

SIXTH ANACOM CONFERENCE

"FINANCING THE FUTURE"

The 6th ANACOM Conference - "Financing the Future" took place in Lisbon on 1 July 2013. It was attended by a number of expert speakers and by representatives of the European Commission (EC), international organizations, regulators, financial institutions and operators.

Opening Remarks

Opening the Conference, Fátima Barros, Chairman of ANACOM's Management Board, highlighted the choice of this year's theme and stressed that it was crucial for the sector to have access to capital to support investment in next generation networks (NGN) and to provide access to super-fast broadband. This concern is also highlighted by the EC in the Digital Agenda for Europe, which sets out to achieve conditions that encourage innovation and increase productivity, employment and competitiveness, as essential drivers of growth.

It is essential to understand the equation which has become so problematic: promoting investment in a sector where, as a result of Europe's widespread economic crisis, increased competition and shifts in the electronic communications value chain, companies have been suffering margin deterioration.

The sector is currently experiencing huge challenges: broadband has become an essential basic service; Long term evolution (LTE) network deployment has generated new possibilities; the spread of smartphones and tablets has led to increased mobility in data communications and interconnection; data traffic has increasingly been replacing voice; and cloud computing has had a disruptive impact on all areas of information technology. All this has given rise to significant advances in the digital economy, particularly in areas of e-government, e-education and e-health, as well as in terms of banking and mobile payments; and in many of these areas, Portugal has been at the forefront.

With the arrival of NGN, companies are facing a radical change in traditional business models and operator value chains are becoming increasingly complex. NGNs have enabled substantial changes to the range of services that can be offered over optical fibre and cable, and

"convergence" has become a sector watchword. Mobile operators are being forced to seek new business opportunities, including through investment in optical fibre networks or through mergers and acquisitions involving cable operators. Furthermore, with subscription television acting as an important driver of demand for high-speed and very high-speed broadband, access to content has become a crucial strategic factor in operator survival.

Market dynamics and changing structures pose new challenges for regulators and traditional models of market regulation. The competitive focus has shifted to innovation in terms of content and applications; and this may force integration between regulation of electronic communications and of content. Issues such as network neutrality, cybersecurity, cybercrime, privacy and personal data protection are becoming increasingly important for regulators.

However, a more complex challenge faced by national regulatory authorities is to ensure that conditions are put in place which foster NGN innovation and investment, while at the same time, ensuring an environment of effective competition.

Fátima Barros stressed that regulators understood the need to guarantee a stable regulatory approach which is consistent over time, in order to ensure the regulatory predictability that is essential to sustain investor confidence.

The Chairman of ANACOM also recalled that despite the enormously difficult situation that currently besets Portugal, operators have continued to invest in rolling out NGN, which is why, in European terms, Portugal enjoys above average NGN and LTE coverage. Moreover, the Portuguese case is a very special case in the European context and is often cited at international meetings: the existence of two platforms - fibre and cable - competing together, makes the Portuguese market very dynamic in terms of offers of bundles of services and pricing.

However, when it comes to high-speed broadband penetration, Portugal lags the European average, which means that demand is not keeping up with the growth in supply. This phenomenon is seen to some extent throughout Europe and explains the subdued levels of investment in fibre networks in many European countries.

Finally, the Chairman noted a widespread view that NGN has a key role to play in the future, making the present debate on financing the future a very timely one.

The Portuguese Secretary of State for Entrepreneurship, Competitiveness and Innovation, Franquelim Alves, spoke about the sector's evolution over recent years, highlighting convergence between networks and content. He considers Portugal a reference at a global level (despite its small size and financial constraints).

He stressed that the Digital Agenda for Portugal, in line with the Digital Agenda for Europe, seeks to maximize the positive impact of information and communication technologies (ICT) on the economy and job creation, leveraging the qualifications of young people.

The global expansion opportunities in products and services are evident, putting our human and intellectual capital on the front line; and in this respect, EU funds are essential, in particular to modernise the administrative sector. At this juncture, businesses that have value will have the capital necessary for investment and priority will be given to all initiatives geared to increasing productivity and competitiveness.

The Governor of the Bank of Portugal, Carlos da Silva Costa, then addressed several issues related to the Portuguese financial sector.

PANEL "THE DIGITAL AGENDA CHALLENGE"

The panel's moderator, Pedro Carneiro, Member of the Council of Directors, FCT - Fundação para a Ciência e a Tecnologia (Foundation for Science and Technology), briefly mentioned the cornerstones of the Digital Agenda for Portugal, the issue of Internet take-up and usage rates and the increase in ICT exports.

The first speaker, Francisco de Paula Coelho, Director of the Department for Operations in Asia and Latin America at the European Investment Bank (EIB), pointed out that EIB lending in the electronic communications sector has been a constant, amounting to 1.4 billion euros in recent years. In Portugal's case, he highlighted the loans granted to PT and to ZON for the deployment of NGN, but noted that the EIB was unlikely to finance further investments in broadband infrastructure. However, investment support for European operators (including PT) in Latin America may be extended to Angola and Mozambique.

