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Meeting between Commissioner Breton and Telefónica CEO José María Álvarez-Pallete
10 February 2023, 09:45

BRIEFING NOTE

Scene setter

You are meeting Mr. José María Álvarez-Pallete, CEO of Telefónica to discuss the following topics:

- The planned **connectivity package**, which includes the new Gigabit Infrastructure Act, the draft Gigabit recommendation and the consultation regarding the future of the telecoms sector, including the topic of fair share.
- The position of Telefónica on the fair share debate and the more general question on how to incentivise investments (including copper switch off)
- The status of rollout of gigabit networks in Europe by Telefónica.

comm. interest

[redacted]

Key Messages

Connectivity package and fair share debate

- The Commission is finalising very soon a package of measures in the Connectivity area to respond to the raising use of digital technology and the increasing demand for faster, more reliable, data-intense connections.

- The new **Gigabit infrastructure act** will be proposed as a Regulation which will replace the current Broadband Cost Reduction Directive. It will propose new rules to quickly make gigabit networks available across the EU. It will address the main persisting challenges in achieving wider gigabit network coverage across the EU – slow and costly deployment of the underlying physical infrastructure sustaining advanced networks.

- Moreover, we are working on a new **Gigabit Recommendation** which will provide guidance to National Regulatory Authorities on how to apply regulatory remedies to incentivize network deployment while enabling sustainable competition. It will ensure that new investments are rewarded in a fair manner. The proposed Gigabit Recommendation will be published and sent to BEREC for opinion (2 months) after which it will be finalised and adopted by the Commission.

- Last, we are planning to launch **a broad consultation on the future of the electronic communications sector and its infrastructure**, including the question on who should contribute to infrastructure deployment to the benefits of the overall digital transformation (the so called “fair share” debate). We plan to launch it in Q1 2023.

- **Based on the outcome of the consultation, the Commission will consider the most appropriate initiatives** to foster its vision for the future of the electronic communications sector and to implement the principle enshrined in the European Declaration on Digital Rights and Principles for the Digital Decade, according to which all market players benefiting from the digital transformation should make a **fair and proportionate contribution** to public goods, services and infrastructure, for the benefit of all Europeans.

- I count on your support regarding the three elements of the package and notably for the swift negotiations of the GIA Regulation.

- I am now interested to hear about your investment plans in Europe; your vision how you see the future of this sector and what role your company can play in this transformation.

Defensives

What measures does the Commission intend to take to foster its vision for the future of the connectivity sector and in particular with regard to the issue of 'fair share'?

- For the moment, it is too early to define solutions. First, we need to open the debate in order to have a more comprehensive dialogue with all stakeholders, as part of a broader reflection on the future evolution of the sector. We need to have a solid evidence base and consensus before tabling the most appropriate proposals. To achieve this, we plan to launch a consultation soon. It is too early to announce any measure or initiative or a concrete schedule.

Will a BCRD that will not be implemented in MS before 2026 not come too late to boost roll-out? What can be done in the meantime?

- The Commission plans to make a proposal very soon and is confident for a quick negotiation and starting application.

- But in the meantime there are other measures recently implemented in the Member States and in the pipeline. The Connectivity Toolbox (a set of 39 best practices collectively agreed by the Member States in cooperation with the Commission in March 2021) already aims to improve the situation with regard to the costs of network deployment and access to 5G spectrum in the short term.

Would the BCRD review entail fair share provisions?

- At this stage of preparations, our intention is not to combine the BCRD review with the current discussion concerning 'fair share'. Instead, we plan to launch a broad exploratory consultation on the future of the electronic communications sector, including the question of a fair contribution by digital players to network deployment.

Would the BCRD review take the form of a regulation or of a directive and entail fair share provisions?

- The Commission aims to increase the level of minimum harmonisation as well as to ensure a more efficient implementation and enforcement. Hence, a Regulation seems the most suitable form. Yet this is a hybrid instrument, as it will remain a minimum harmonisation thereby leaving margin of manoeuvre to Member States to go beyond.

Background

Telefónica's position on fair share debate and regarding how to incentivise investments (including copper switch off)

comm. interest

Status of rollout of gigabit networks in Europe by Telefónica

- **Spain is one of the EU's top performers on digital connectivity**, ranking 3rd among the EU Member States. Spain performs particularly well in fixed very high capacity network (VHCN) coverage (94% compared to an EU average of 70%), while being only a mid-performer on 5G coverage, mainly due to some delay in auctioning all 5G pioneer bands.

