

FTTH Council Europe Conference

Munich, 16 February

Intervention by Luigi Gambardella, ETNO Executive Board Chair

- First of all I would like to congratulate the FTTH Council Europe for this very successful conference and thank you for inviting ETNO to present its views. The potential of next generation access networks to drive growth and jobs needs to be fully exploited.
- We would like to praise the FTTH Council's efforts to raise awareness about the need to encourage the deployment of NGA, to which the members of ETNO are contributing significantly.
- Let me give you some figures: the number of **homes connected with NGA has doubled in 2010**. Telecoms **investment has increased by 2.3%** in 2010. **ETNO members' investment increased by 4%, which is even more than the average.**
- Our members' revenue share devoted to investment increased from 12 to 13.1% and we account for 64% of total sector investment. ETNO members devote a slightly greater revenue share to fixed investments (15%) than to mobile ones. Fibre to the home deployments by ETNO members have increased by 35%. All these data **confirm the commitment of ETNO members to achieving the Digital Agenda goals**. Nevertheless, we must look at how to keep all access providers investing because the objective of

all operators is to provide customers with what they want and need. **Telecoms operators are subject to competition both on the retail and on the capital markets. If they do not provide value for money to their customers and to their shareholders they lose market share and their borrowing costs increase.** That is the rule of the game.

- One of the reasons why some telecoms operators in Europe may not be deploying even more fibre is that, despite the rapid growth in Internet traffic, **operators' revenues are declining, and have been for the third year in a row.** This appears to be in contrast with the revenue trend in other areas of the world.
- World markets are estimated to grow on average by 5.3% (*For background source: 2012 Telecommunications Industry Review – Insight Research Corporation*). **The European telecoms market is the only one in decline.**
- In 2010 and 2011, overall revenue of the telecoms sector in Europe declined respectively by 1.4 and 2 %, despite general economic growth. This confirms that structural rather than cyclical changes are shaping the sector.
- Action is urgently required so that this negative evolution does not hamper Europe's ambitions as set out in the 2020 growth strategy. In fact, we believe that **with the right approach, substantial progress towards high speed broadband for all could be made already by 2015 rather than by 2020, in several Member States.** Therefore regulators, operators, vendors

and other stakeholders together need to lay the foundations for a richer ecosystem of content and applications now rather than later in the decade. Regulators in particular need to opt for forward-looking strategies. They should not focus only on minor disputes between today's market players. On the contrary, they should primarily consider the more important longer-term landscape needed for the deployment of fibre in Europe.

- Our strategy should be built upon the following pillars:
 - **First** acknowledging that the situation varies from Member State to Member State. There will be no one-size-fits-all policy to achieve the 2020 objectives. One of the most important messages that we would like to convey today is that **fibre will be deployed in different ways, to a different extent and at a different pace depending on the specific national and regional circumstances.**
 - **Second** the approach must be technology neutral. Deploying NGA is our final goal but different intermediary steps are more likely in most European regions. **A mix of technologies and approaches to deploying NGA will be implemented.** This will support a more rapid and comprehensive deployment of high speed broadband networks and will build on recent innovations in technology, including fibre to the cabinet with vectoring and advanced wireless (LTE). “More and sooner” is compatible with ambitious end goals, and should be seen as a stepping stone rather than as a barrier to

achieving them. **Insisting on deploying only fibre to the premises crowds out other cost effective options for delivering high speed broadband in the near future. This is not a recipe for success; it is a recipe for delay and failure.** No such approach has ever been tested around the world and the outcome is totally uncertain.

- **Third**, avoid the dichotomy between copper and fibre. The question is not simply copper or fibre. **We should recognize that copper and fibre are likely to coexist during a sustained transition.** Yes there will be opportunities for copper retirement according to market developments, but it is unrealistic to believe that copper should be removed rapidly during transition and that doing so would further the achievement of Digital Agenda goals and customers' interests in terms of competition and choice.
- **Fourth** the mentioned revenue decline must be reversed;
- Demand segmentation is crucial and freedom on the pricing level is a condition to for stimulating the take up of services. Network transition requires a focus on investment and innovation, not on ever lower prices for existing services.
- The wording of the framework itself recognizes the objectives of investment and innovation, but the drive towards ever lower prices has its own momentum. **The European Commission should give a strong political signal here – a nudge in a new direction.**

- **Investors, and here we mean private equity investors, are looking for the signal that the focus of regulation has changed and that there is a willingness to commit to a regulatory approach which allows a reasonable risk-return on the capital investment required and which supports healthy balance sheets.**
- At a recent ETNO workshop on NGA investment, representatives from the investment community signaled their readiness to invest in fibre if Europe sets the right conditions, and in particular **pricing flexibility on fibre networks**. Given that copper prices and competing platforms will constrain fibre prices, there are sound grounds for not setting a cost-oriented wholesale price of fibre. **Strict cost-orientation for fibre would hinder the possibility for operators to differentiate wholesale and therefore retail prices and to offer innovative packages tailored to consumer needs. Freedom on the pricing level is a pre-condition for experimenting, for learning and for stimulating the take up of services and for supporting digital inclusion.** Several national regulators have in fact concluded that applying other than strict cost-based price regulation on new fibre networks supports NGA investment without limiting competition.
- By contrast, **the model of a separated fibre network, is not seen by investors as a way of increasing incentives for investment.** Such a model would hinder the development of other alternative platforms and hence

reduce infrastructure competition and **limit consumer choice**. **Recreating a de-facto network monopoly would go against the key principles of the regulatory framework and questions the benefits of liberalization so far. Furthermore, establishing such a complex model would not be possible under the current framework and would take considerable time, further delaying the achievement of the Digital Agenda targets.**

- In this context ETNO is very concerned by the recent calls by some new entrants which go completely against the above winning strategy. They are requesting to cut wholesale copper access prices where regulators consider that the main operators do not invest enough in fibre. However the effect of cutting the copper access prices will be to delay investments, prolong access to cheaper copper which will further delay migration to fibre.

Copper pricing cannot be reduced artificially. On the contrary, it needs to reflect the value of the network as well as the value that users can get from it.

- **Drive copper prices down and you will harm the investment case for fibre whilst undermining competing cable and wireless providers.** Let's be clear about one thing - the reason some are calling for cheap copper is because they want cheap copper and have no desire to climb the ladder of

investment. **Cheap copper promotes copper broadband at the expense of investment in fibre.**

- Is this what we want for Europe? A scenario where the interest to invest in new technologies is lowered and opportunities for upgrades to higher speed broadband now are foregone (e.g. through VDSL).
- What we ask the European Commission to do is to look at investors' reactions to possible disruptive choices. The answer is quite clear: money will move away from the sector towards more profitable markets. On the contrary, a commitment to **a reasonable increase in copper prices over time above inflation would clearly indicate a change of direction to investors.** It would also send the right signal in terms of migration to fibre for customers and entrants alike. Once transition to fibre accelerates, reverting to a safety cap for copper wholesale prices may also be an option to address concerns that prices for legacy products may rise unduly as demand falls, providing a predictable price path for all.
- To attain the Digital Agenda objectives we need **a strong political commitment to a course supporting a mix of investment solutions, stability in copper pricing and flexibility for fibre pricing; thereby fostering competition and choice during the transition.**

Thank you for your attention.