

# **3rd International Conference on Broadband Internet**

## **“Innovation in Broadband Network and Services”**

*Athens, June 7, 2008*

“The NGN dilemma:

Competition or cooperation?”

*Speech by Roberto Viola*

*Secretary General AGCOM*

*Vice Chair of the European Regulators Group*

President of the EETT, ladies and gentlemen good morning

It is a great pleasure to be here again in this beautiful scenery.

It is my third consecutive year that I am invited to participate to this conference and I am very much impressed by the fact that this conference year by year has widened the content and participation and has deserved to become one the most prestigious forum in Europe to discuss the future of telecommunication services.

I am therefore very grateful to President Nikitas Alexandridis for his invitation to deliver this opening speech today and I hope to give you a number intellectual challenges to provoke a lively discussion during the day (my secret hope is also to be convince Nikitas to invite me another year!!)

Three years ago when I delivered my first speech at this conference, Grece was at the beginning of its broadband adventure and I remember the worries that were expressed by participants about the possibility to catch up with the rest of Europe.

I have to say what Grece has achieved in the last three years is very impressive in terms of growth of broadband lines, decrease in prices and increasing competition thanks to the energetic action of EETT.

But friends and colleagues, I have now bad news for you and for the rest of Europe: there is no time for complacency the big challenge of building Next Generation Networks is ahead of us.

To upgrade the existing European networks to next generation fiber based networks investments in excess of 300 billions (I repeat 300 billions euros) is needed. For example in Italy our current estimate is that from 10 to 15 billions of euros are needed to reach 80% coverage.

For Grece mainland and the main islands my personal estimate is that 3-5 billions euros are needed.

These figures may vary significantly with the percentage of households that are reached directly by the fiber (FTTH) significant savings (currently by a factor 2-3) might be realised if the fiber stops at the curb (FTTC) or at the building (FTTB).

My assumption is however that the long term objective for policy makers is to have a fiber reaching each European home.

A fiber in each Italian home or in each Greek home very much like today that nobody questions that there should be a copper line reaching each individual home.

You might ask if this objective would make economic sense and the answer is probably no. (The right mix of technologies including radio access is in all likelihood the correct answer).

However we are all aware that in the short term public policies might fill the gap between insufficient return from a business proposition and the necessity to have a return on the capital invested in NGN networks.

Our calculation and all the predictions I have seen from business analysts are showing that the internal rate of return of fiber projects is not that attractive.

Cost savings and added revenues from premium broadband offers will not probably make a nation-wide case (this does not exclude the possibility of interesting return from high income densely populated areas).

But I insist what is at stake for Europe is a policy objective not necessarily a short term business proposition.

If we wait for private capital to flow in the direction of NGN we might wait in certain part of Europe for decades. The question I am asking you should we wait for the carmakers to build the highways?

Telecom operators might for example leverage from regional governments and municipalities investing in dark fiber and other basic infrastructures.

When we compare different models of how to sustain investments in NGN access the situation is indeed complex; the state of play is very varied. My impression is that three scenarios can be basically identified.

The first one is a scenario where a deliberate choice is made to lift regulatory access obligations (regulatory holidays) and no public intervention is foreseen. The United States are focusing on several technologies- cable, fibre and wireless technologies (Wi-Fi and WiMax) – with a fierce infrastructural competition among telecommunication operators, cable providers (with new comers' help) and on a substantial access deregulation (based on the existence of competitive and multiple infrastructures).

The second scenario we find in Asia, where a dirigisme approach has taken the lead. The Korean successful example and the Japanese project (the Japanese project has been called *Ubiquitous Japan*), lead to a path of decisive State intervention towards ultra wide band ubiquity- about 100 Mbps, already talking of 1 Giga - mostly through fibre optic to the homes.

In Europe, we do not see a single political proposition but a number of localised strategies. We still strive towards a fully harmonised regulatory context. Therefore we have witnessed some temptation to go towards a

(temporary) regulatory holiday (the German legislator *forbearance* ) , but there are examples of more regulated environment but still very proactive like in case of the UK.

Regardless the diversity national politics settings, what I find interesting is that local Governments have now understood the importance of public intervention to benefit and integrate the realization of new networks. Local actions is spreading (form the forerunner Stockholm, with the *Stokab* project of 1994, to the most recent Dutch projects *Citynet fibre* in Amsterdam, *Smart City* in Eindhoven, and the Rotterdam plan).

The economic theory and the evidence of facts teach us that there are situations (the so called market failures) where free market has to be supported by the invisible hand of the State.

The market satisfies the demands not necessarily the needs (we can just take a look at health care system in the U.S.A.).

Investments in NGN infrastructure show positive externalities (which is to say, the social and economic effects are going beyond the sector borders) that can be ignored by the market, but definitely not by modern policy makers.

Ultra Wide band infrastructures represent the future of the advanced economic system, the highway of the twenty-first century. This means information, data, images everything that becomes more and more vital for the efficient functioning of an advanced economic system.

