

# MAKING THE MOST OF THE DATA ECONOMY

Regulators can help unlock  
the big telecoms investments  
needed

# 2021

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The modern economy is increasingly data-driven, across all sectors. The use of data has evolved, with the next stage of development assumed to be edge computing - a migration from centralised cloud data centres towards end users to provide them with data in real time. This and other advances will require improvements in telecoms networks in order to increase the speed of the network (bandwidth) and reduce the lag required to access data (latency). In short, upfront investment by telecoms operators will be needed before the full benefits of the data economy are realised.

The key policy challenges in the current investment cycle are to ensure the widespread roll-out of fibre-to-the-home (FTTH) and fifth-generation (5G) mobile networks. In both cases, operators will have to make significant increases in investment. This follows a period when revenues from end users have been broadly flat due to a mixture of maturing markets, with most customers now using both fixed and mobile broadband, and downward pressure on pricing through a combination of regulation and competition.

Policymakers acknowledge that the circumstances are challenging. For example, the European Union introduced the European Electronic Communications Code (EECC) in 2020 that made explicit the objective for national regulators to encourage investment in very high capacity networks (VHCN). The renewed attention on investment recognises that while liberalisation of the telecommunications sectors, facilitated by regulation, has brought considerable benefits to consumers through innovative services delivered at ever lower prices, the existing regulatory framework may not catalyse the investment necessary for economies to grow at their full potential.

Experience has shown that adapting existing regulatory tools is not guaranteed to achieve investment objectives. Ensuring the deployment of higher speed fixed networks was a key target of the EU's Europe 2020 strategy, a 10-year programme unveiled in 2010. While the European Commission issued a number of recommendations setting out how regulation should be

implemented to achieve this goal, the regulatory framework in place at the time proved inadequate: the Europe 2020 goals were not fully met. Despite this, the EU's recently issued Digital Compass strategy sets a new round of infrastructure targets to meet the bloc's digital ambitions over the next decade.

There are a number of reasons why operators (and ultimately investors) may be unwilling to invest in the network infrastructure needed to fulfil Europe's economic growth potential:

- **Demand risk.** Will end users be willing to pay a premium for higher quality services if rivals, without investing, can undercut them with lower-quality services which consumers perceive as 'good enough'?
- **Regulatory risk,** as investors making decisions to sink assets with a lifetime of decades worry that regulation that aims to stimulate investment in the short term will not be sustained in the longer term; and
- **Changes to the value chain.** There is uncertainty as to whether telecoms operators will capture a proportionate share of the economic value generated by developments such as edge computing, given a high degree of concentration in other parts of the value chain.

While policymakers and regulators cannot fully mitigate these risks, by gaining a better understanding of what drives capital spending they can increase investment incentives through a number of mechanisms. These could include:

- Reducing the cost of investment in innovative technologies so that returns increase (all else being equal);
- Clearly signalling a move to a long-term bias towards investment rather than short-term pricing minimisation. For example, they could provide assurances that regulation will be applied consistently in the long term, in an acknowledgement of the fact that telecom asset lives are measured in decades rather than years. This would shore up investor confidence in the future returns they can expect to make in return for the risks they undertake; and
- Ensuring a level playing field between operators and other players in the value chain, for example by removing legacy regulation.

Over the next few months, the EU will be consulting on guidelines and recommendations for the implementation of the EECC. This exercise provides an opportunity to ensure that the high-level objective of encouraging investment is translated into practical steps in order to realise Europe's ambitions for a data-driven economy.

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