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Broadband rollout and competition policy – what role for public funding?

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

'Bridging the Broadband Gap' Conference

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Ladies and gentlemen,

I'd like to begin by thanking the German Presidency and all those who have helped to make this event possible. This conference is a great opportunity for us to exchange best practice and to strengthen our joint efforts to bring broadband to all European citizens.

We in the Commission hope that you will tell us what you expect from us. Please also tell us how we can help. This event should be a practical example of "bringing Europe closer to its citizens", so I hope for a real debate on the real issues.

In today's fast-moving information economy, broadband access is vital for both citizens and businesses. We all agree about the huge potential of broadband for our society, for competitiveness and for growth. Thanks to broadband, people can share information, communicate and work instantly with anyone, anywhere in the world. By using broadband, even the smallest company can do business in the global marketplace.

Many Europeans have access to broadband services but, in rural and less-developed regions, broadband is often not available.

This conference is about how to bring broadband to all citizens and businesses which would otherwise miss out. Let me briefly explain the role of competition policy in this context, with a special focus on the state aid rules.

The role of competition policy

Investment in broadband networks is primarily driven by private companies. And that is the way it should be. Competition leads to lower prices and more choice for consumers. Competition fosters innovation and new technologies. We can all see the results: the growth in broadband services in Europe over the past few years has been extraordinary: 75 million households in the European Union use broadband today. We can only guess what the number would be if we had not moved away from state telecoms monopolies; but we know that the number would be much, much lower.

Keeping markets open and fair is vital to Europe's competitiveness, and this applies to the broadband market as to any other. The Commission uses several policy instruments to achieve this objective. First, EU legislation obliges former monopoly telecommunications operators to let competitors use essential parts of their network. As a result, new players can enter the market more easily and offer broadband services to consumers in competition with the former monopolies.

Secondly, the Commission uses its antitrust powers to challenge anti-competitive practices by dominant players. In 2003, for example, the Commission fined the French operator Wanadoo for trying to drive competitors out of the broadband market with a predatory pricing strategy. The Commission's decision in that case was recently upheld by the Court of First Instance. And I am glad to see that today, France has one of the most dynamic broadband markets in Europe.

Let me assure you that, together with the national competition authorities, we will continue to act against undertakings which abuse their dominance in this sector.

Thirdly, the Commission examines public intervention in support of broadband projects under the state aid rules.

In terms of broadband deployment, there is a great deal the market can do by itself. However, sparsely populated regions and remote areas with permanent geographical and natural constraints are not commercially interesting prospects. This is where public initiatives have a role to play.

Of course, public authorities can do a lot even without offering financial support. For example, city councils can coordinate network roll-out or lower right of way fees for operators, which may reduce the cost of providing broadband access. However, if state funding is granted to support the roll-out of new broadband networks, this raises the question under which conditions these subsidies are in line with the EC Treaty rules on state aid.

State funding for broadband

Support measures which involve state aid have to be notified to the Commission for state aid approval. The Commission then assesses whether the aid granted is compatible with the State aid rules.

How do we do this in practice? Basically, the Commission applies a three-step test.

First step: defining the rationale for intervention

The first step is to see whether public intervention is justified. Before granting aid, public authorities need to have a well-defined rationale for public intervention and identify the problem to be addressed. So, the Commission checks whether the proposed support scheme seeks to address either a well-defined market failure or a cohesion objective. Commercial operators shy away from investing in broadband networks in rural and remote areas as the expected financial returns are not sufficient. In these cases, some public funding can help to make private investments viable.

Second step: selecting the appropriate instrument

The second part of the test is to make sure that the appropriate instrument has been selected to address the problem. In many instances, there are other ways to boost broadband coverage. Other options for public authorities are, for example, to grant faster and cheaper permits or to give vouchers to potential users. However, in many situations this is not enough to bring broadband to remote areas. In this case well-targeted subsidies may well be an appropriate instrument.

Third step: appropriate design of an aid scheme

The third and final step of the test is to see whether the authorities have designed the aid scheme in a way as to minimise the distortion of competition. For instance, the amount of aid should be limited to the minimum necessary to leverage private capital. Open tender procedures are the best mechanism to avoid overcompensation. Moreover, support schemes should not unduly favour a specific technology and should foresee open access to subsidised infrastructure for all operators, in order to promote competition.

White, grey and black areas

Looking back over the schemes assessed by the Commission so far, a pattern of public intervention is emerging. Most of the projects assessed under the state aid rules concern "white areas", which are rural and scarcely populated zones, with no broadband provision at all. State support for broadband in these regions is generally deemed to be compatible if the projects are well-designed and the support well-targeted.

On the other hand, the state may decide to intervene in a "grey area", where basic broadband services are already provided in some parts of the territory concerned. In this case the Commission needs to assess in more detail whether state intervention is necessary and proportionate. Recent cases in "grey areas" are the Metropolitan Area Networks in Ireland or the national broadband project in Greece. In both countries, broadband roll-out has been hampered by a lack of effective competition.

Finally, the need for state intervention in "black areas" is doubtful. These are areas where there are broadband services provided over at least two competing infrastructures (such as telephone and cable TV networks). In 2006, following a complaint, the Commission stopped a project for a fibre access network in the Dutch town of Appingedam. We were concerned that the project might have crowded out investments by commercial operators. After all, broadband is thriving in The Netherlands, which has one of the most developed broadband markets in the world.

The classification into "white", "grey" and "black" cases is just for the purposes of this speech – when we're handling actual cases, the issues are a little more complex. But it does help to explain the rationale for state intervention and the rationale for our control. And it also demonstrates the impact of the state aid on investments and competition in a certain area. But having said that, each project is considered on its own merits. In this we take into account the specific market context and the proportionality of the public intervention.

Taking stock

Over the past two years, the Commission has considered many projects involving public support for broadband provision. We have issued 25 decisions that involve projects in 10 countries. So far, in all cases but one, the Commission has approved the proposed subsidies. And we are happy with the results of our work so far. They are fully in line with the Commission's overall objective of "less and better targeted state aid". "Less aid" means: no broadband subsidies where they are not necessary. "Better targeted" means better design of the support projects, for instance by minimising distortions of competition.

The Commission also provides guidance for public authorities and other stakeholders about the application of the state aid rules to the broadband sector. DG Competition staff often meet authorities to discuss their projects, even before a formal notification is made. We make the texts of our decisions and summary articles widely available via our website. The objective of all these efforts is to make the Commission's assessment more understandable and to help public authorities to design their projects. I am glad that our efforts have also been endorsed by a recent report of the European Parliament on "Building a European Policy on Broadband".

Conclusion

Experience shows that open and efficient markets are the best tool to deliver broadband to all European citizens. There may be a justification for public support in specific situations where the market does not deliver. However, public policy makers must be aware that state aid is not a magic solution. It is vital that public broadband schemes are well targeted and well structured. Otherwise, they risk crowding out private investments or may lead to a bad use of taxpayer's money. That would be in no-one's interest.

The Commission has played its role by developing a framework for intervention in rural and sparsely populated areas. This framework is now well-tested and accepted by stakeholders. We have seen this demonstrated by the projects presented at this conference.

Let's continue to work together to bring broadband to all European citizens. Bridging the broadband gap - and choosing the right means to do it - is vital for our society, for competitiveness and for growth.