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Telecommunication Newsletter Switzerland

Public Utilities Join the Race for Bandwidth: The End of Infrastructure Competition?

A host of local utilities organized as public law entities are deploying fibre to the home in their already existing trenches across cities in Switzerland. The city of Zurich has recently approved a credit of CHF 200 million to permit the Elektrizitätswerke Zürich ("EWZ"), organized as a public law enterprise, to build a city wide fibre optical network. On October 30, 2007 the EWZ announced that it has started its pilot project with 55 households in the city of Zurich, offering digital television, ultra high speed internet, internet telephony and mobile telephony. The services are offered in cooperation with Orange Telecommunications SA. According to the EWZ business customers and apartment buildings will have the first priority. The EWZ plans to offer access to its network on a non-discriminatory basis to all interested parties. The EWZ said that it will not provide services over this infrastructure.

The plan of the EWZ to build its own fibre optical network was faced with criticism from existing providers of telecommunication services. In particular from the providers who have already invested heavily in their own infrastructure fearing that the EWZ may use public funding and cheap access to financing for its project and distort competition.

The public utilities have a competitive advantage over the privately owned enterprises when deploying fibre optical networks across the cities. Their already existing infrastructure, in particular cable ducts, can also be used for the deployment of the fibre optical cables. The pre-existing infrastructure financed by the customers of electricity in a monopolistic environment permits these utilities to establish a citywide network at a fraction of the time and of the costs to be incurred by a competing enterprise.

In fact, the EWZ itself argued that their already existing and dense telecommunication network and the synergies in building new ducts facilitate an efficient implementation. In addition they do not need to get access to the public capital markets in order to finance their investments and do not need to answer to their shareholders to justify their investments. Further, by joining the local city networks, these utilities could quickly evolve as a Swiss wide telecommunication provider.

It is obvious that the dual use of the existing infrastructure, which was financed by the electricity monopoly, permits the utilities to calculate differently, leaving little or no room for competitors to offer similar competitively priced services. Put on top their cheap access to financing. The impact is obvious. In regions where the utilities offered dark fibre, the costs for dark fibre have already plummeted.

In addition, the utilities all have a direct access to their customer's home; making them an alternative to the local loop access occupied so far by the incumbent operator and the cable network providers. It is unclear, how this will impact the unbundling of the local loop which was introduced earlier this year by a revision of the Swiss Telecommunication Act. Who is willing to invest in the unbundling of the local loop twin copper pair if there is no reasonable assurance that these investments can be recouped?

Competition by state controlled or state owned enterprises in an already liberalized market is an extremely delicate issue. The government should not interfere with existing competition. The fact that the EWZ announced to offer its services on a non-discriminatory basis does not offer sufficient comfort.

Should the utilities – due to cross-subsidization and cheap access to financing – offer access to the fibre optical network at prices which are lower than the prices that would need to be charged by a competing enterprise, this would greatly harm those who have already invested in their own fibre optical network in the cities.

These enterprises would no longer be in a position to offer their services at competitive prices and to raise the funds in the financial markets to continue the investment in their infrastructure. In the long run this may be the end of infrastructure competition.

It was one of the key factors in the breaking-up the state monopoly in telecommunication that competition should be fostered on the services as well as on the infrastructure level. The building of state owned fibre optical networks for use by all interested parties seems not to blend in well with this legislative objective.

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