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## **THE WHOLESALE-ONLY FIBER COMPANY**

### **A WINNING MODEL FOR THE TELECOM SECTOR IN EUROPE AND THE OPPORTUNITIES GRANTED BY THE NEW EUROPEAN ELECTRONIC COMMUNICATIONS CODE<sup>1</sup>**

We are very glad and honoured to welcome you here in Rome in the first CEO Meeting of European wholesale-only fiber operators. It is an excellent moment to meet and discuss the future of telecom markets; and to discuss how our companies can contribute to build the digital economy and the digital society and can underpin growth and jobs, competitiveness and social cohesion, through the development of very high speed networks.

We live in exciting times. Never before in history, the pace of technical innovations was so high. Digital is changing profoundly not only the way we communicate and work, but also the way we move, learn, entertain, visit a museum or even follow a medical treatment, and many other aspects of our daily life. But this digital revolution is only possible because of fiber deployment and the tremendous speed data can be transmitted by optical means.

Reflecting the above, the telecommunications market is facing a major transformation, with an explosion of digital services demanding ubiquitous coverage, increasing connectivity speed and capacity, and enhanced quality of service by network operators. Formidable investments are required to put in place the new high speed networks; long-term investments which however most telecommunications operators are struggling to risk due to current market conditions, characterized by declining margins and fierce competition, the latter also by non-infrastructured operators such as OTTs.

The economics of FTTH consists of large fixed and sunk costs of passing homes but with comparatively low marginal costs when it comes to connecting additional subscribers. This investment requires therefore an huge initial effort and a long-term vision, like in many utilities. It is therefore of paramount importance to sustain business model and

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<sup>1</sup> Introductory Speech, First Meeting of the European Fiber Companies' CEO, Rome, Open Fiber Premises, July 16<sup>th</sup> 2018.

rules which at best may facilitate the deployment of new fiber networks, attract long-term investors and find synergies with existing infrastructures.

The wholesale-only model, i.e. the non-vertically-integrated operator which does not provide retail services to residential customers, seems to be the most suitable to meet these market, competitive and investment challenges.

The wholesale-only operator, in fact, focuses its activity on the installation and supply of networks, therefore - unlike vertically integrated incumbents - it has no interest in discriminating or affect telecom operators requesting access, which are therefore regarded exclusively as customers and not as competitors. In addition, wholesale-only operators are able to invest massively in new high-speed fiber networks since they do not have to defend the legacy of obsolete copper infrastructures. Moreover, vertically integrated incumbents are almost always burdened by two further legacies: a high debt accumulated over time to finance the construction of the copper network, and the short-term vision of most of their shareholders.

Conversely, a wholesale-only operator appears to be an ideal vehicle for investment in the new generation networks as well as a facilitator for the development of the services and innovations of the Gigabit society. The significant synergies which exist between the FTTH infrastructure for fixed telecommunications and the passive infrastructure of the new 5 G networks for mobile telecommunications make investment in wholesale-only fiber companies substantially indifferent to the future uncertain market sharing between fixed and mobile telecommunications.

Like all of you, Open Fiber has embraced this philosophy since its creation. We have no legacy network and no interest in blocking or discriminating access to telcos and ISPs. We are in dialogue with all operators, listening to their needs and examining how to deal with them to expand its client's portfolio. OF's network is conceived as an optical platform for any kind of technology/architecture assuring an open, transparent and non-discriminatory access conditions to all service providers. It can deliver both wholesale passive fiber services and active ones.

A key factor to reduce the cost of fiber deployment is in our experience the re-use of the existing infrastructures owned first of all by local authorities and national or local public utilities (such as energy, gas, water supply, public lighting, traffic lighting and

heating networks) also thanks to the implementation of Directive 2014/61 (so-called Broadband Cost Reduction Directive). Italy, being a country in constant need for alternative infrastructures (since cable TV never existed), anticipated the most important part of the new rules and in fact was the only country to meet the transposition deadline. Here again, a wholesale-only operator has proven to be able to be in a better position to negotiate timely and cost-effective access conditions than multiple operators discussing in parallel with each local authority or public utility concerned.

For this reason, long-terms and financial investors are keener to provide resources to wholesale-only ventures. The business case of wholesale-only operators is comparable to that of utilities, which are well known financial cases in Europe. The expectable return of investment is sufficiently clear and stable over the time. The investment can rightfully be classified in the new asset class of infrastructure investments, which has been the subject of recent major awards by the OECD, the G20 and the European Commission.

Last but not least, the new European Electronic Communications Code, recently agreed by the European institutions, paves the way for a strong enhancement of the role and the model of the wholesale only fiber companies, through some important legislative innovations, in particular the definition of a special wholesale-only regulatory regime and the greater focus on ultra-high-speed networks. It gives investors clear signs of favor and confidence in the role of wholesale-only operators, and reveals the belief that they are the best positioned for massively contributing to the development of new high-speed fiber and 5G networks in the European Union.

**A lot of work still need to be done: this meeting should be the start of a fruitful cooperation in doing together this work. We must carefully supervise the transposition of the Code as well as the adoption of relevant Guidelines by BEREC or national regulators; we should intervene on further regulatory developments which may have impact on fiber deployment, including 5G; it will be necessary to supervise national practice and regulation relating to the implementation of Directive 2014/61; and finally, we must make sure that benefits and advantages of whs-only models are duly understood by governments, by regulators as well as by financial and investors community.**