The Universal Service and the New Generation Networks

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The Universal service and NGA

Specific points to be addressed

- The future of the Universal Service
- Digital divide
- Implication of broadband growth and mobility
- Access to advanced services for all?

The Future of Universal Service…

- Is already questioned when assessing the criteria set out in the directive, Recital 25 and Annex V
  - Availability – coverage wise - to a majority of consumers?
  - Usage by a majority of users?
  - Risk of social exclusion ?
  - General net benefit?

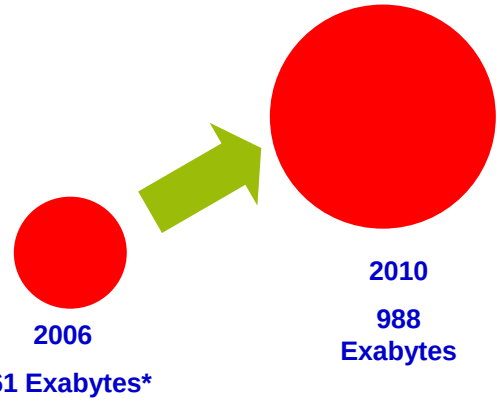
EU BB penetration rate = 20 % population ➡ No valid US candidate

Affordable Mobile offers ➡ No valid US candidate either

How will NGN affect our understanding of the Universal Service concept?

Some clear trends:

The amount of digital information created, captured and replicated will increase more than six fold from 2006 to 2010*



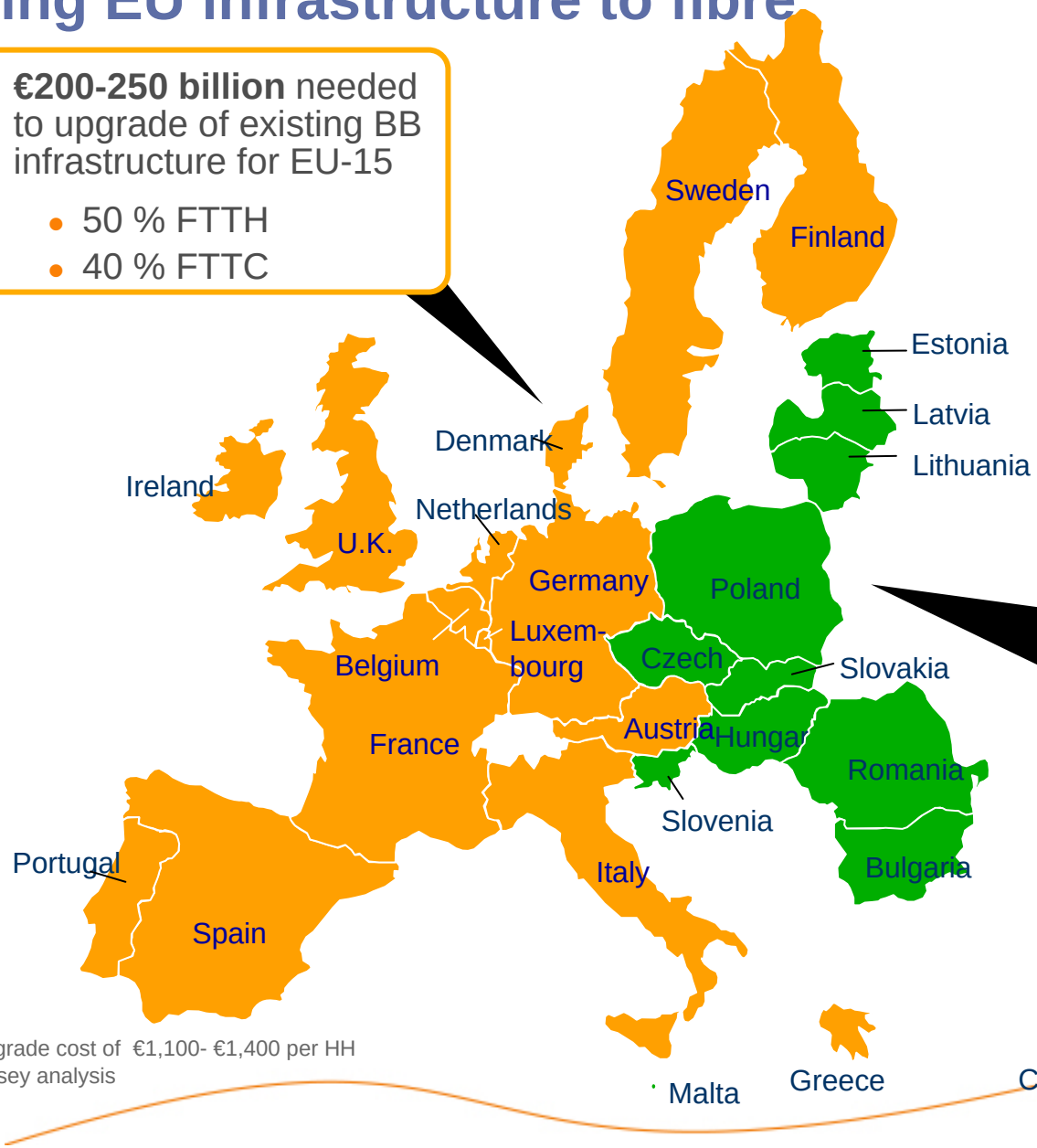
*** 988 Exabytes = 988 x 10^9 Gygabytes = 988 x 10^{18} bytes**

