

## EU Telecoms Regulation

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COMMENT

### Investors need more predictable regulation

- **Summary:** The EC recently requested views on how EU regulation could be used to encourage greater investment in fibre access, to encourage economic growth and the EU Digital Agenda. We surveyed 65 telecom investors (working for funds with a combined €1,800bn of total assets). Their answer: the majority of respondents (69%) felt the best way to encourage more fibre investment was to create more predictable regulation of fibre access over the life of the fibre investment. This suggests a relatively low-cost solution for the EU.
- None of the investors that responded thought lowering copper wholesale prices would encourage FTTH investment, and very few felt raising copper wholesale prices would encourage FTTH investment either.
- 91% of investors (including 100% of the equity investors and 100% of the US investors) felt EU telecom regulation did not encourage network investment in general, due to:
  - a lack of predictability in regulatory decisions
  - a regime that is too favourable to resellers
  - too much of a deflationary/pro-consumer bias to past decisions.
- On these points, hedge funds (which sell stocks short as well as buy stocks and therefore have little vested interest) had similar views to long-only funds, suggesting little ownership bias in these survey results.
- Investors were supportive of the Digital Agenda itself—half thought 50% uptake of 100Mbps by 2020 was achievable and 62% felt higher consumer broadband speeds would lead to higher GDP. 74% felt that European telcos were not investing enough in Next Generation Access networks.
- On other policy issues:
  - 42% of investors felt there should be rules governing net neutrality; 58% that there should not.
  - 62% felt that ISPs should have to block content piracy.
  - 90% felt that the mobile market should be allowed to consolidate to three players.
  - 92% saw mobile as a substitute for fixed line in the voice market, but this was only 26% in the broadband market.
  - 73% felt fixed line copper access should be regulated ex ante, while small majorities were against ex ante regulation of fibre and coax cable access.

# Table of contents

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Survey details	3
The investors surveyed	4
Achieving the EC Digital Agenda	6
EC regulatory structure	9
Views on the industry	16
Views on other regulatory matters	20

## Survey details

In early January (2012) we surveyed telecom investors to understand their views on a number of regulatory questions, and in particular how the EU could encourage more fibre investment and the achievement of the EU Digital Agenda.

The purpose of the survey is to better inform European regulators of investor opinion. While regulators often meet such investors (sometimes hosted by institutions such as Credit Suisse), from our experience many investors do not always voice their full opinion in such meetings. This survey also provides a more systematic representation of investor opinion across the investment community.

The survey participants were all institutional investors, representing the larger investors in both equity and debt in the telecom sector. They invest in telecom operators, cable operators and resellers, as well as in other industries. As such they represent the pool of investors that company management teams are trying to attract and retain. These investor opinions therefore directly influence the investment decisions such management teams are taking.

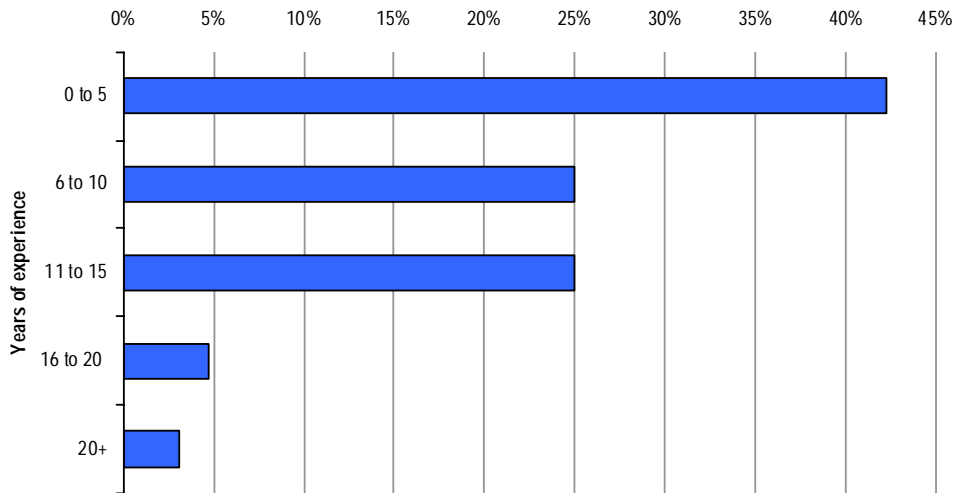
Such investors are busy. We were therefore surprised at the level of participation and involvement in the survey, with 65 investors taking the time to respond, working for funds with total assets of €1,800bn, across all asset classes and sectors. We believe this reflects the current level of investor interest in this subject.

As we detail in Figure 1 to Figure 4, the investors responding have an average of eight years' experience investing in the telecom sector. Most respondents were in the EU, with around 20% in the US. Two thirds of responses came from equity investors, the remainder from investors in debt (typically bonds). 77% were long-only investors (buying shares, not selling short) and around 20% run hedged funds.

The survey was conducted via the internet (using surveymonkey) and collected on an anonymous basis, to protect investor confidentiality. The questions asked in the survey are exactly replicated in the titles to the attached charts (from Figure 5).

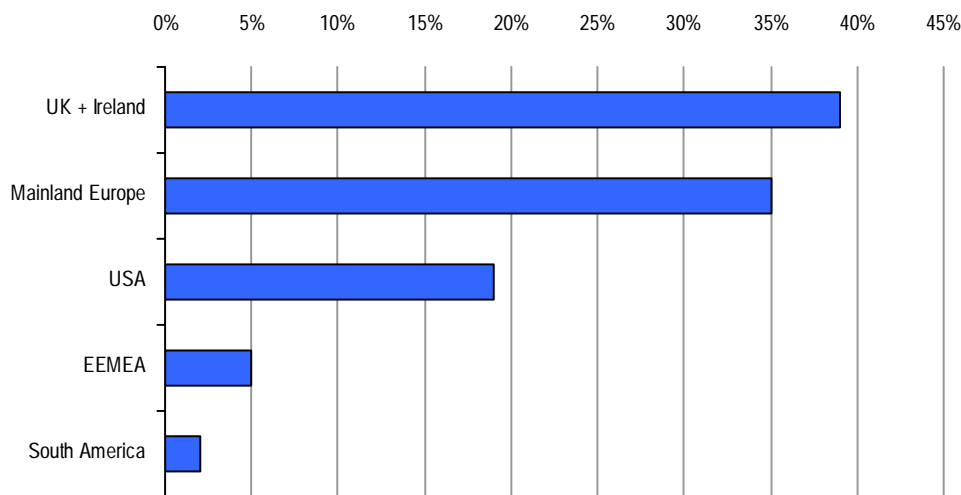
## The investors surveyed

**Figure 1: How long have you been following the telecoms sector?  
(average answer 8.5 years)**



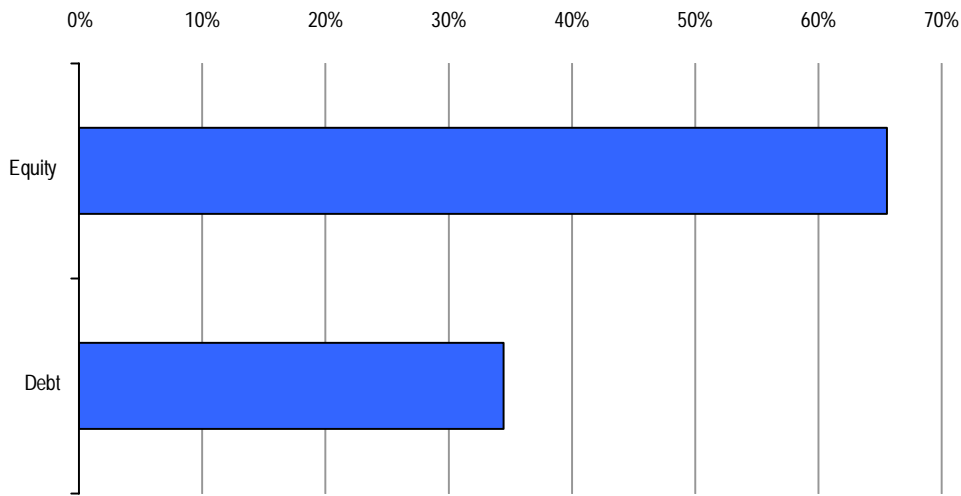
Source: Credit Suisse proprietary survey

**Figure 2: In which city are you (as an individual, not your fund) based for the majority of your time?**



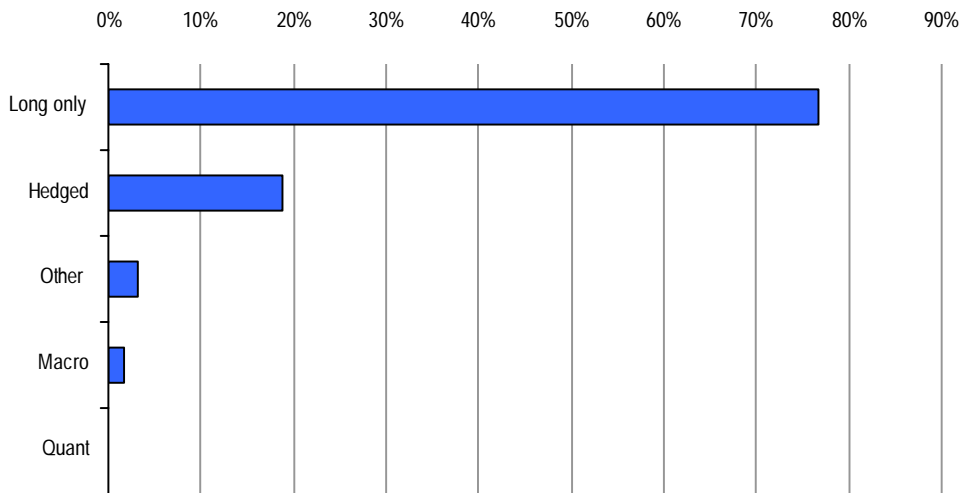
Source: Credit Suisse proprietary survey