This is especially true for the countries like Italy or Greece where content rich culture, history and the modern service based economy have a lot to gain from a so called **fiber nation**.

From a regulatory point of view, Communications Regulatory Authorities should continue granting access to Incumbents' networks, but also they should set a regulation that is able to increase investments in next generation networks. In this context functional separation when it is not imposed might be an important tool to secure the access neutrality.

Regulation protects competition and cannot substitute the industrial politics of a Country.

Compared to other Asian Countries, in Europe, (unless infringing European rules) the State action, if it's direct, has clear and rigorous limits.

The industry political strategy has to pass therefore mostly through a motivated market action.

Network and content investments can be incentivised in two ways: from one side lowering infrastructure costs of deployment (reducing the timing of deployment, reducing administrative barriers, lowering entry costs), on the other, increasing the revenues expected from the offer of new services (pushing on the demand for innovation).

No European country can afford to limit their policy objective to infrastructure the demand side is equally important.

Key to the transformation of content industry is the marriage between Television and Internet.

Television is not anymore a mere window to the world: now it's also and more and more becoming a public exposure of private life. Distances have reduced and the direction has changed. Traditional television enters into everyone's house, with Internet time and style, while, vice versa Internet also displays television.

This is the explosion of SMS, chat, blogs, YouTube, and Wikipedia. From one side we see the creation of new communities collecting even millions of members, anonymous most of the time, and from the other side we see relatives, school mates and lost friends we can find back *on-line* thanks to so called "social networking" sites (the most common is Facebook, with 70 million members).

The new Internet Television fusion raises back to the marriage celebrated in Thebes between Cadmos and Harmonia: this is regarded as the most important marriage of Greek ancient times a marriage witnessed by all the Gods of Olympus. (let me exercises a little bit with ancient Greek mythology...).

Harmonia is the reuniting entity, symbol of the conciliation of the opposites. Just as in Thebes celebration, this multimedia marriage will unite all “Olympus” information society players: IT providers, telecommunication companies, contents providers, broadcasters and last, but not least, all creative people and media reporters.

How does the Internet world reconcile with Television when one appears to be without barriers and the other much more regulated?

Less regulation in television is desirable but television enters into every persons’ house and it cannot become a free port. On the other side a better awareness and responsibility in Internet use is also necessary.

The new European Directive on television and media is trying to move forward in the same track, putting together the similar elements of Regulatory models of Internet (not linear) and television (linear) contents, while it introduces elements that need greater protection in television broadcasting.

It now to be hoped that national transposition of the new directive will not loose sight of its innovative content.

The new Television is therefore characterized by a disintegrating process (breaking process) of general channels' *audience*, proliferation of specialized digital programs, extreme targeting of audiovisual contents offer.

And, unthinkable thirty years ago, now thanks to the new networks it is possible to access audiovisual contents not only at home ( through a television device or pc), but also in nomadic modality, which is passing from one to the other (through portable/palm device connected to the network in wireless modality), and in complete mobility (through a new generation cell phone and a transmission standard such as DVB-H).

Can we analyse the current implication and particularly the future of this sector? Well, a recent OFCOM international research considers the possibility of a significant substitution between Internet and traditional television: 35% of Italian web explorers affirm to substitute tv with Internet (in the UK the percentage is 30% while in the U.S. 22%).

Next ultra wide band network diffusion will therefore have definitively a deep impact on the nature and modality of television consumption. These latter, on the other hand, urge the diffusion of high (and ultra high) speed.

Even advertisements in Internet and television are coming together. Television advertisements highlights two emerging phenomena of opposite sign coming form the Internet. On one side we see ads becoming shorter and shorter with a fast pace. New forms of advertising banners arise during program display.

On the other side digital television through interaction allows to deepen the advertising message.

The Internet world vice versa, has discovered the most traditional television model: the contents available financed by commercials. This explains the big web tycoons's war for positioning in order to guarantee contents on the web and visibility of portals.

Advertising investors in Europe are still not fully tuned on these perspectives and even less tuned are Europe's traditional broadcasters.

The marriage between Internet 2.0 and TV is a great opportunity that could be stopped from being realized if telecommunication infrastructures won't reach their full potentials.

At same time telecom infrastructure will not develop quickly if new and innovative content is made available.

The key to NGN development in Europe is probably in the cooperation. Cooperation in private public partnership, cooperation between national and local government and cooperation among different companies.

There will be no NGN without the commitment of the companies but I am equally convinced that if we want to defend our regulatory model based on open networks there will be no widespread NGN access without a proportionate form of public intervention.

The regulators will have a very difficult role to play on one side they will have to secure their intervention to restore market conditions in non-competitive

markets one the other side they will have to facilitate cooperation among different market players. Strict cooperation between European regulators will be a must to avoid that in Europe that we will have 27 (or even hundreds looking at local governments) different policies.

Cooperation and competition can be conjugated through well harmonised independent regulation.