Up to €300 Billion needed to upgrade existing EU infrastructure to fibre

HIGH-LEVEL ESTIMATES

- EU-15 countries
- New joiners to EU

- **€200-250 billion** needed to upgrade of existing BB infrastructure for EU-15
  - 50 % FTTH
  - 40 % FTTC



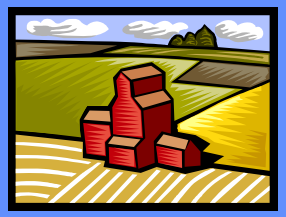
- €30-40** billion needed to upgrade BB infrastructure for the 12 new EU members
  - 50 % FTTH
  - 25 % FTTC

**Estimated upgrade cost of €1,100- €1,400 per HH
Source: McKinsey analysis

Incentives for investment
Geographical segmentation

ILLUSTRATIVE

Zone A



Non competitive area where only one infrastructure exists or area without any NGA infrastructure

- Enhance take up and transmission speed by:
  - Public private partnerships / Demand aggregation
- Regulated access (no infrastructure competition will emerge)

Zone B

Prospectively competitive area, ULL intensive

- Clear message: ex ante is reduced to symmetric facilities access, no eternal regulation-protected business models
- Alternative moves and incumbent follows, catalyst for infrastructure competition

Zone C

Competitive area where platform competition exists

- Hands off, but transparent migration path
- Commercial wholesale agreements

Incentives for investment
Access to ducts and fair risk sharing

- Symmetric opening of all ducts including those of other sectors (energy, water, municipal ducts etc.) to promote infrastructure competition

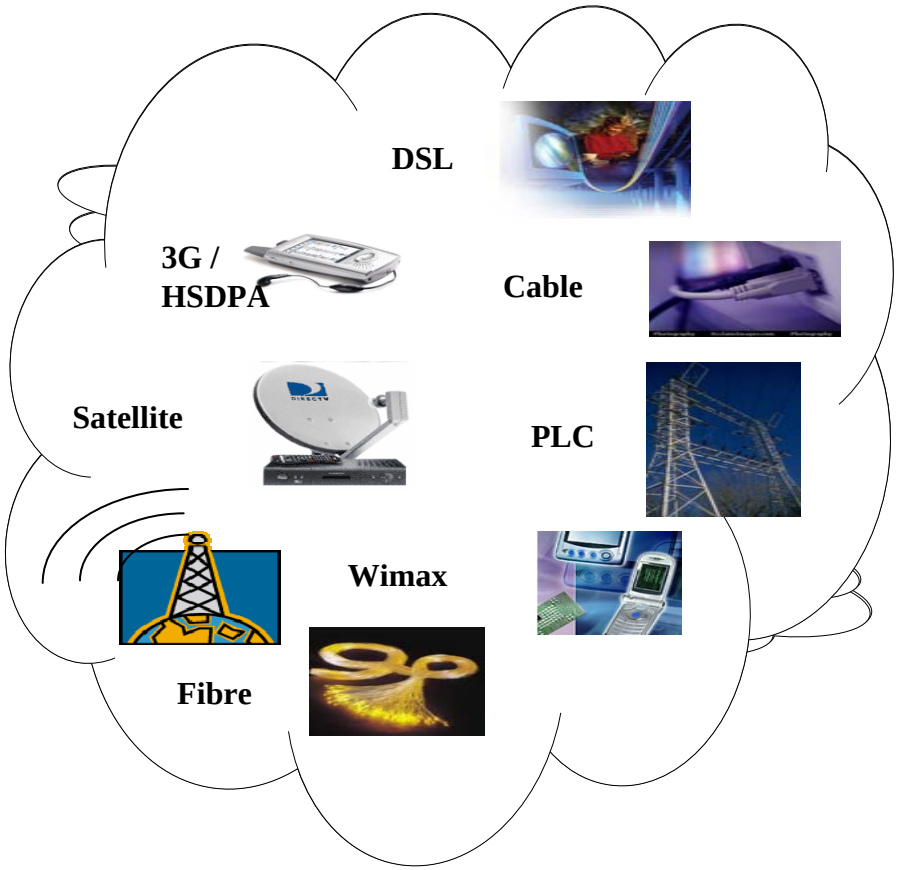
Only where duct sharing does not result in infrastructure competition