**Figure 3: Does your fund invest primarily in equity or in debt?**



Source: Credit Suisse proprietary survey

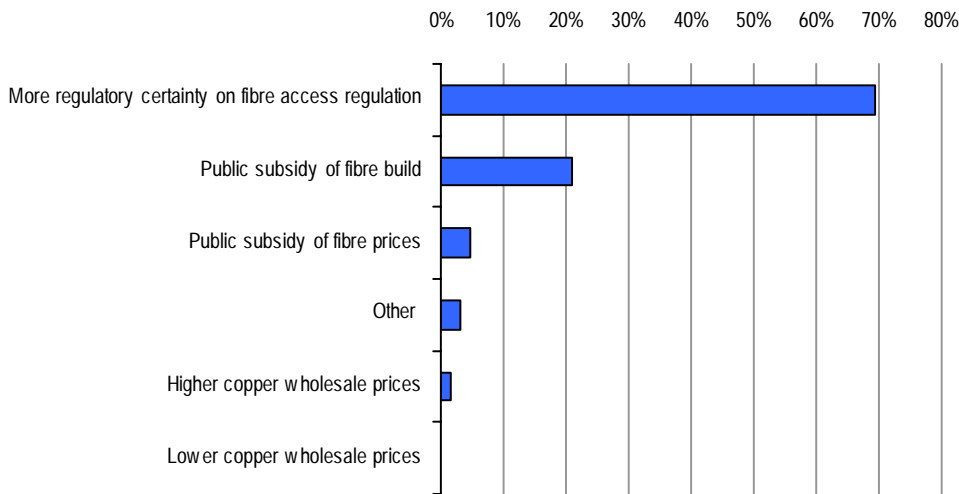
**Figure 4: How would you describe your investment style?**



Source: Credit Suisse proprietary survey

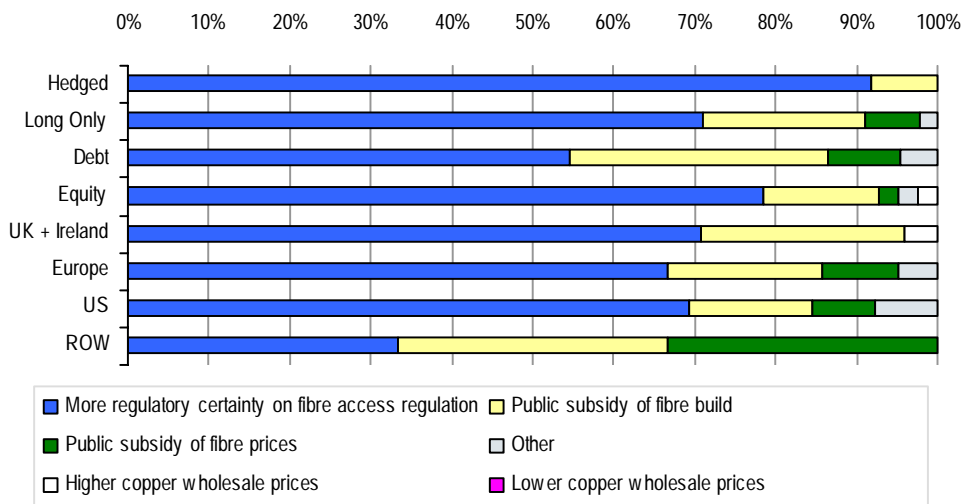
## Achieving the EC Digital Agenda

**Figure 5: What approach would best encourage FTTH (fibre to the home) investment in the EU?**



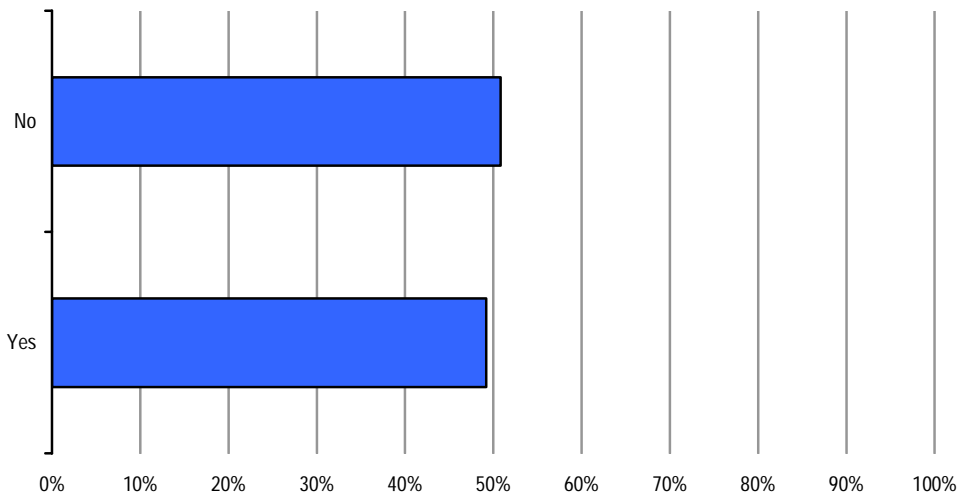
Source: Credit Suisse proprietary survey

**Figure 6: What approach would best encourage FTTH (fibre to the home) investment in the EU?**



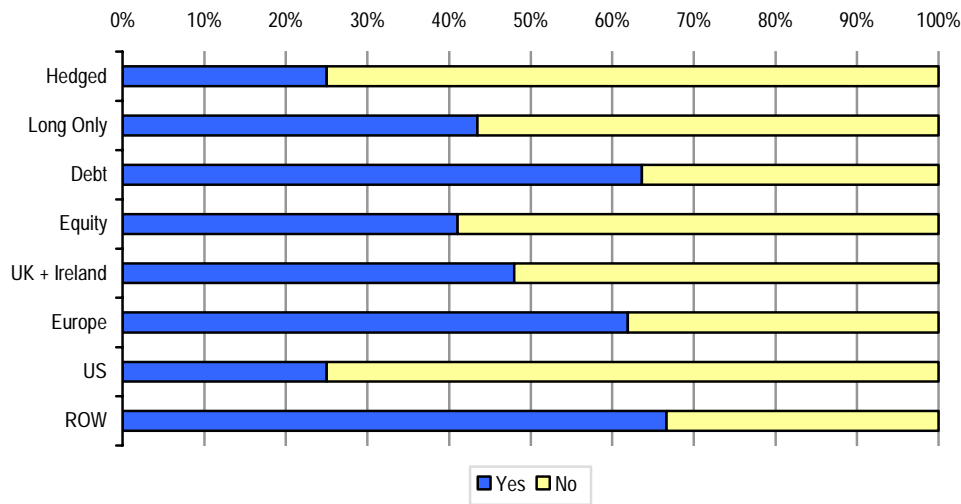
Source: Credit Suisse proprietary survey

**Figure 7: Is the EC agenda of 50% customer take-up of 100Mbps by 2020 achievable?**



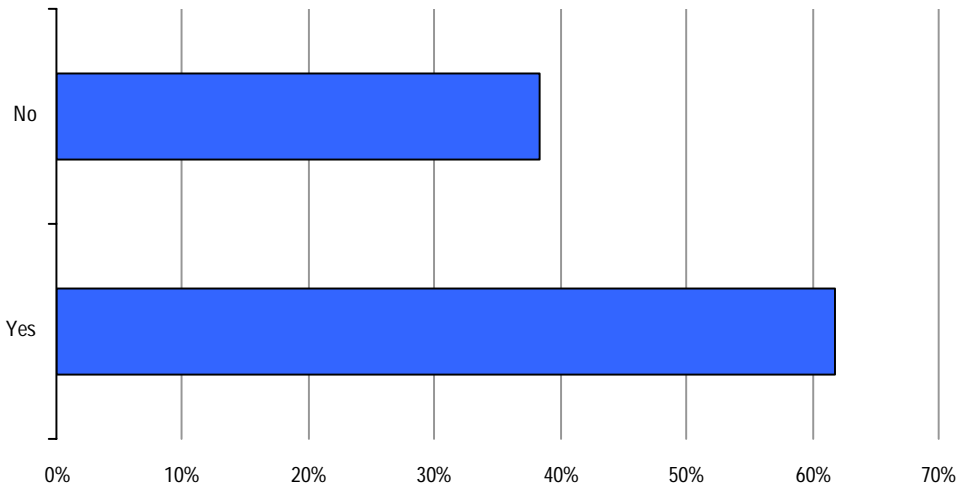
Source: Credit Suisse proprietary survey

**Figure 8: Is the EC agenda of 50% customer take-up of 100Mbps by 2020 achievable?**



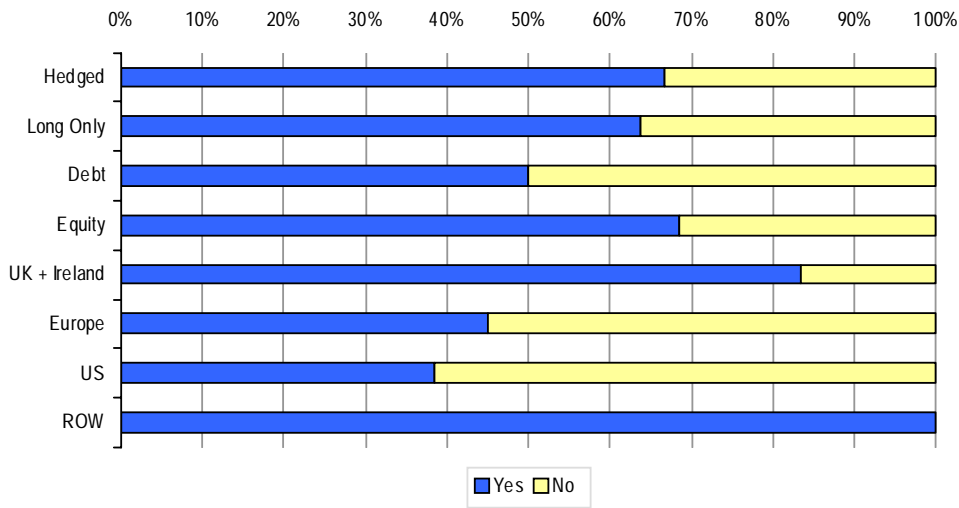
Source: Credit Suisse proprietary survey