Globally, about 44 percent of EIB loans in the sector support investments in third-generation mobile networks, with several European cases given as examples.

Francisco de Paula Coelho also pointed out the different approaches to funding granted by the EIB, including secured and unsecured loans and refinancing.

The Director-General for Communications Networks, Content & Technology at the European Commission (EC), Mario Campolargo, set out the main priorities of the Digital Agenda for Europe, and in relation to its review, highlighted the importance given to content and services, the Connecting Europe facility, digital literacy, job creation, trust and security, copyright and the cloud.

Mario Campolargo added that penetration indicators in Portugal compare favourably with the European average, even while use of e-government and e-commerce falls short of the potential enabled by available infrastructure and services.

Among the measures to be proposed by the EC, he referred to the creation of a "European passport" to facilitate cross-border provision of services and the creation of a "European consumer space".

Mindel De La Torre, Chief of the International Bureau at the Federal Communications Commission (FCC) of the United States of America (USA) presented the recent conclusion of the McKinsey Global Institute - mobile Internet is the technology with the greatest disruptive potential - and explained how regulators have to keep pace with this disruption.

She outlined the characteristics of broadband access in the USA, where most of the population have accesses available with download speeds exceeding 3 Mbps and more than 95 percent of citizens have mobile Internet access with speeds of 4 Mbps. In 2012, the average speed of data transmission in the USA was 2.6 Mbps, above the world average. She also noted that the concept of universal service is being redefined to cover the deployment of networks in high-cost geographical areas, reporting how the FCC set up a "mobility fund" geared to the deployment, through auctions, of mobile broadband networks along secondary trunk roads.

Finally, she stressed the role of the FCC in the field of net neutrality, seeking to preserve the rights of users and prevent undue discrimination.

PANEL "INVESTMENT PROMOTION AND SUSTAINABLE COMPETITION"

This panel was moderated by Hélder Vasconcelos, member of ANACOM's Management Board.

The first speaker, Luigi Minerva, senior analyst at TMT Global Research in the United Kingdom, revealed that many European operators offer access prices to fixed broadband which are lower than those charged in other markets such as the USA and Mexico, and warned of weak returns on investment in the sector compared to alternative investments in other sectors.

Investors view recent regulatory proposals from the EC with satisfaction, while there remains a need to reduce uncertainty and show that the sector has real capacity for growth. With respect to investment in fixed broadband, he considered it useful to clear up the alleged differences between the Body of European Regulators for Electronic Communications (BEREC) and the EC's DG CONNECT and avoid opportunistic (regulatory) approaches in the face of operator commitments.

Meanwhile, he considered that mobile termination rates would reach one eurocent per minute within a few years, making a reduction in the fragmentation of the European market in this area a priority.

Gabrielle Gauthey, Senior Vice President of Alcatel-Lucent, France, said that the mobile service has provided the main engine of growth in the sector, especially mobile data traffic, and she considered that Europe must try to overtake the USA and Asia Pacific countries. The investment requirements for this purpose are estimated by different studies at between 73 and 290 billion euros.

This speaker also focused on the case studies of France (highlighting infrastructure pooling) and Germany (highlighting access to street cabinets for the deployment of the local sub-loop unbundling offer and the development of wholesale bitstream access).

Finally, Gabrielle Gauthey highlighted possible alternative and innovative approaches to promoting broadband investments, based on shared nationwide transmission networks, on next generation access networks providing wholesale access (active and passive) and on open access to LTE networks (in rural areas and/or for public safety purposes).

Stuart McIntosh, Director of the Office of Communications (Ofcom) in the United Kingdom, emphasized the complexity of the regulator's role in promoting innovation and investment, while at the same time safeguarding the interests of consumers and promoting competition. He noted the work of Ofcom in these areas, in particular the requirement, from 2010, that BT offer 'virtual unbundled local access' (VULA) - although without price regulation - grant access to its poles

and masts, and implement a system of functional separation and equivalence of input (EoI). He also referred to the measurement and publication of the real Internet access speeds provided by broadband providers.

Stuart McIntosh also addressed the challenge of releasing spectrum to enable investment and to increase the range of choice in LTE; Ofcom auctioned spectrum in the 800 MHz and 2.6 GHz bands, and awarded five licenses, which generated revenues of 2.3 billion pounds. Finally, he discussed the virtualities that result from infrastructure sharing among operators.

PANEL "PERSPECTIVES REGARDING THE VALUE CHAIN: NETWORK PROVIDERS VERSUS CONTENT PROVIDERS"

This panel was moderated by Luis Gravito, Senior Partner and Managing Director, The Boston Consulting Group.

The Chairman of APRITEL - Associação dos Operadores de Telecomunicações (Association of Telecommunications Operators), Ana Paula Marques, argued that the value chain has entered a new era, in which connectivity plays a key role, and with estimated coverage of five billion people by 2015.

In the new value chain, the positioning of traditional operators and of "over the top" operators (OTT) depends on adopted strategy, and she set out a range of aspects comparing the activities of traditional versus OTT operators.

