

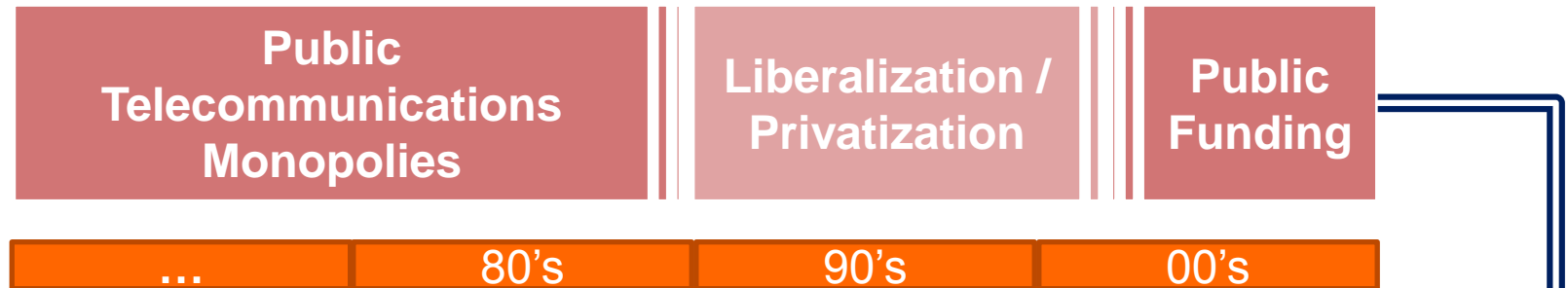
FTTH efficient (?) public financing

Pre-Conference Workshop: Financing FTTH Networks

FTTH Conference 2011, Milan

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Huge amounts of public resources / tax payers money for BB:

- € 1 billion in the EU
- € 5.3 billion in the USA
- € 29 billion in Australia
- € 780 million in New Zealand
- € 500 million in Singapore

Good theoretical motives for public intervention, but...

- Public investment in next generation networks for...

- a) Equity motives: to fill in the gaps in rural areas

*“A generation ago, the economic well-being of rural communities often depended on how close they were to an (...) highway. In the next century, their vitality may depend more on the sophistication of their communication services”, McMahon, K et al.. (1999), “Strategic Planning for telecommunications in rural communities”, *Rural Development Perspectives*, 14(3)*

- b) Industrial Policy motives: to promote growth

Clear association between BB indicators and GDP_{pc} , but causality nexus is still not clear (\leftrightarrow ?)
Cronin et al. (1991), “Telecommunications infrastructure and economic growth: an analysis of causality”, *Telecommunications Policy*, 15.

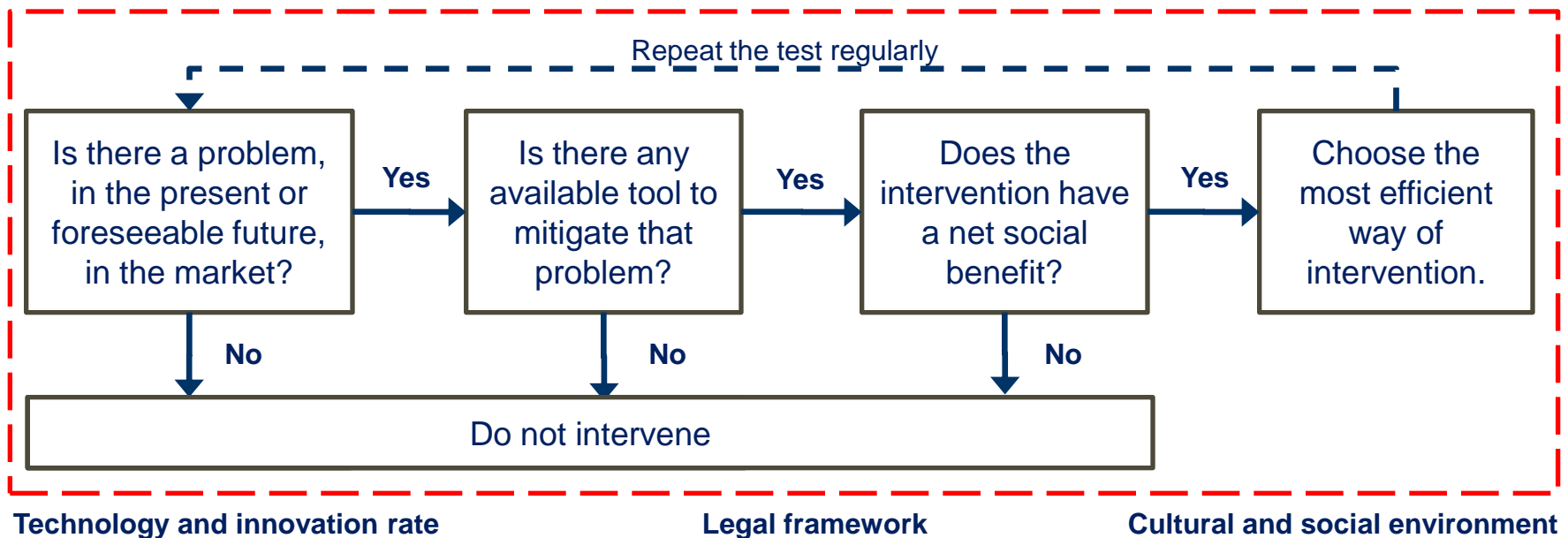
- c) Economic recovery motives: stimulus programmes