**Figure 9: Does higher consumer broadband speed lead to higher GDP?**



Source: Credit Suisse proprietary survey

**Figure 10: Does higher consumer broadband speed lead to higher GDP?**

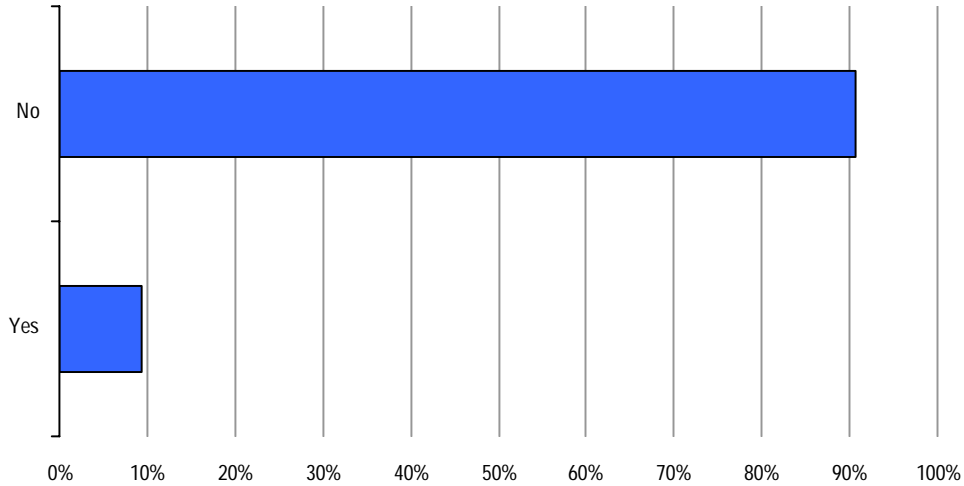


Source: Credit Suisse proprietary survey



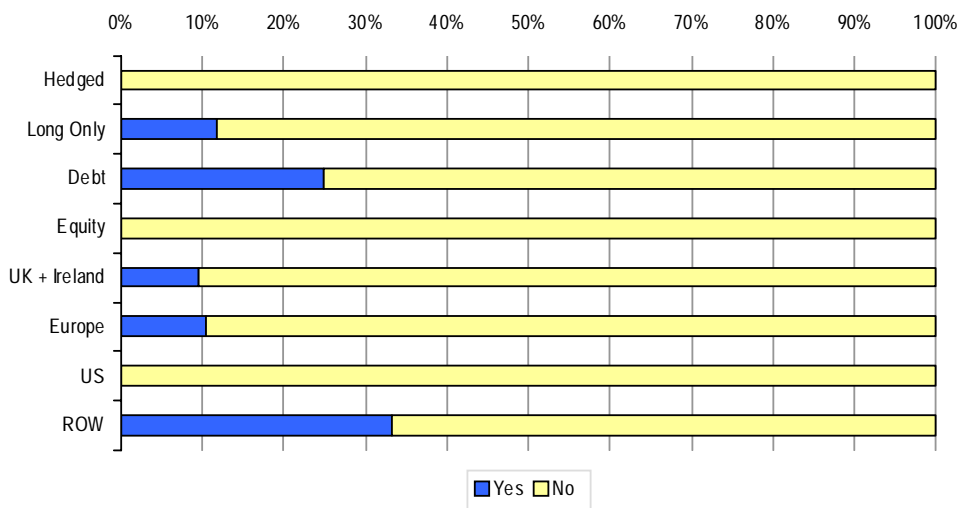
## EC regulatory structure

**Figure 11: Does EU telecoms regulation (in its current form) encourage network investment?**



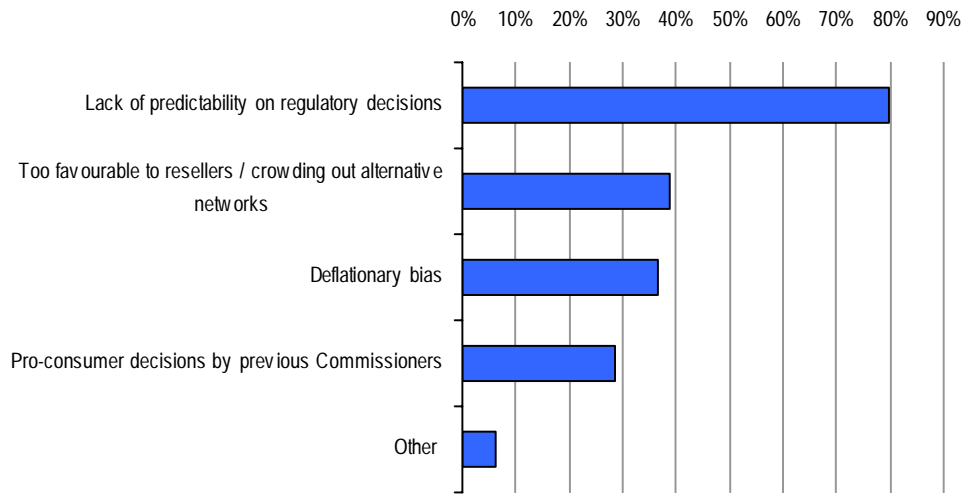
Source: Credit Suisse proprietary survey

**Figure 12: Does EU telecoms regulation (in its current form) encourage network investment?**



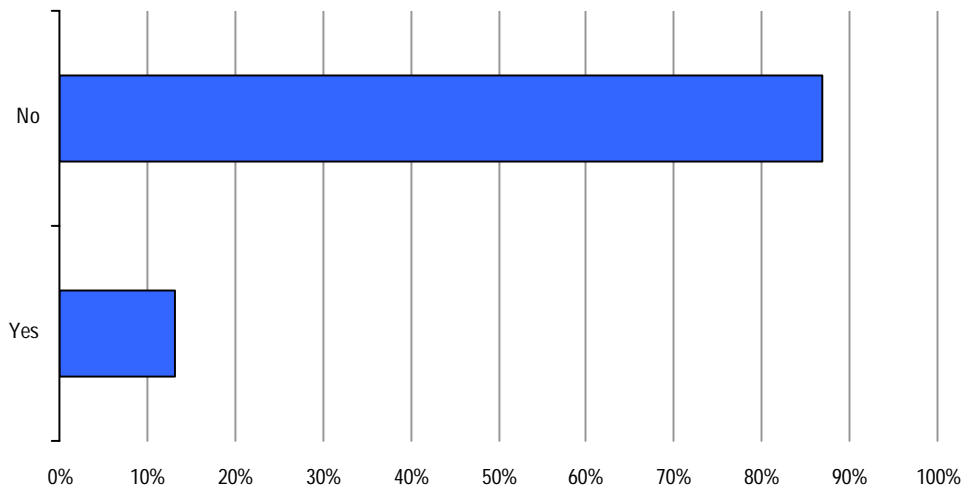
Source: Credit Suisse proprietary survey

**Figure 13: If you answered 'No' to the previous question, why do you think EU telecoms regulation does not encourage network investment? (You may select more than one answer)**



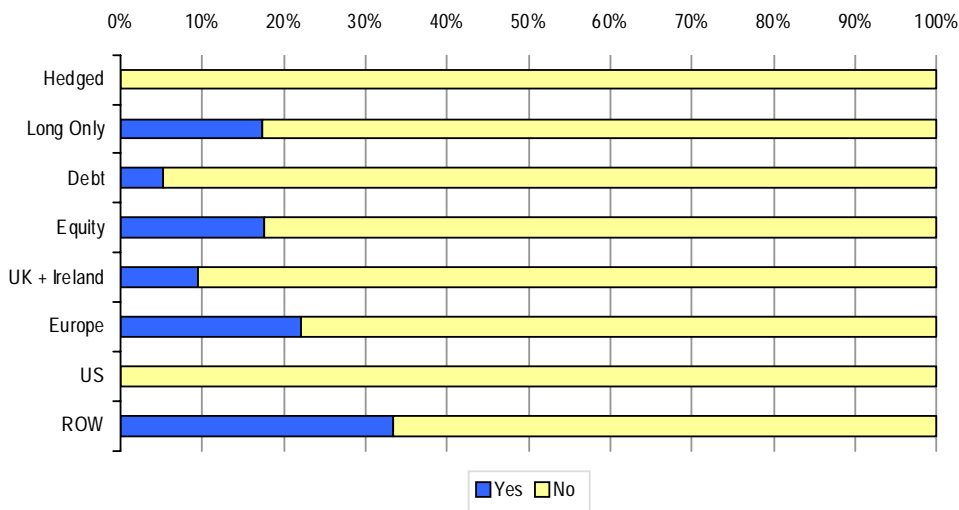
Source: Credit Suisse proprietary survey

**Figure 14: Is it clear how the amended EC Telecom Regulatory Framework works?**



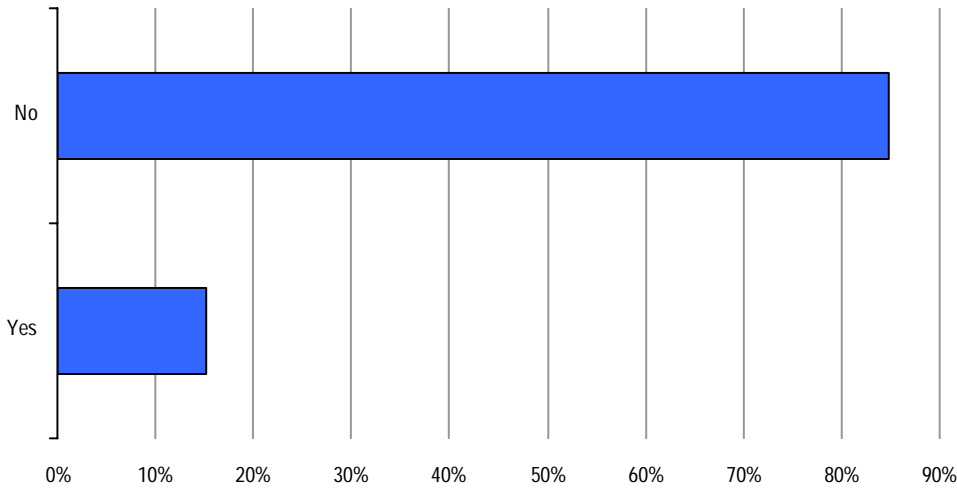
Source: Credit Suisse proprietary survey