- Regulated access: access conditions must allow for flexible pricing by the regulated operator and fair risk sharing between investor and access seeker
  - Long-term contracts with minimum quantities
  - Short-term contracts with a risk premium

NGA: Main needs for change

Network access	▪ Symmetric opening of all ducts ▪ No regulatory intervention in case of existing or emerging infrastructure competition at local or national level ▪ Access only at one level of the value chain (ducts or BSA)
Pricing	▪ Allow significant return for the investing network operator when defining conditions for access obligations by sharing of investment risks between network investor and access seeker ▪ Stable wholesale prices and conditions enabled by remedies decisions for longer periods
Retail	▪ No regulation

Other Platforms' role and Convergence



- New technologies increasingly allow consumers to access broadband without relying on existing networks
  - Large choice for deciding which operator will carry the call
- Increased platform competition ➡ reconsider inclusion of telephony services in US scope
- High substitution level between fixed and mobile; e.g. Austria, Czech Republic, Romania.

Funding mechanism

- Is the sector happy with funding mechanism?

Access to advanced services for all?

Is USO the right tool? → Reflection on the aims pursued

- Recital 2 - Under Article 153 of the Treaty, the Community is to **contribute to the protection of consumers**.
- Article 1 - The aim is to ensure the availability throughout the Community of good quality publicly available services through effective competition and choice and to deal with ***circumstances in which the needs of end-users are not satisfactorily met by the market.***
- Article 9.1- Member States may, in the light of national conditions, require that designated undertakings provide tariff options or packages to consumers which depart from those provided under normal commercial conditions, in particular to ensure that ***those on low incomes or with special social needs are not prevented from accessing or using the publicly available telephone service.***
- Article 9.2 - Member States may, besides any provision for designated undertakings to provide special tariff options or to comply with price caps or geographical averaging or other similar schemes, ensure that ***support is provided to consumers identified as having low incomes or special social needs***.

US is about avoiding social exclusion + good quality basic services

Some fundamental questions…

- What are the basic ICT services for European citizens which are crucial for their integration?
- What problems prevent them to use them?
- What do we do to solve the identified problems?

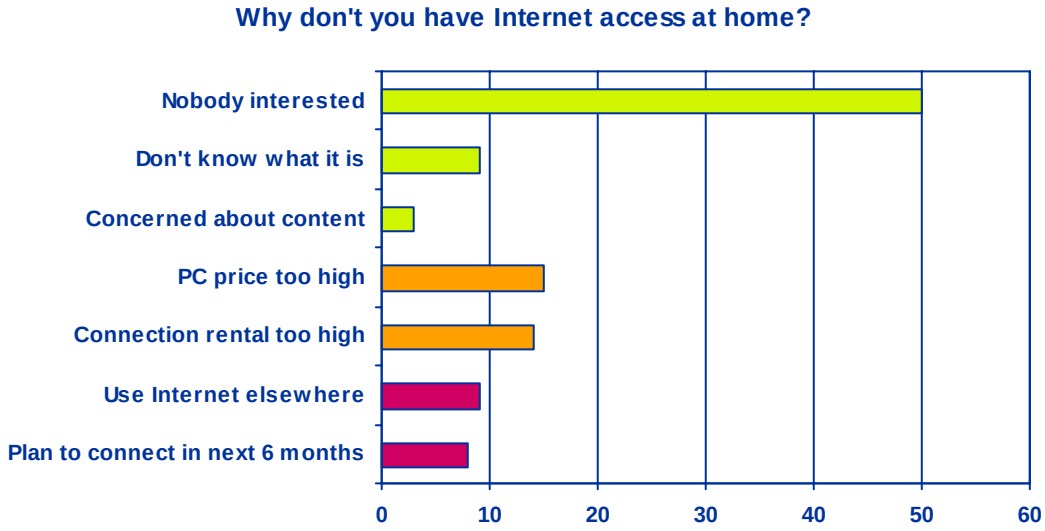
What basic set of services?

Basic set of services

- Voice telephony
- Emergency services
- Internet access (e-mail, web surfing, documents downloading)
- Access to audiovisual content (Radio & TV services; Audio & video downloading)

Source: Eurobarometer

Basic ICT enablers are often not met



Source Eurobarometer Winter 2008

What can we do how the US could help in case of …

- Lack of interest?
- Unavailable or too complex services?
- Expensive hardware?
- Remaining access problems in remote areas?

Conclusion

- NGN & platform competition will affect the future of Universal service: technological and market evolution lead to phase out obsolete universal service obligations
- Current status and future prospects of NGA roll out under the current regulatory environment do not allow the inclusion of broadband
- We are far from a widespread deployment and penetration rates meeting criteria set out in the directive.
- Do not believe that universal Service will bring you broadband; public sector should not promote BB deployment through US.
- A new reflection is needed: is US the right tool for offering access to advanced services for all? Other policies appear more efficient.