Martin Cave et al. (2010), “Motives and means for public investment in nationwide next generation networks”, *Telecommunications Policy*, 34

- Following Stiglitz causes of market failures...

*“(...) almost all arguments that justify State intervention in the economy are, to variable extent, applicable [to telecommunications]” but “finding coverage for the intervention does not imply being forced to intervene (...) thus the efficiency criteria could give way should it be understood that access to new telecommunication services is a merit good that is essential to provide equity”. Gómez-Barroso, J. et al.. (2005), “Public intervention in the access to advanced telecommunication services: assessing its theoretical basis”, *Government Information Quarterly*, 22*

The “Triple Yes Test” for State intervention.



In the telecommunications case we have a fast moving target:

- to take the initial picture
- to design the intervention tool and act in due time

Efficient intervention ⇒ detailed analysis of benefits and costs

Most of the stakeholders are pro public investment on BB infrastructures:

- Operators, seeking for new revenue opportunities
- Vendors, manufacturers and consultants, seeking for booted sales
- Installers, seeking for new / faster deployments
- Governments, for political (legitimate) reasons

Citizens and consumers are being tough / told how their lives will / must be in the future, “designed” by all other stakeholder. Did they already understand, the benefits and the tax bill?

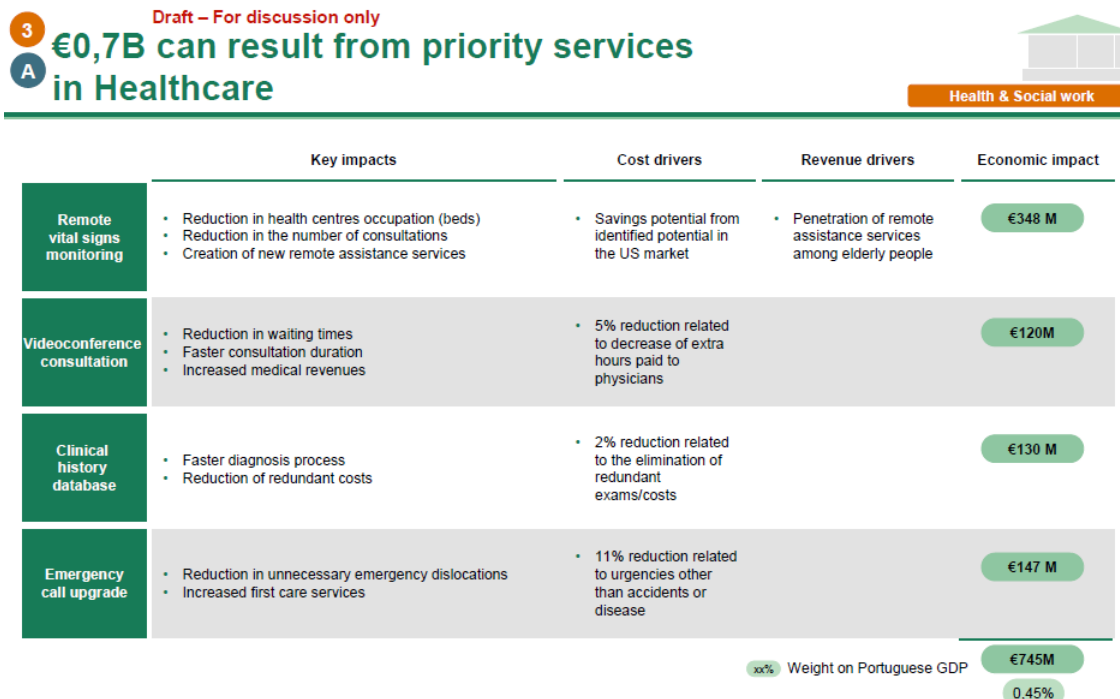
Are Governments basing their decisions in appropriate weighting of pros and cons, short-term and long-run?