**Figure 15: Is it clear how the amended EC Telecom Regulatory Framework works?**



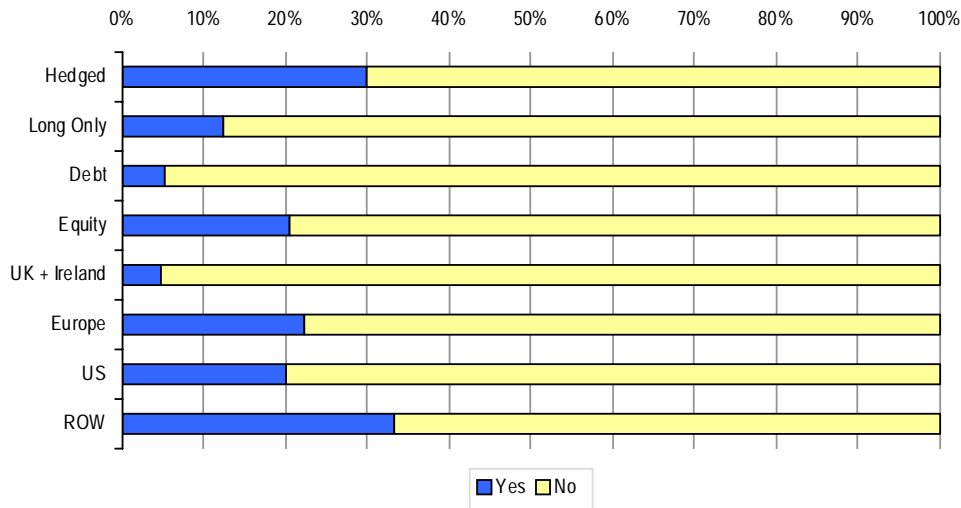
Source: Credit Suisse proprietary survey

**Figure 16: Is it clear how the Body of European Regulators for Electronic Communications (BEREC) works?**



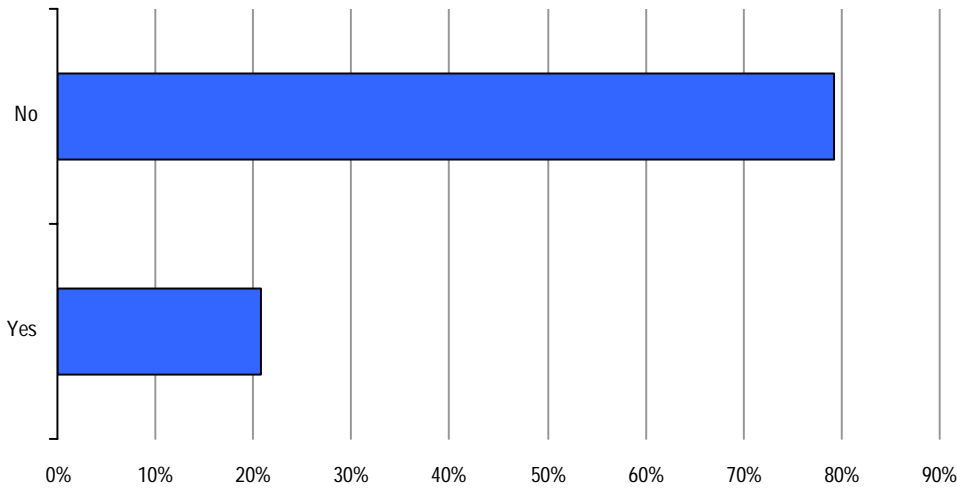
Source: Credit Suisse proprietary survey

**Figure 17: Is it clear how the Body of European Regulators for Electronic Communications (BEREC) works?**



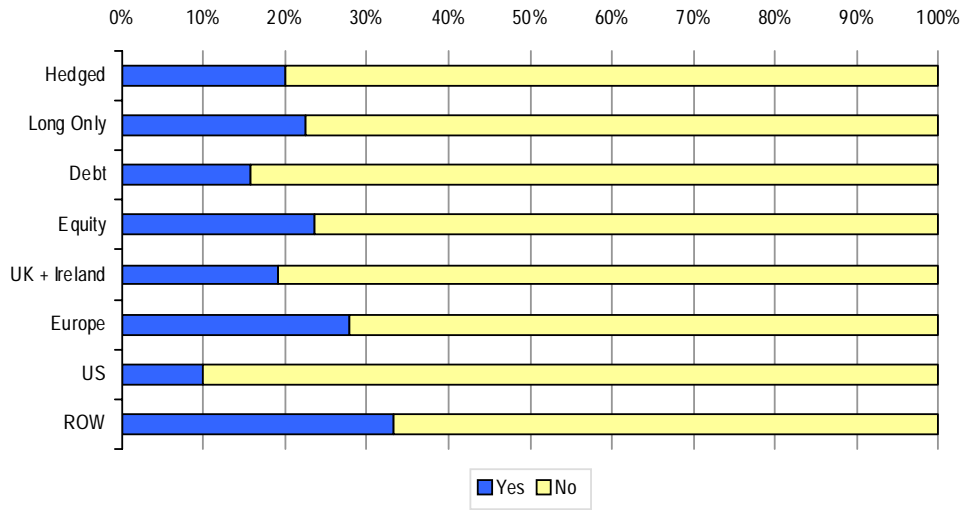
Source: Credit Suisse proprietary survey

**Figure 18: Is it clear how vetoes on market analysis and remedy work?**



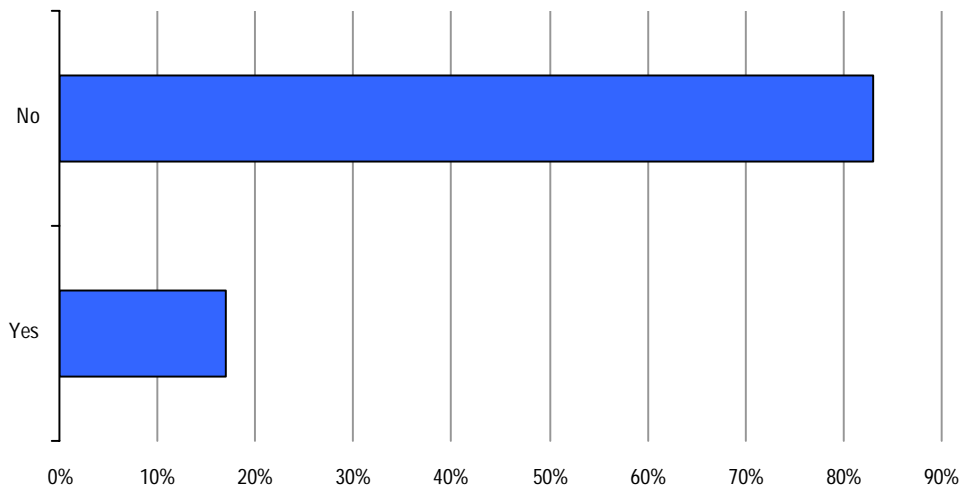
Source: Credit Suisse proprietary survey

**Figure 19: Is it clear how vetoes on market analysis and remedy work?**



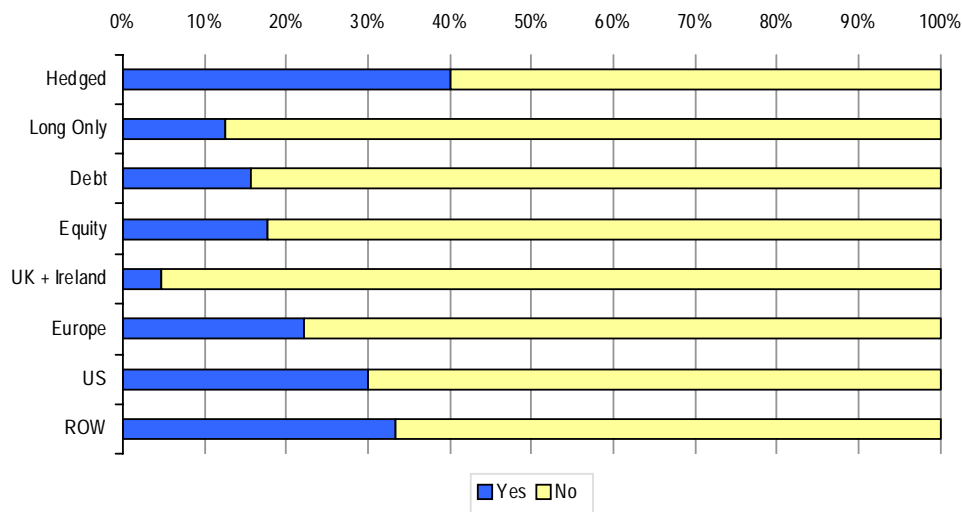
Source: Credit Suisse proprietary survey

**Figure 20: Is it clear how policy is formed?**



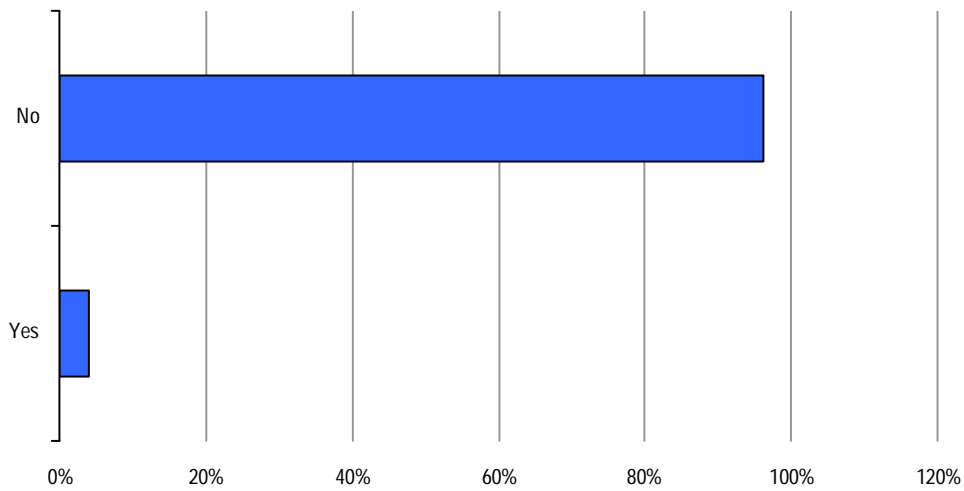
Source: Credit Suisse proprietary survey