She referred, in particular, to the fact that OTT operators are pursuing a range of new business lines and models, adding complexity to the value chain and impacting the business lines of traditional operators; she said that telecommunications operators in Portugal have boosted the national economy, with continued investment in modern infrastructure which has significance in terms of broadband coverage and penetration of services.

The changes taking place in the value chain also present the regulator with challenges, particularly in terms of net neutrality. The operators consider that Portugal's LCE - Lei da Comunicações Eletrónicas (Law of Electronic Communications) already lays down appropriate measures to ensure transparency and to ensure that users are kept properly informed; the Law also sets out measures which promote mobility among service providers, mitigating issues of net neutrality that may arise.

Another regulatory challenge will be to clarify the concept of "provider of electronic communications services", given that OTT providers are taking advantage of the investment made in the networks of traditional operators, while enjoying an exemption from the legal and regulatory obligations to which traditional operators are subject.

In APRITEL's view, it is critical that all participants in the value chain work together to accomplish the transition to a business model that provides for the monetization of data services, network neutrality, open platforms and innovative products and services.

João Couto, Director General of Microsoft Portugal, noted four major world trends for the sector: cloud computing, social networking, mobility and big data (data storage).

Migration to the cloud is inevitable, given that use of these solutions enables companies to manage their information more efficiently and with scale. Microsoft has been investing heavily in cloud solutions; these have been developed in conjunction with operators, who will then be able to provide cloud services themselves and offer them to their customers.

Turning to social networks, about 85 percent of Fortune 500 companies have already implemented solutions that transition the consumer social network model to the business world.

Mobility is a fundamental trend, determining a shift in the management and understanding of the entire ecosystem and value chain. The role of operators is to ensure that access to applications and to the network is provided with the best possible levels of quality of service and with prices in keeping with the customer profile.

In terms of big data, Microsoft states that two-thirds of mobile applications developed in 2013 already integrate end-user data analysis, allowing the provision of services which are in line with customer profiles. The company intends to develop "intelligent" business solutions that help service providers and enterprises handle this volume of information.

Pedro Norton, CEO of Impresa, began by saying that changes in the media sector are characterized by changes in the cyclical and structural environment which, while linked, have distinct causes and consequences.

He highlighted declines in advertising revenues, which began in 2007/2008 with the financial crisis and were exacerbated by the national crisis and by Portugal's request for international

financial assistance. He reports that, over the past five years, the advertising market has lost over 50 percent of total revenues.

Meanwhile, a set of ongoing structural changes are shifting the balance of power between operators/providers of networks and of content. The first set is being driven by technological innovation, reflected in the progressive reduction of barriers to entry on the media market. The second set of changes, also stemming from technological factors, is the blurring of boundaries between the various categories of media. There are also changes which result from shifts in consumer and cultural habits, resulting in increased consumer power.

Pedro Norton considered that new content consumers demand a presence on all platforms and to be able to choose the manner, location and time of access. These changes in consumption patterns are making the position of content providers less competitive, in the sense that the demands of consumers can only be met by suppliers/distributors of network services.

Traditionally, in the Portuguese market, there is a high degree of constructive collaboration between operators and content providers - each limits itself to areas where it can work with excellence. However, this calls for strong regulators who can respond to the growing interdependence between the various actors in the value chain comprising the media and telecommunications markets.

CLOSING SESSION

Closing the proceedings of the Sixth ANACOM Conference, João Confraria, member of ANACOM's Management Board, stressed that although the companies of the sector will be undertaking an investment effort that goes beyond the average of national companies and, in many cases, exceeds that made by companies in other countries with similar market positions, he was also convinced that it was possible to do better and that it was necessary to continue to invest heavily.

The impact of regulation on investment is a fundamental factor in the work of sector regulators. In this context, he summarised the topics covered: costs of regulation as a deterrent to investment; risk of regulation as a component in return on invested capital or in pricing and quality of service, or also in the investment plans of companies seeking to develop business models which comprise access to next generation networks; and observed changes in market structure, in terms of greater concentration and regulation that is in line with new circumstances.

João Confraria also spoke about the issue of flexibility among regulators and legislators in adapting to change; he considered such flexibility essential and that there was a need to address innovation and regulation in an integrated manner.

He also noted that in this and other regulated sectors, because of the existence of concentrated market structures and possibly monopolies, regulatory interventions may be necessary to oversee the capital levels and the financial structures of regulated undertakings. Intervention powers of this type are considered to be within the scope of banking supervision, and are not attributed to sector regulators such as ANACOM.

He went on to question the possible advantages of a combined regulatory approach to electronic communications and content, suggesting that there may be an interest in considering a more integrated model of regulation than currently exists.

Finally, João Confraria noted that the issues which have arisen point to the existence of a regulatory framework that empowers regulators to resolve problems, but not always those that society expects them to resolve. He asked whether the current legal framework of regulation is designed according to the problems of the last decade, and whether it might lack the flexibility needed to confront the challenges of the coming years. This possibility was one of the aspects that led participants to expand upon the theme of this conference: how to attract and secure efficient investment in this sector?