“The conclusion is that PPP are a way to promote early uptake of broadband services. However, in the long run the positive impact this may have on demand may be outweighed by the potencial negative impact on competition”. Falch, M. et al.. (2010), “Public private partnerships as a tool for stimulating investments in broadband”, *Telecommunications Policy*, 34

Probably, some public initiatives are not technically or empirically supported

Example

“An independent study estimates that the government’s projected investment in BB infrastructures will generate an annual increase of 1.8% of the GDP, including direct and indirect impacts in other industries, and 15,000 to 20,000 qualified new jobs”

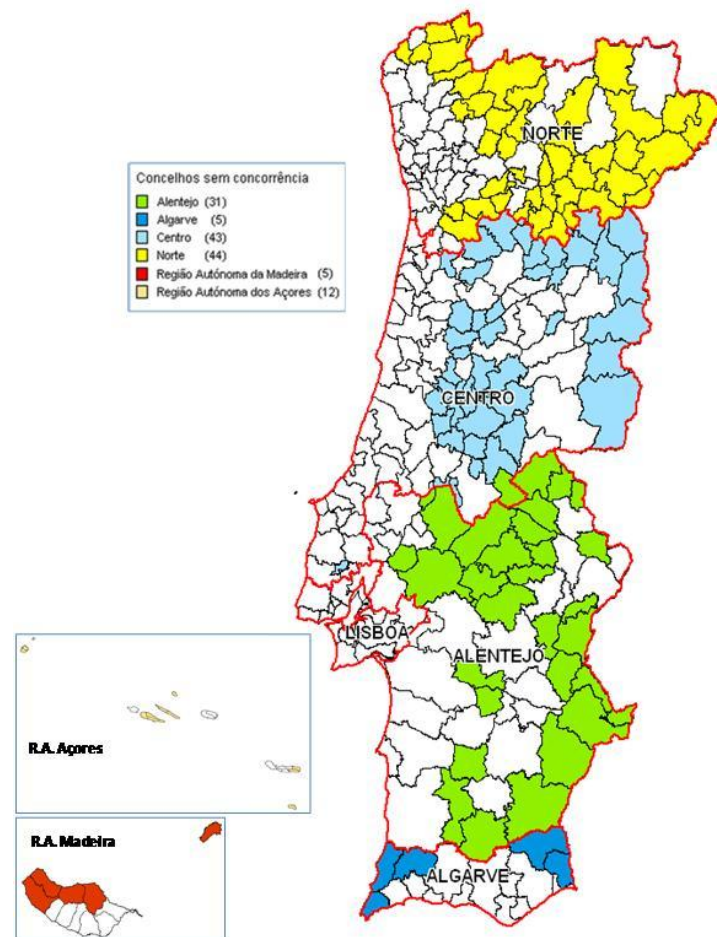


The “independent study” suffers from several technical fatal errors!

Note: Sources are not mentioned intentionally

- The Portuguese government strategy included demand as well as supply side initiatives:
 - a) Ambitious political objectives kept in the agenda
 - b) Legislative initiatives to lower horizontal and vertical deployment cost
 - c) Political support for European Investment Bank loans to operators (€ 375 million)
 - d) Public procurement for BB in schools and public institutions
 - e) Laptop plus mobile BB widespread programme for students and teachers
 - f) Public subsidies to rural high-speed broadband infrastructures

- To ensure territorial cohesion and equality of opportunities, the Government launched in 2009 public tenders to invest in NGN in rural areas, with the EU support. Tomorrow the contracts will be signed.
- The criteria which determined the 140 municipalities chosen, were the absence of previous investment in:
 - a) Cable networks;
 - b) Own investment of the alternative service providers.



- In each public tender, the following requisites were established:
 - a) Minimum coverage of 50% of each municipality's population;
 - b) Within a maximum delay of 24 months;
 - c) With a minimum bandwidth of 40 Mbps per end user.
- Each “superfast” network must:
 - a) Be managed as an open network;
 - b) Ensure, during 20 years, an wholesale offer;
 - c) Follow rules of transparency, non discrimination and healthy competition.
- In 2010, the winners were announced:
 - a) FTTH GPON passed households will be circa 242 thousand;
 - b) Average cost per passed household is between circa € 640 and € 1 630, with an estimated subsidy between € 380 and € 1 050.

- There are motives for public funding of FTTH, as well as other NGN technologies, networks, specially in rural areas.
- If there is a real case for a specific intervention, accurate analysis of the problem and of different alternative intervention approaches is needed to “assure” an efficient use of tax payers resources.
- We may be facing a pro-NGN bias, inflated by the political need to address the economic crisis, but it is worth a pause for reflexion.
- The short term bias in the past is considered one of the causes of today’s crisis. Lets give the long term a chance today, if we want to prevent tomorrow’s crisis.