**Figure 21: Is it clear how policy is formed?**



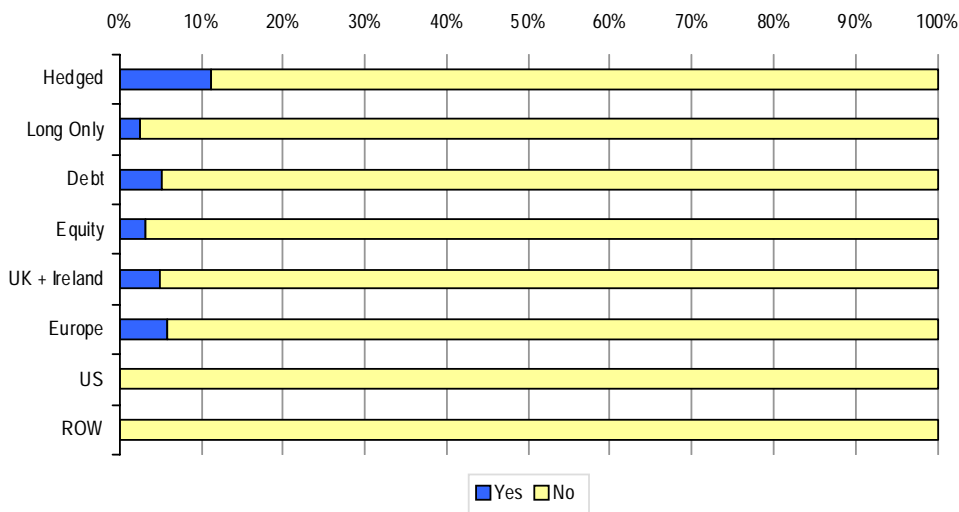
Source: Credit Suisse proprietary survey

**Figure 22: Does the EC generally communicate with telecom investors well?**



Source: Credit Suisse proprietary survey

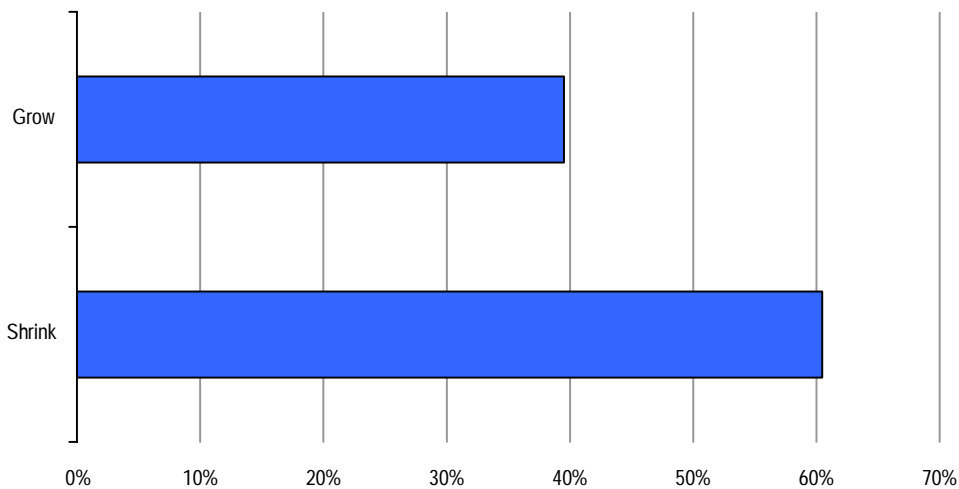
**Figure 23: Does the EC generally communicate with telecom investors well?**



Source: Credit Suisse proprietary survey

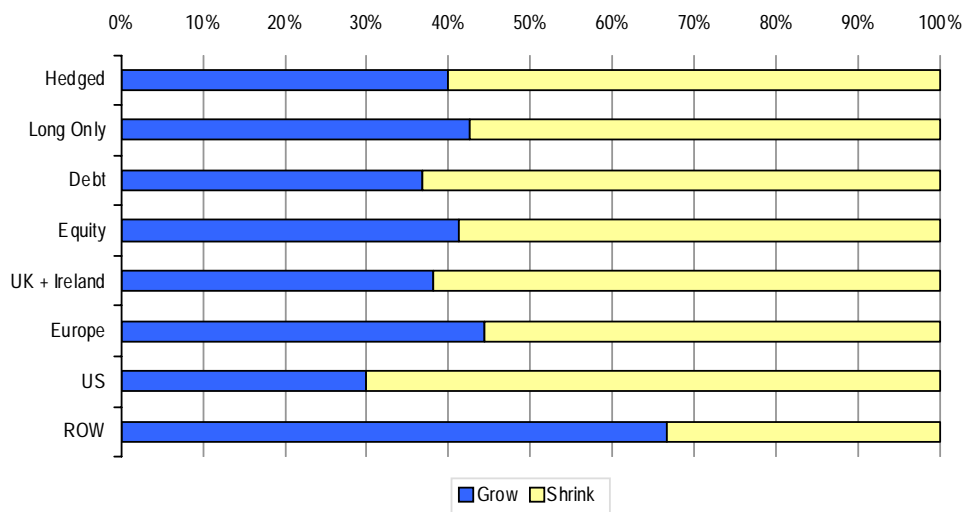
## Views on the industry

Figure 24: Do you expect European sector mobile revenues to shrink or grow?



Source: Credit Suisse proprietary survey

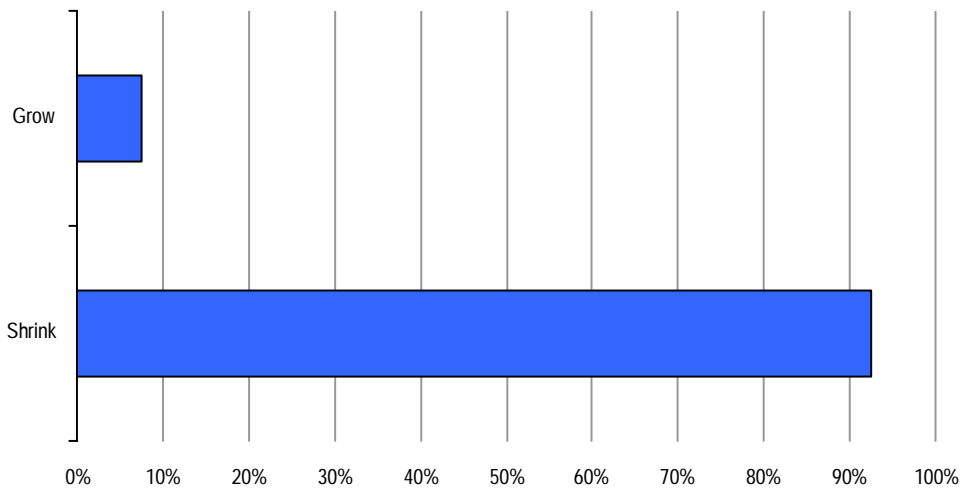
Figure 25: Do you expect European sector mobile revenues to shrink or grow?



Source: Credit Suisse proprietary survey

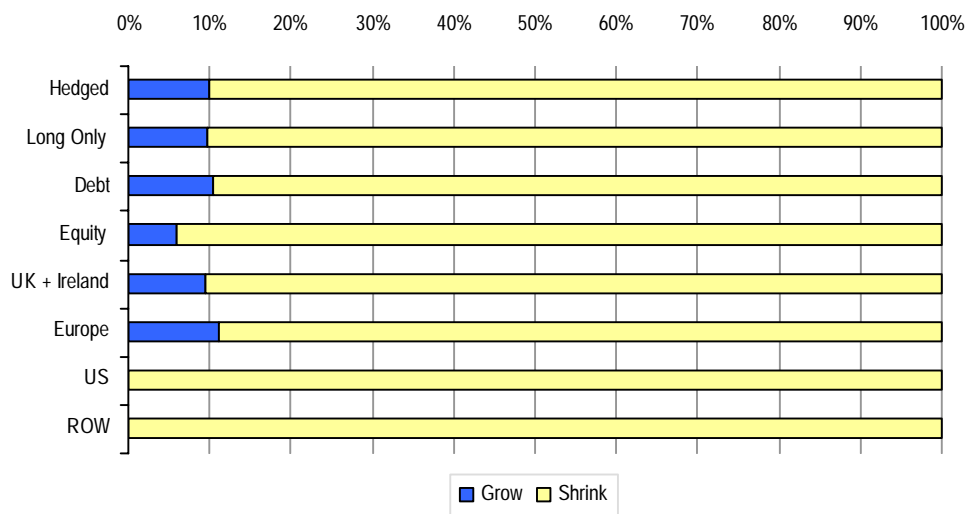


**Figure 26: Do you expect European sector fixed line revenues to shrink or grow?**



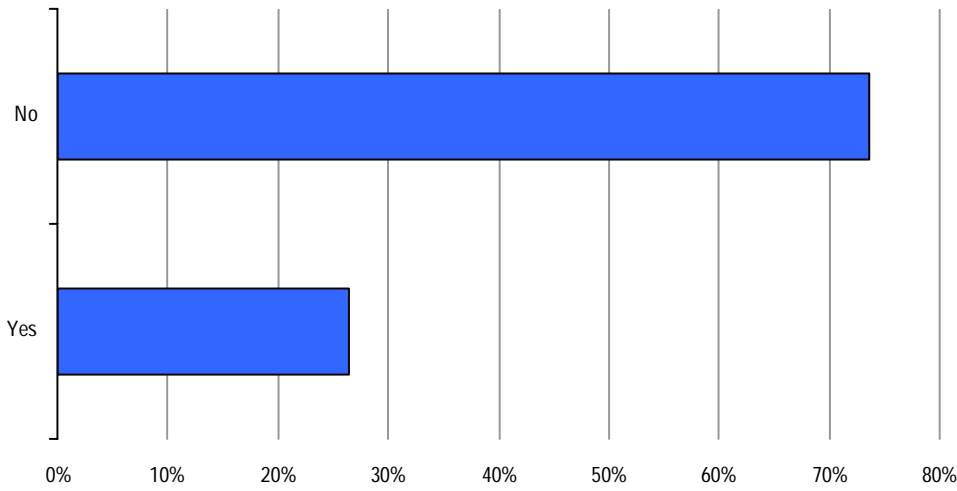
Source: Credit Suisse proprietary survey

