adoption of sustainable models for implementing and providing electronic services**, so that the initiatives undertaken do not remain merely in the pilot-project stage of development, but rather have a true economic and long-term viability.
- National governments must take leadership in **co-ordinating all administrative levels** regarding the development of new projects and electronic services for citizens, as well as regarding the co-ordination of processes and procedures through the exchange of electronic information. The following actions are necessary:
 - The digitisation of existing information.
 - Generalized use of authentication and electronic signature procedures.
 - Reorganization of existing procedures to adapt them to the new technologies.
 - Interoperability of institutions, registers, databases, etc.
- In general, all levels of public authorities must **promote the implementation of new and more flexible public procurement models** geared towards promoting the electronic purchasing systems for goods and services.

4. Public authorities as a driving force behind the development of the Information Society

- Public authorities **should support the manifold actions of the various players** - such as business associations and chambers of commerce - aimed at promoting the Information Society. Strategic plans should be drawn up and the actions undertaken should be monitored, with the aim of pooling resources and achieving quicker and more effective results.
- Public authorities should promote the **training and digital literacy of all stakeholders in the Information Society**, and communicate the advantages of the Information Society, so that the Internet can be fully accessible and the advantages of the new way of dealing with customers, firms and public authorities are fully perceived.
- **Promote the exchange of best practices** between the various levels of public authorities in order to overcome the barriers and obstacles to developing the Information Society.
- The role of public authorities as a **stakeholder that promotes the development of a secure and reliable environment** is very important, particularly in dispelling society's lack of trust in the use of new technologies. Measures in this field include increasing the security of electronic transactions, payments over the Internet and from mobile devices, electronic ID, electronic signatures, etc.

However, the intervention of Public Authorities and particularly of **local governments** in the deployment of broadband infrastructure **should be cautious, so as not to distort competition nor inhibit private sector investment.**

Public intervention, particularly the use of Regional Aid/Structural Funding in areas of market failure to ensure coverage, is defensible where a commercial case can not otherwise be made or to realise an accelerated timetable. **However, public intervention should not be permitted in areas where private sector infrastructure already exists, is planned or where the market has the potential to deliver.** Partnership approaches conceived from an integral Information Society strategy and responding to specific local demands from users and socio-economic actors are much more effective than supply side interventions or technology-driven approaches.

Furthermore, Public Authorities should not apply preventive (ex-ante) regulation to services associated with emerging technologies. Public authorities must allow these services to develop according to the market and they must only intervene if there is a distortion of competition or market failures that cannot be resolved by market forces themselves.

- In addition, the main **barriers faced by citizens** when participating in the Information Society are related to a lack of skills, and therefore a poor ability to make use of Information Society services. Closely linked

to this is the lack of knowledge and awareness of what new technologies have to offer. Consequently, citizens lack the motivation to start using the services provided by this new environment. A number of basic recommendations to move forward in this field would include:

- In addition to continuing to place emphasis on the ability to access services, it is necessary to give **a major push in the field of skills for all**, particularly in the various educational phases for citizens, in such a way that future generations view the PC as a familiar, manageable and controllable support and enabling tool. Furthermore, strategic training programmes are needed for those who are not directly participating in ICT developments and training – either as students or members of the active working community. **It is also fundamental that the advantages of the Information Society be properly diffused in order to kick-start motivation of citizens to participate in the training processes** that aim to provide ICT skills for all.
- There are other, very important conditioning factors for poor demand levels, such as the **lack of equipment particularly PCs**, which represent an important barrier to the penetration of broadband services. Public authorities should allocate financial and fiscal incentives in order to foster the acquisition of ICT equipment.
- **Public authorities must continue to increase the number of public access points to the Internet**, so that those people who do not have sufficient resources to be able to afford a connection at home can do so easily from public spaces such as libraries, IT centres, schools, etc.
- With regard to households, it would be advisable to **implement a model of housing that have a minimum set of communications systems preinstalled**, in order to ease the incorporation of new technologies,

With regard to **small- and medium-size companies**, it is essential that SMEs understand how ICTs can be used to improve competitiveness by increasing efficiency, quality and competitiveness. In this way, ICTs will become a basic tool without which SMEs will not be able to survive in the long term. Some specific recommendations for SMEs would include the following:

- In order to achieve the tangible improvements in operational efficiency that the proper use of ICTs can provide to SMEs, it is necessary that the employees working with these technologies be appropriately trained. The work of professional training centres and universities is crucial here. However, **incentives by public authorities for the provision of ICT training to employees of SMEs** is also essential. Likewise, the work of spreading skills and facilitating access to ICT services that business associations can carry out is also crucial.
- In order to guarantee that SMEs adopt new technologies, it is also **essential that all levels of public authorities proactively promote and create incentives for SMEs to use ICTs within the scope of their**

interaction with public authorities. These public initiatives must constitute a true framework for promoting the use of ICTs to ultimately improve productivity. In this respect, there is room for initiatives such as promoting innovation, supporting investment in ICT within SMEs themselves, using tax breaks to promote an electronic relationship with public authorities, etc.

ETNO is not convinced of the usefulness of a European level structured website. Most of its proposed objectives are already covered by existing initiatives and we believe that the current market structures and specific national/regional characteristics, favour approaches formulated at the closest level to the region itself. In addition, **it is questionable to facilitate market entry for any particular broadband technology**, as seems suggested by the purpose of using the website to investigate demand aggregation for satellite solutions.

4. Conclusion

Although ETNO supports the use of public funding as a means to increase the development of electronic communication infrastructures and services in certain well-defined cases, especially in rural areas, public-sector interventions in telecommunications raise serious questions about the development of a competitive and demand-driven market for broadband infrastructures.

ETNO believes that authorities' most important contribution is to guarantee an investment-friendly legal framework, and that any policy measures that cause distortion of competition must be avoided. ETNO nevertheless recognises a limited need for public engagement in the supply side where political, social or economic objectives cannot be achieved by market forces alone. However, these initiatives have to comply with specific conditions as specified above.

In ETNO's view, public engagement should concentrate on the demand side, in the form of eGovernment, eHealth and eLearning solutions, thereby encouraging the development of value-added services and content. Apart from this, there are a number of possible initiatives mentioned also in the Commission document. Political support for demand side interventions, also from the EU Commission services, could improve national and local activities. National plans are a good and necessary tool to improve the various activities. The EU Commission should continue to monitor progress and analyze the effects of the various initiatives.