



EMERG findings on USO

Tunis, 26 Jan 2015

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Agenda

- What is the EMERG
- Provisions of the EU Directive: features and obligations of the US and designation of the provider
- Findings on the EU approaches towards the USO
- Findings on the non-EU approaches towards USO

What is the EMERG

- A platform of regulators from both sides of the Mediterranean Sea, whose aim is to confront their experience and best practices in topics related to the telecommunications sector and try to approximate their regulatory frameworks
- Members:
 - RTR (Austria), OCECPR (Cyprus), NTRA (Egypt), ARCEP (France), EETT (Greece), MOC (Israel), AGCOM (Italy), BNetzA (Germany), TRC (Jordan), TRA (Lebanon), MCA (Malta), ANRT (Morocco), MTIT (Palestine), ANACOM (Portugal), CNMC (Spain), BAKOM (Switzerland), MOCT (Syria), INTT (Tunisia), and the Turkish regulator.

Goal of this presentation



Brief overview of the European approach to universal service financing and funding:

- Key elements
- Implementation principles
- Likely future direction

Recap on main findings of EMERG findings on USO:

- Purpose and aims
- Proceedings
- Conclusions and recommendations

European approach to USO delivery, financing and funding – key elements

The EU approach to the provision of universal service encompasses the following key elements:

- **Concept and definition** of what is meant by universal service
- **Scope** – what services and customers are included within the USO
- **Designation** – how Member States may designate undertakings with the obligation to fulfill the USO
- **Calculation of net cost of USO** – the method to be used to assess if the USO constitutes a net cost and an unfair burden
- **Financing** of USO provision
- **Review** – provision for periodic review of USO scope, e.g. to assess if new services (e.g. broadband, mobile etc.) should be provided for

European approach to USO delivery, financing and funding – implementation principles

<i>USO element</i>	<i>Issues</i>
Concept and definition	<p>Universal Service defined as minimum set of services to which all end-users have right of access;</p> <p>“Safety net” approach: objectives of availability, affordability and accessibility;</p> <p>If market fails to meet end-user requirements, USO providers may be designated to meet this need (in some or all of national territory)</p>
Scope	<p>Connection to public telephone network, access to fixed telephony services (voice and data), services for low income groups and directory enq. services</p>
Designation	<p>Member States may designate one or more USP using efficient, objective, transparent and non-discriminatory mechanism</p>
USO cost	<p>USP only gets reimbursed if the net cost of providing universal service constitutes an unfair burden;</p> <p>Calculation of net cost based on avoidable cost principles and factoring in intangible benefits arising from USO provision</p>
Financing	<p>USO financing can be public (i.e. taxation), sectoral (i.e. via a USF) or mixed;</p> <p>Operation of USF must comply with principles of transparency, least market distortion, non-discrimination and proportionality;</p>

US obligations under EU Directive

- Directive 2002/22/CE on US:
 - **US obligations include**
 - **all reasonable requests** for connection at a fixed location to the public telephone network are met by at least one undertaking
 - **public pay telephones** should be available to meet the reasonable needs of end-users
 - at least one comprehensive **directory** should be available in a form approved by the relevant authority, whether printed or electronic
 - specific measures for **disabled end-users** should be taken in order to ensure access and affordability of publicly available telephone services [...] equivalent to that enjoyed by other end-user

Definitions: Unfair burden

The burden of providing US services is unfair when it creates losses that cannot be compensated by other advantages due to the market situation.

For example, in a **not very competitive environment**, the provision of US service would allow the operator to exploit the US services to reinforce its position.

In other words, there can be unfair burden only in a competitive market.

Definitions: areas potentially non remunerative

- Potentially non remunerative area is an area that **the operator would NOT serve** if he was not obliged to offer US.
- Non remunerative area is an area that effectively produces losses for the operator.
- A potentially non remunerative area has specific characteristics: (altitude, population, income per person and so on)
- The profits generated in a potentially non remunerative area are deducted from the costs incurred in that area to calculate the net cost.

Findings regarding the EU approach to US 1/3

- Some Countries do not need to run a designation process because the incumbent agrees to deliver the Universal Services on a voluntary basis and with no compensation for the unfair burden
 - Situation similar to some non-EU Countries, but.....(see the section on non-EU Countries)
- Other Countries have a designation procedure but they never implemented it because the other operators were not interested in offering the US
 - In this case compensations are provided for unfair burden
 - The definition of unfair burden differs from Country to Country
 - Suggestion: the procedure should be run in any case....


Findings regarding the EU approach to US 2/3

- The compensation of net cost is widely accepted in the EU. Some Countries calculate it ex ante, others ex post.
 - Ex ante is more rapid, but may lead to wrong figures
 - Ex post is more precise and accurate, but much more time-consuming
 - A mix of the 2 approaches would be a good solution
- Some EU Countries may oblige the operators to provide the US, of course with a compensation, others may not do that. The Directive does not provide for a specific way.
 - *“Member States may **designate one or more operators** imposing them to ensure the US. Different operators may be charged with the responsibility to cover different services of the US or different parts of the national territory.”*

Findings regarding the EU approach to US 3/3

- All Countries who have a compensation mechanism created a Fund which is financed by the operators.
 - Other possible tools: direct financing (State budget or specific taxation) or regulatory holidays....
- Broadband is favored by all EU Countries, but it is not in the US agenda
 - No EU Country is planning to use US funds to cover broadband costs
 - The definition of broadband is still vague

Findings regarding the non-EU approach to US 1/4

- Concept of US is NOT based on **fixed telephony**
 - Penetration of fixed telephony is very low (9% in Morocco, 7% in Jordan)
 - Can mobile services (penetrations are very high everywhere) be a reasonable substitute?
 - Fax are not making the difference but.....
 - ... the penetration of mobile is not a good indicator
 - Suggestion: the criterion could be that *«all reasonable requests for connection to the fixed or mobile telephone network are met by at least one undertaking»*
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- Make the connection of **rural and not covered areas** the priority

Findings regarding the non-EU approach to US 2/4

- **Social services** are not included in the US
 - No provisions are available as regards low income users or people with disabilities.
 - No provisions are available as regards phone booths and directories
 - Suggestion: some provisions at least for low income categories and people with disabilities should be included in the goal of the US
- **Management of the Fund:**
 - Several non-EU Countries do not have a Fund.
 - Those who have it have not used it or have used it for projects that are unclear
 - The EU provisions are clear: the Fund should be used only for US goals

Findings regarding the non-EU approach to US 3/4

- As is happens to some EU Countries, some non-EU Countries do not need to run a designation process because the incumbent agrees to deliver the Universal Services on a voluntary basis and with no compensation for the unfair burden
 - Usually this happens because of lack of competition
 - The unfair burden is covered with cross-subsidies between international and local calls. This –however- has a very negative effect on competition
 - Suggestion: do not allow cross-subsidies and promote tariff rebalancing.

Findings regarding the non-EU approach to US 4/4

- Broadband is favored by all EU Countries, but it is not in their US agenda
 - The definition of broadband is still vague
 - Some non-EU Countries are planning to use US funds to cover broadband costs
 - Suggestion: this is not a priority

Thank you!

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