**Figure 27: Do you expect European sector fixed line revenues to shrink or grow?**



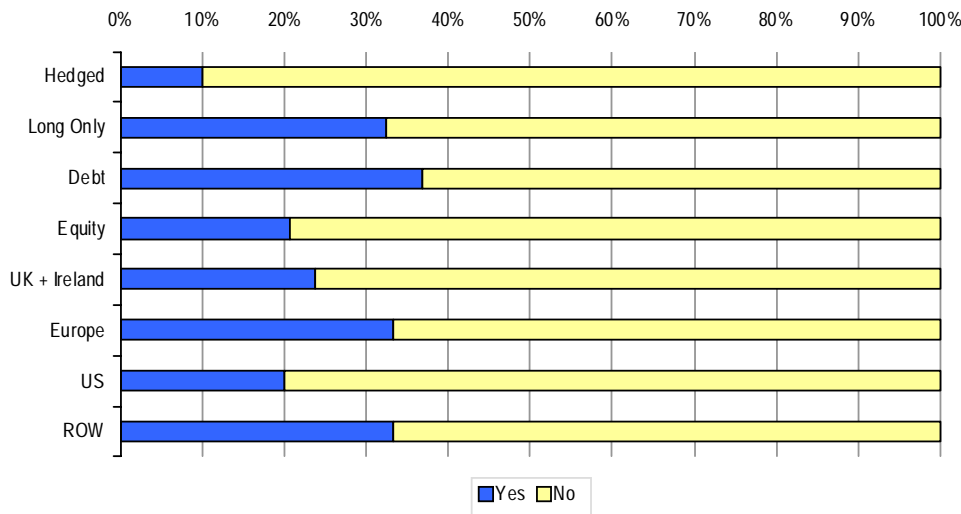
Source: Credit Suisse proprietary survey

**Figure 28: Are European telcos investing enough in Next Generation Access (NGA)?**



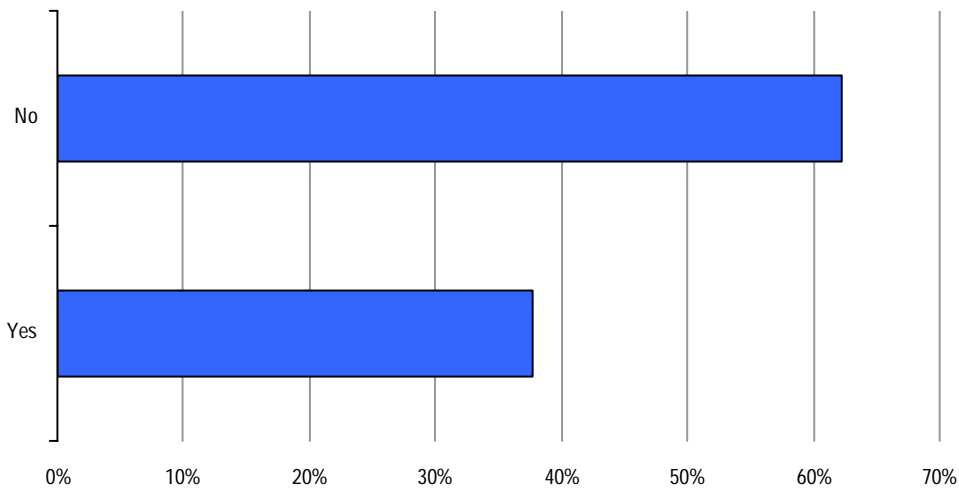
Source: Credit Suisse proprietary survey

**Figure 29: Are European telcos investing enough in Next Generation Access (NGA)?**



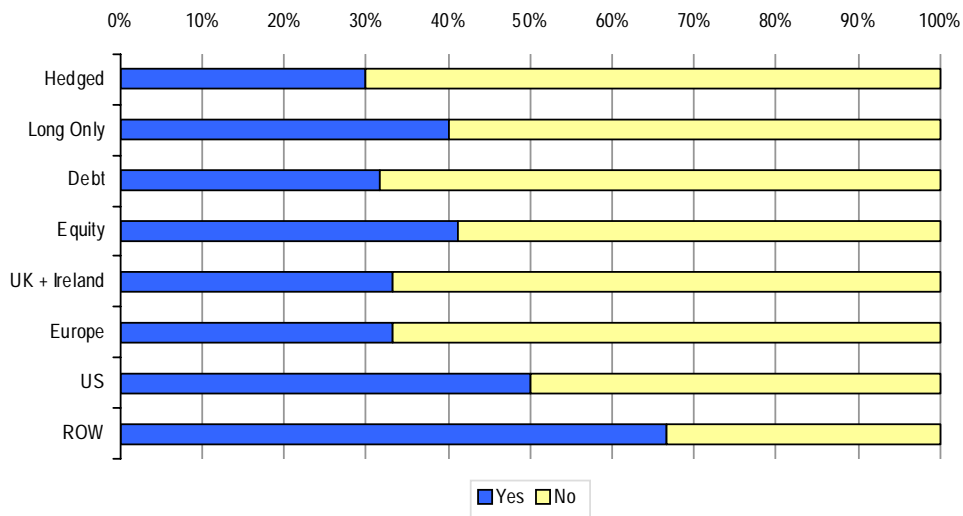
Source: Credit Suisse proprietary survey

**Figure 30: Will LTE be a substitute for fixed line DSL?**



Source: Credit Suisse proprietary survey

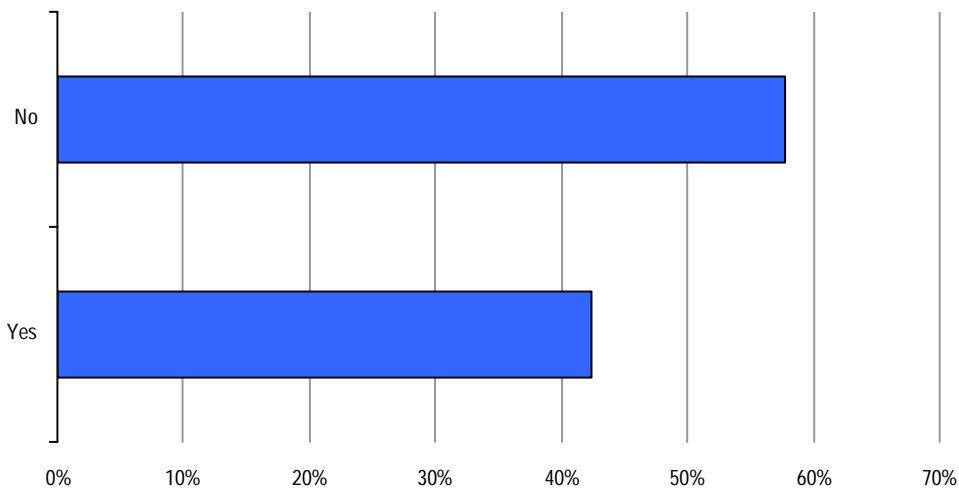
**Figure 31: Will LTE be a substitute for fixed line DSL?**



Source: Credit Suisse proprietary survey

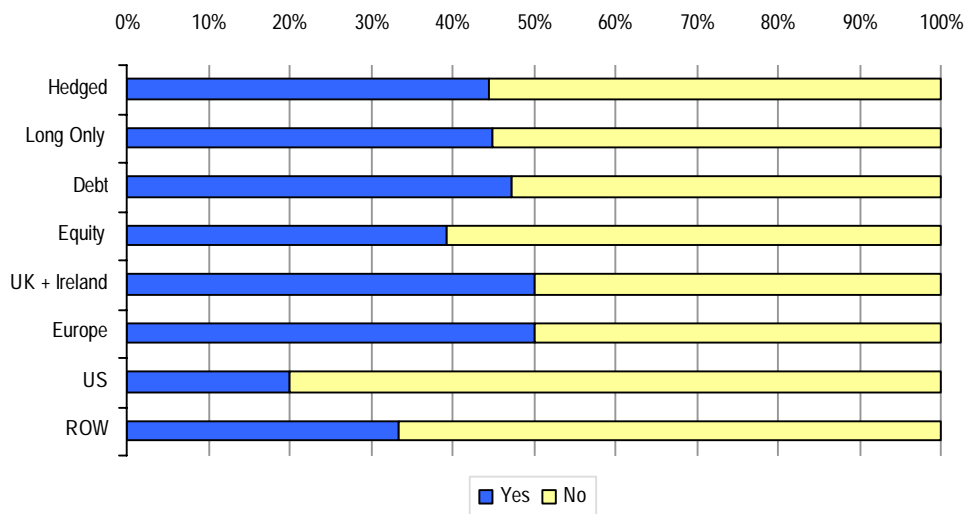
## Views on other regulatory matters

Figure 32: Do we need rules governing net neutrality?



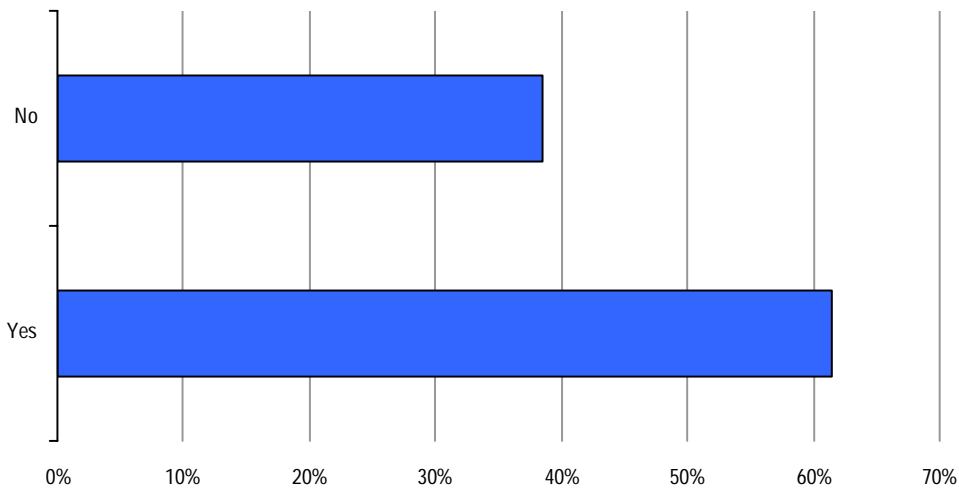
Source: Credit Suisse proprietary survey

Figure 33: Do we need rules governing net neutrality?



