One page executive summary: Financing Europe's €202 million fibre roll-out

Despite the financial crisis, there is a huge pool of capital available for infrastructure investment projects. Access fibre projects, if structured correctly, could be highly attractive for these long-term funds. However, the current industry structure and regulatory environment have failed so far to attract significant investment in switching access copper assets to full fibre ones. The FTTH Council Europe asked Ventura Team and Portland Advisors to investigate how this impasse could be overcome.

The long-term horizons of infrastructure investors

Even in times of austerity, the research indicates that there is plenty of commercial capital available to invest in fibre networks. There is an estimated €230 billion of investment available over the next eight years – mainly from senior debt providers but with a significant contribution from private infrastructure funds. The analysts believe that this supply of capital "could easily expand if the right deals are available".

In addition to the potential commercial investment, the European Commission has proposed to spend almost €9.2 billion from 2014 to 2020 on projects to give European citizens and businesses access to high-speed broadband networks and the services that run on them. The fund, which is part of the Connecting Europe Facility (CEF), will include equity and debt instruments and grants.

The received wisdom is that investors will flee telecom stocks if faced with fibre capex, but hard evidence suggests this is not the case if such investment programmes are structured and communicated appropriately. Following structural separation of their business and the award of government contracts to deploy FTTH networks, Telecom New Zealand shares have increased in value, with shareholders reaping 37% total shareholder returns in one year.

The senior debt and private equity markets are ready to invest in telecoms; the problem is that they are not finding suitable deals. The lack of incentives for incumbent operators to update their ageing copper networks, except in urban areas where they face competitive pressures, along with a lack of activity in commercially financing the riskier, more remote areas, means that suburban and rural areas face being left behind.

Planning for the "fibre switchover"

A combination of actions would be needed provide a strong stimulus for new investment in fibre infrastructure. We start from the concept of a "fibre switchover": a joint programme between government and industry to modernise Europe's access networks by replacing all copper pairs with optical fibre. This would be a long-term project that would likely take longer than the 2020 horizon of the Digital Agenda for Europe.

To tap into the infrastructure funds, a new wave of special purpose open fibre utility companies would be created. The Commission or other relevant authorities would create half a dozen "Fibre Development Corporations" around Europe, which will act as impact investors to stimulate a pipeline of new fibre projects and to help fund the best of those projects. The government authority takes on some of the market risk, while mechanisms such as availability payments or project bonds enable commercial investors to join the scheme.

One of the key elements of this plan would be to take the replacement rate that already exists in regulated wholesale tariffs and turn this into a contractual reality. This would ensure that operators direct the appropriate sums of money towards access network replacement. Slightly higher prices today would tip the business case in favour of FTTH, in return for lower prices in the future.

A range of ideas and options have emerged from the research, which are currently being "market tested" with investment companies and will be further refined to create a complete package of proposals.