The impracticalities of a 'broad universal service fund'

The 'Fair share' idea – the proposal that telcos should receive traffic charges from large digital players – may not be quite dead, but it does appear to be comatose (along with its close sibling, arbitration). It was not a good solution to the challenge of investment incentives for telcos, not least because it was money that would come with 'no strings attached'. Further, it taxed the very digital ecosystem that is so important for European citizens. However , the challenge of investment incentives does remain. Thiery Breton is concerned that Europe will struggle to meet the Digital Decade targets without a new financing model. [1]

One suggested approach is what we might call a 'broad USF'. Universal Service Funds exist in a number of markets. They typically involve a levy on telecoms services which is used to fund deployment in uneconomic (typically rural) areas, or to provide affordable connectivity to relevant consumers.

Under a 'broad' USF, the levy would come not just from telecoms providers, but also digital players. In the European context, the focus of such a programme might be to support deployment to meet the Digital Decade targets. This is similar to state aid provided to telcos to provide broadband in white areas, but funded by a levy rather than general taxation, and with an extension of scope to 5G.

There would be a host of practical issues to consider regarding a broad USF to support the Digital Decade goals:

What to fund? The EU and member states have some experience in specifying gigabit deployments entitled to state aid, and this could be carried over for a levy-funded programme. However, there's much less experience to draw on regarding 5G coverage and how to treat it in this context.

What level of coverage would be required of subsidy recipients? 'Coverage' for 5G depends on applications – streamed video may be practical in less of a cell site than email, say, because of its greater bandwidth requirements. Secondly, application coverage will change over time, both due to day-to-day cycles of use, and because of growing demand over time.

And where would coverage be subsidised? Experience with gigabit state aid shows this can be complex and time consuming to solve. Similarly, in the US there has been considerable controversy over the 'Broadband Maps' that define where fixed broadband is inadequate. There is the challenge of how to treat 5G coverage provided by satellite, already being tested by Eutelsat today.[2] Would funds be provided to mobile operators to compete with Eutelsat?

There is likely years of work to figure out what and where to fund.

How to fund? USFs have typically worked off a simple percentage of telecoms revenue. What additional companies or sectors would be included in a 'broad USF'? If the logic is that these additional companies benefit from the availability of networks, would gaming companies be included (since games downloads are a key use of gigabit networks)? Would car companies, who might be a beneficiary of better 5G coverage for road networks? And which revenues of these

[1] Thierry Breton, *A 'Digital Networks Act' to redefine the DNA of our telecoms regulation*, 10 October 2023
[2] Eutelsat Oneweb, *Constellation connects to 5G, paving the way for high-speed internet access to remote mobile phone users*, 19 October 2023

companies would be relevant? The US USF is based on a percentage of "interstate and international end-user telecommunications revenues".[3] Similar specificity would be required across a range of sectors for a broad USF. Given the different economics of different sectors, different percentages might be needed also.

How to address inter-member state issues? Member states have made very different progress toward the Digital Decade goals. The Netherlands, for example, is already very close to 100% coverage for both 5G and gigabit. Dutch consumers have already been paying for this investment via their telecoms bills. How will they feel about a levy on their bills (telecoms or others) to support coverage in other member states that have been slower to deploy?

So it's murky how a broad USF would be funded, what it would fund, and how intra-member state issues would be dealt with. None of these are trivial issues, and mean that a broad USF is likely to take years to put in place. As Telefónica has noted, a broad USF "would represent a heavy regulatory intervention and significant effort to set up … from scratch on a European level and to define rules among all member states about who should contribute and benefit".[4] Given these challenges, there is little scope for such a scheme to be ready in time to contribute meaningfully to the Community's 2030 Digital Decade goals.

Not only is a broad USF a poor idea in practice, it's also a poor idea in theory. The Digital Decade infrastructure targets are a means to an end. Infrastructure by itself doesn't have value for European citizens – rather, infrastructure enables use of digital applications that are valuable. Europe will benefit from the combination of connectivity and applications – together the digital ecosystem. But if that is our goal, it is perverse to tax – and thereby discourage - usage of the ecosystem (via a levy on connectivity and/or applications). It is far better to use general taxation, as Europe has already done with State Aid, and as the US is increasingly doing, with broadband funding embedded in the Inflation Reduction Act.

Finally, if the objective is wider and better experiences for citizens when using digital services, it's worth remembering that better infrastructure is only one way to get there, and not necessarily the best one.

For example, if bandwidth is insufficient for 4K video, then one approach is to invest in local infrastructure to improve broadband speed. But another approach is to improve compression, so that 4K video can fit within the existing, available bandwidth. The compression approach has the advantage that it is software based, and so can be rapidly deployed globally. By contrast, the infrastructure approach is by its nature local, and brings no wider benefit beyond its footprint.

Programmes that focus exclusively on just one element of the user experience risk distorting the market, and forgoing more efficient ways of delivering the best result for European citizens.

Thus a broad USF is flawed and potentially counter-productive. It is an idea best left on the shelf. A far better approach is the one the EC and member states are already taking – a blend of targeted state aid and the removal of barriers to investment.

Robert Kenny & Brian Williamson, October 2023

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[3] FCC, *Contribution Methodology & Administrative Filings*

[4] Telefónica, *Strengthening Europe's digital infrastructure to enable our digital future*, 26 May 2023