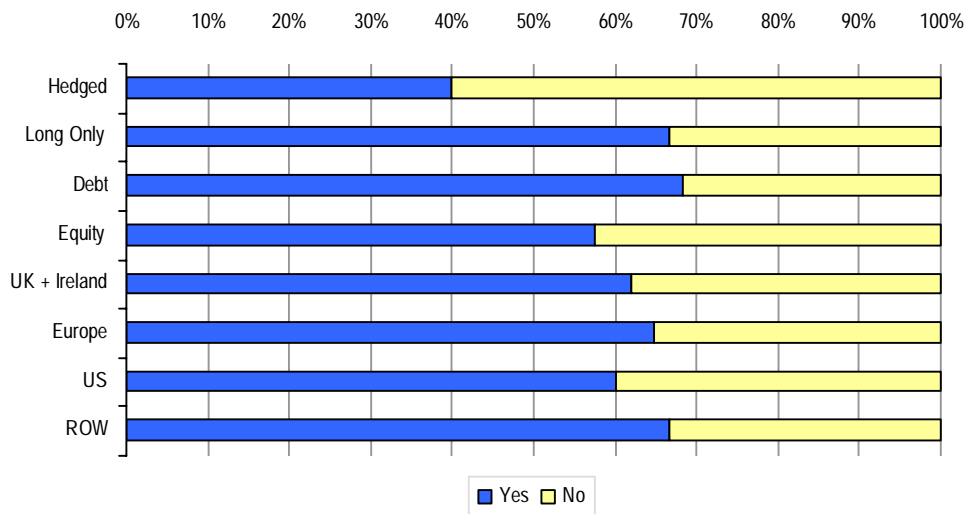
Source: Credit Suisse proprietary survey

**Figure 34: Should ISPs block content piracy?**



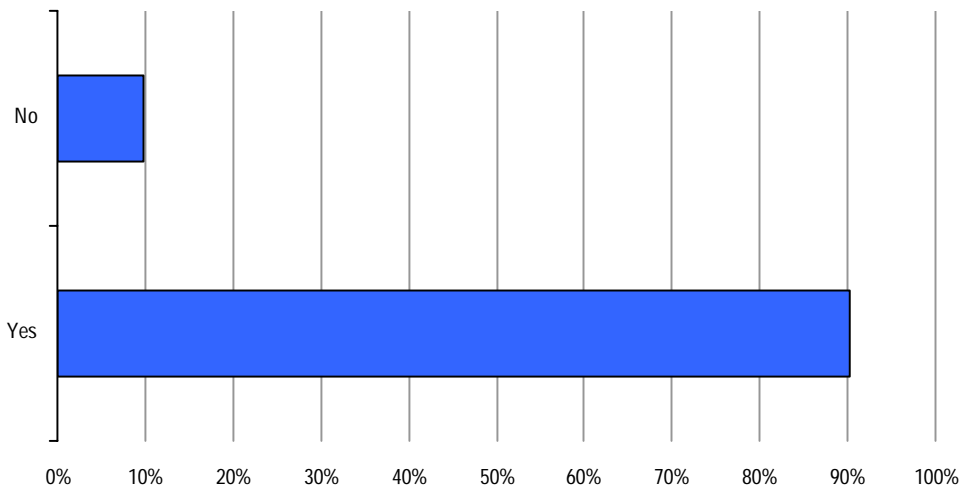
Source: Credit Suisse proprietary survey

**Figure 35: Should ISPs block content piracy?**



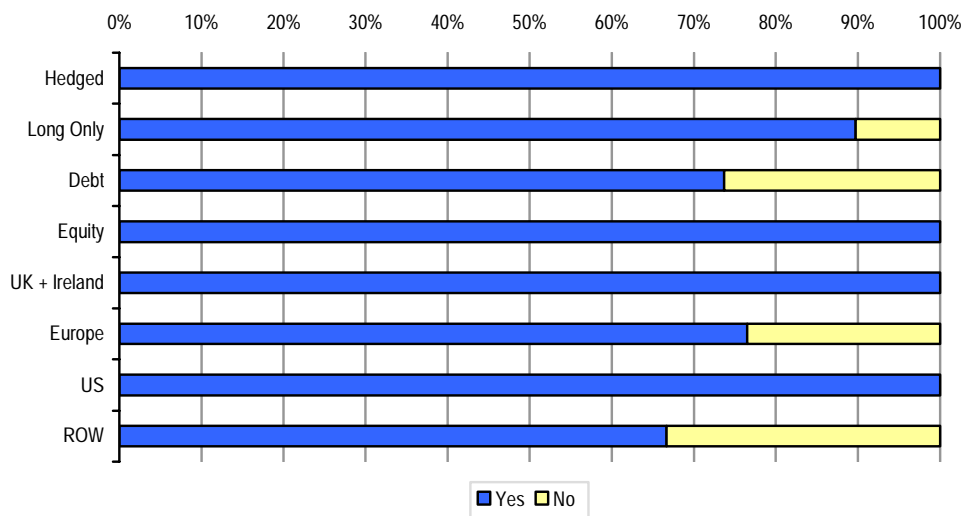
Source: Credit Suisse proprietary survey

**Figure 36: Should mobile markets be allowed to consolidate to three players?**



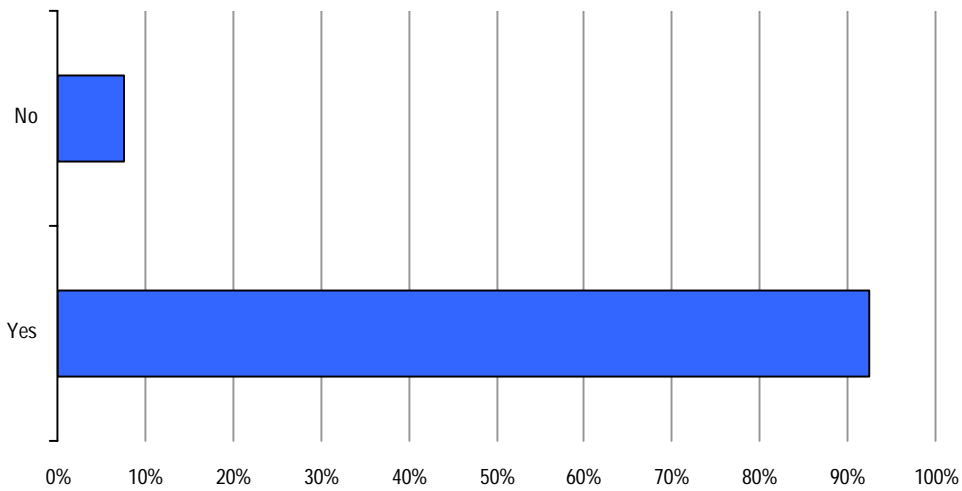
Source: Credit Suisse proprietary survey

**Figure 37: Should mobile markets be allowed to consolidate to three players?**



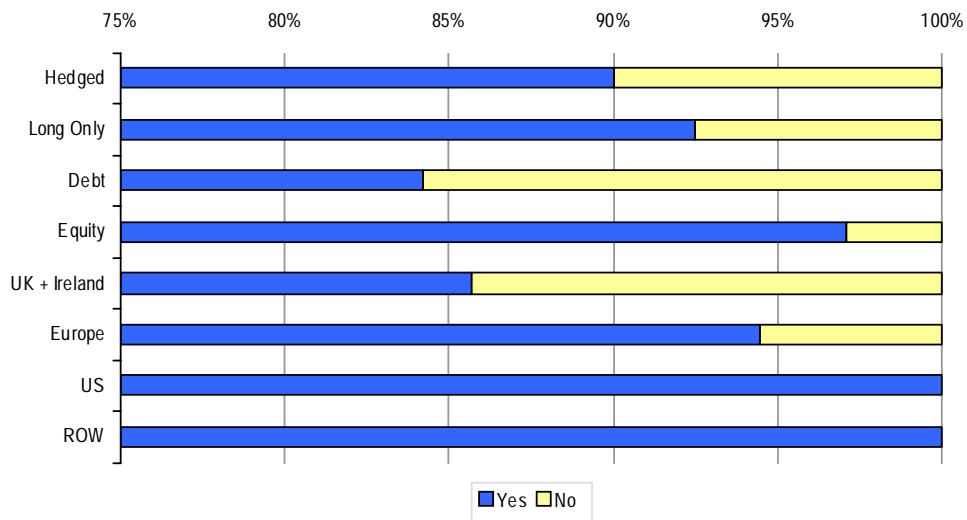
Source: Credit Suisse proprietary survey

**Figure 38: Is mobile a substitute for fixed voice?**



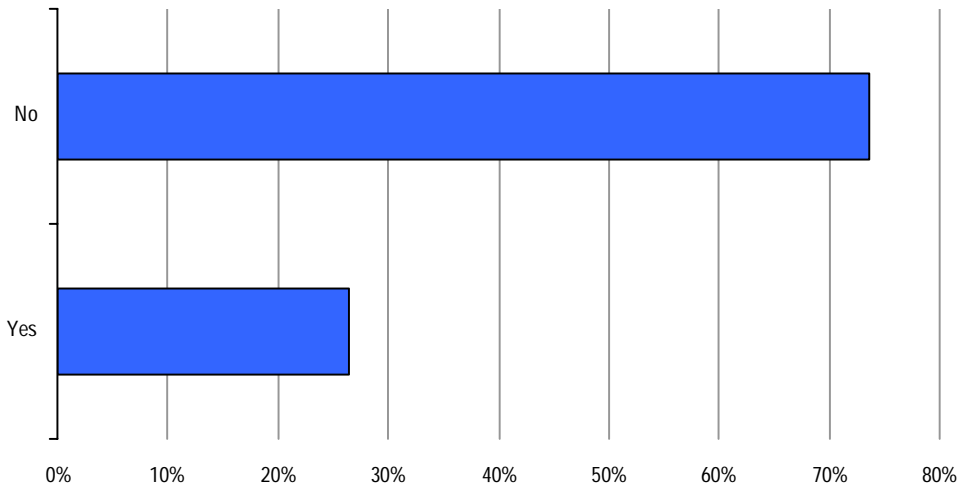
Source: Credit Suisse proprietary survey

**Figure 39: Is mobile a substitute for fixed voice?**



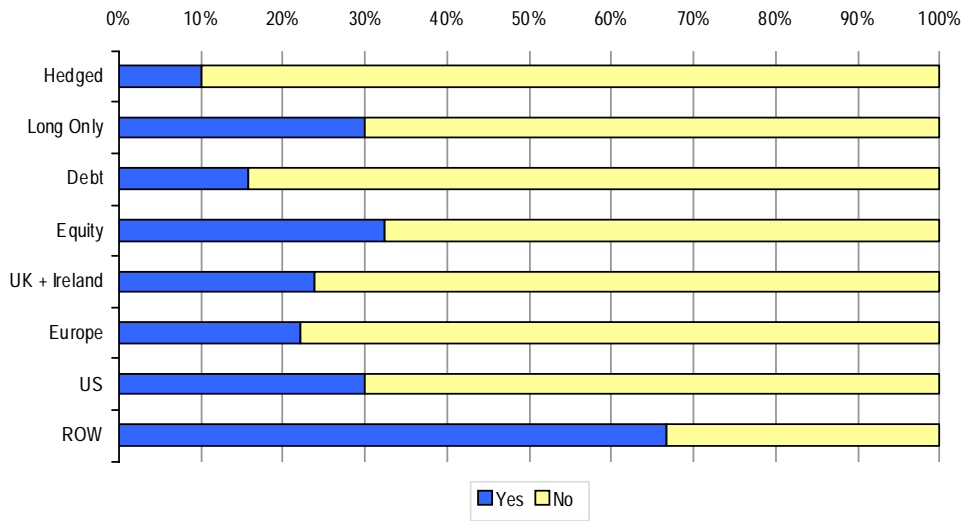
Source: Credit Suisse proprietary survey

**Figure 40: Is mobile a substitute for fixed broadband?**



Source: Credit Suisse proprietary survey

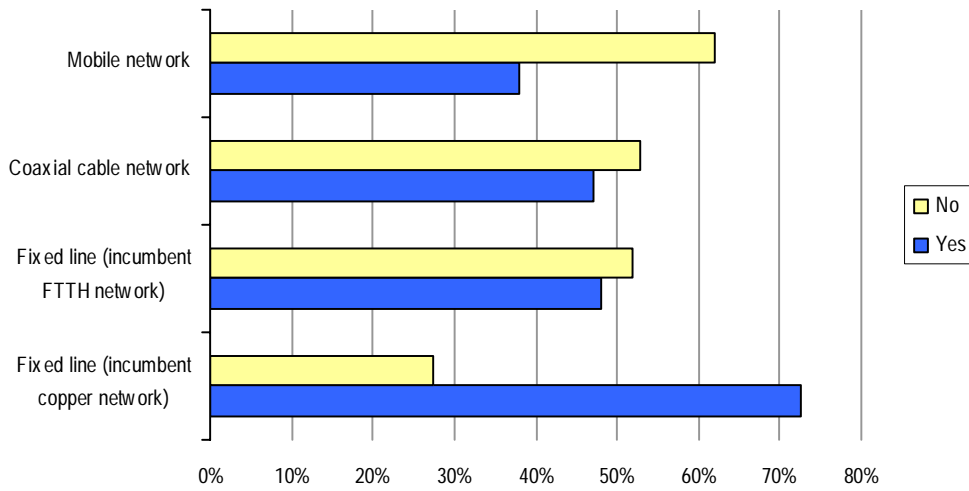
**Figure 41: Is mobile a substitute for fixed broadband?**



Source: Credit Suisse proprietary survey

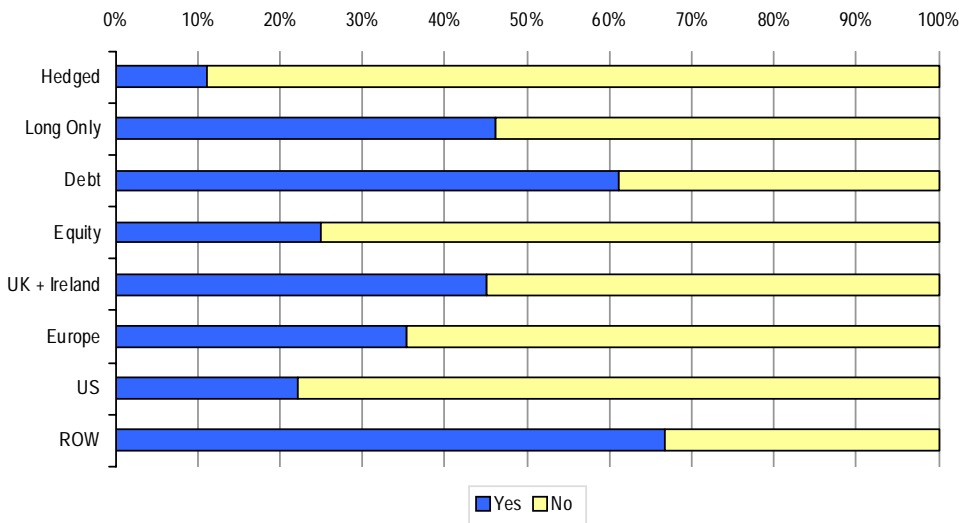


**Figure 42: Should the following markets be regulated ex ante (i.e., pre-emptively)?**



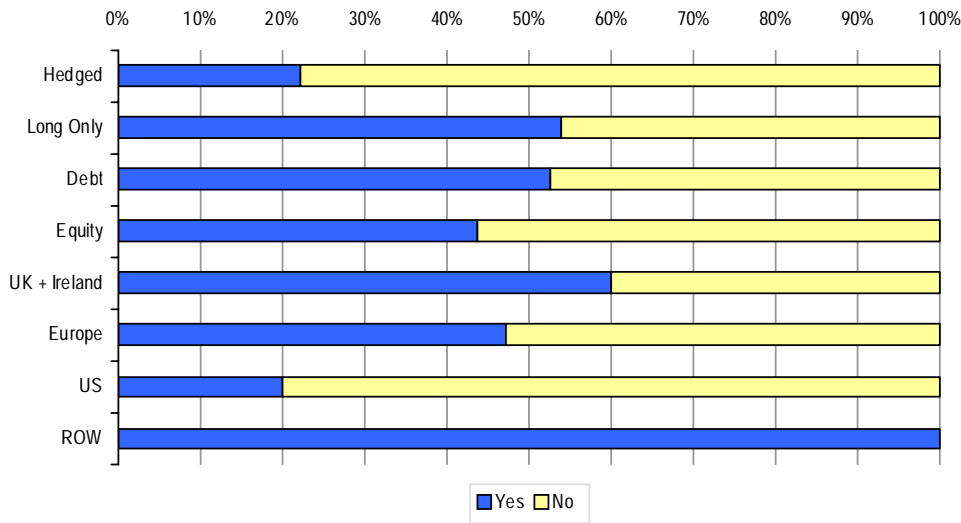
Source: Credit Suisse proprietary survey

**Figure 43: Should mobile networks be regulated ex ante?**



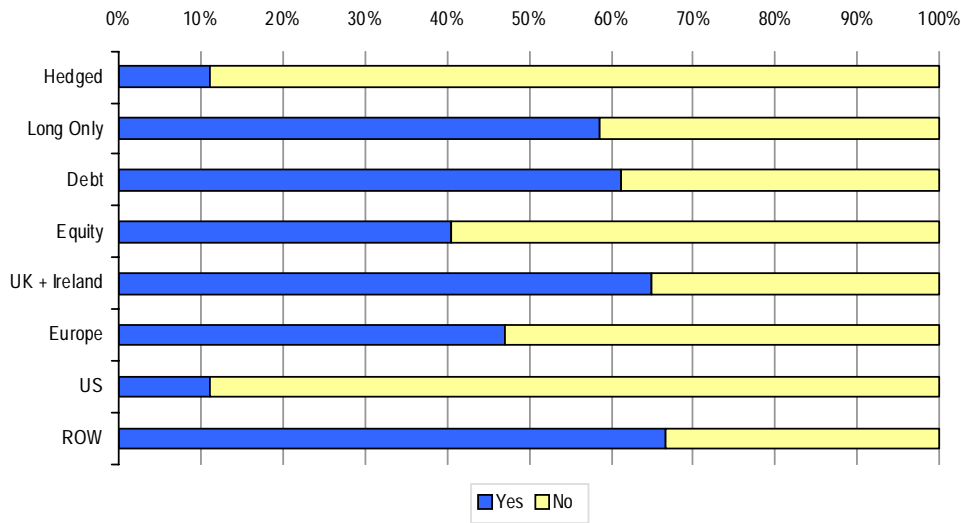
Source: Credit Suisse proprietary survey

**Figure 44: Should coaxial cable networks be regulated ex ante?**



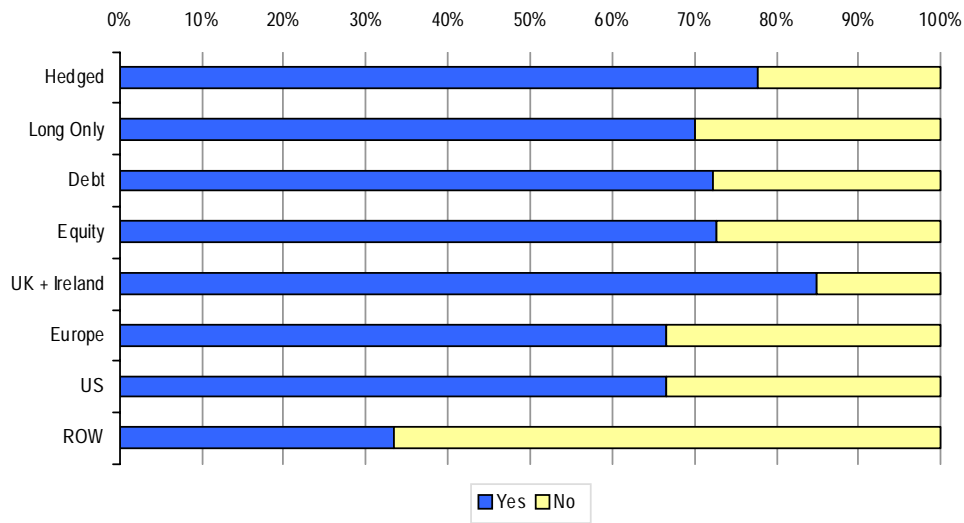
Source: Credit Suisse proprietary survey

**Figure 45: Should fixed line (incumbent FTTH network) networks be regulated ex ante?**



Source: Credit Suisse proprietary survey

**Figure 46: Should fixed line (incumbent copper network) networks be regulated ex ante?**



Source: Credit Suisse proprietary survey



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