Internat-ional relations

[redacted]

- The Commission has already approved a number of State Aid measures with RRF support for fixed broadband deployment:
    - EUR 600 million Spanish scheme to deploy fibre networks,
    - EUR 88.3 million Spanish scheme under the Recovery and Resilience Facility to support connectivity in rural areas, where satellite is expect to play still an important role.

Comm. interest

[redacted]

- Telefónica is also present in Germany (Telefónica Deutschland) in EU (Telefonica also has joint venture in UK and subsidiaries in

Brasil, Colombia, Chile and Peru), serving around 47 million mobile accesses and 2.3 million broadband accesses. By Q3 2022. Telefonica Germany achieved 75% 5G coverage, targeting 99% coverage by 2025.

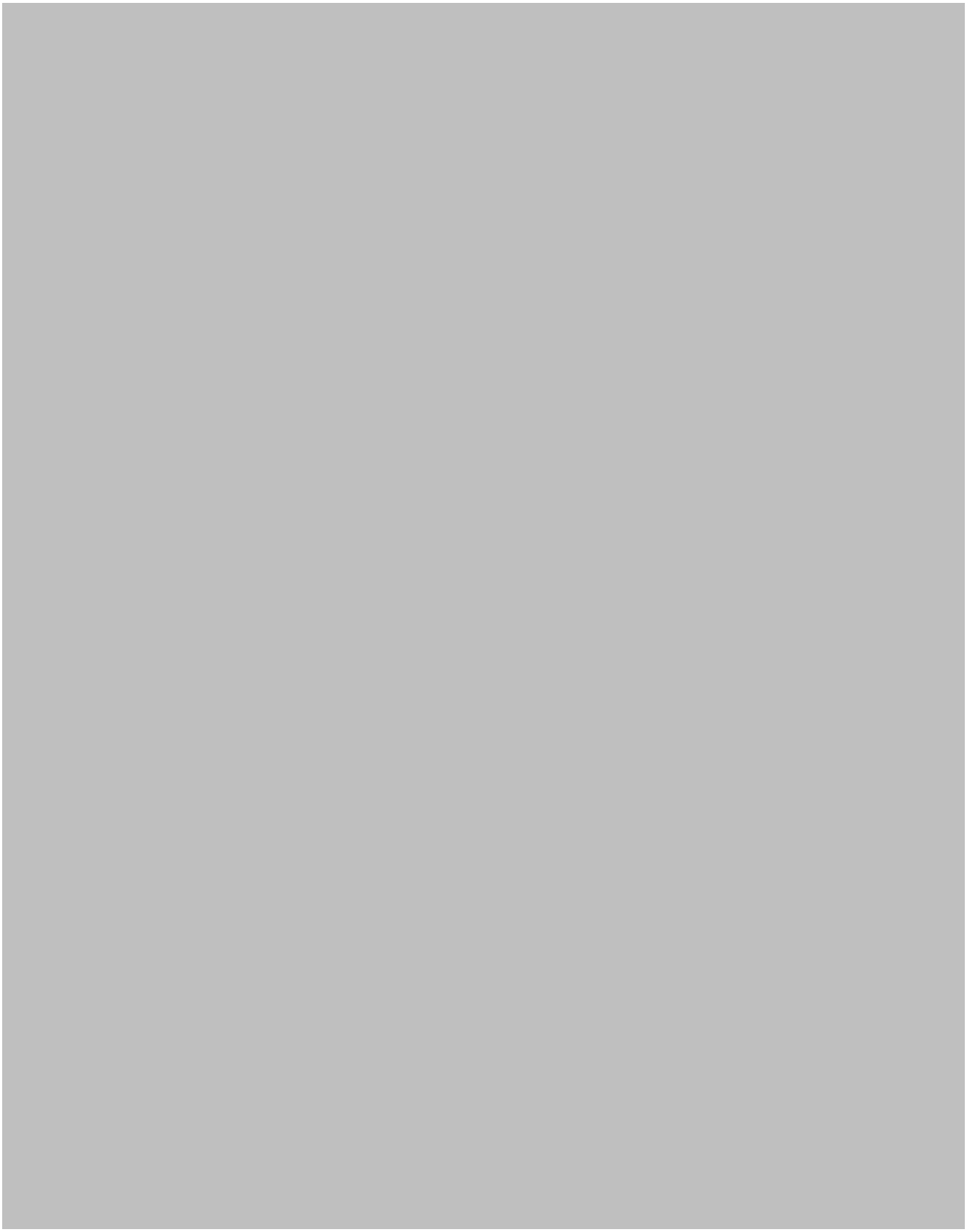
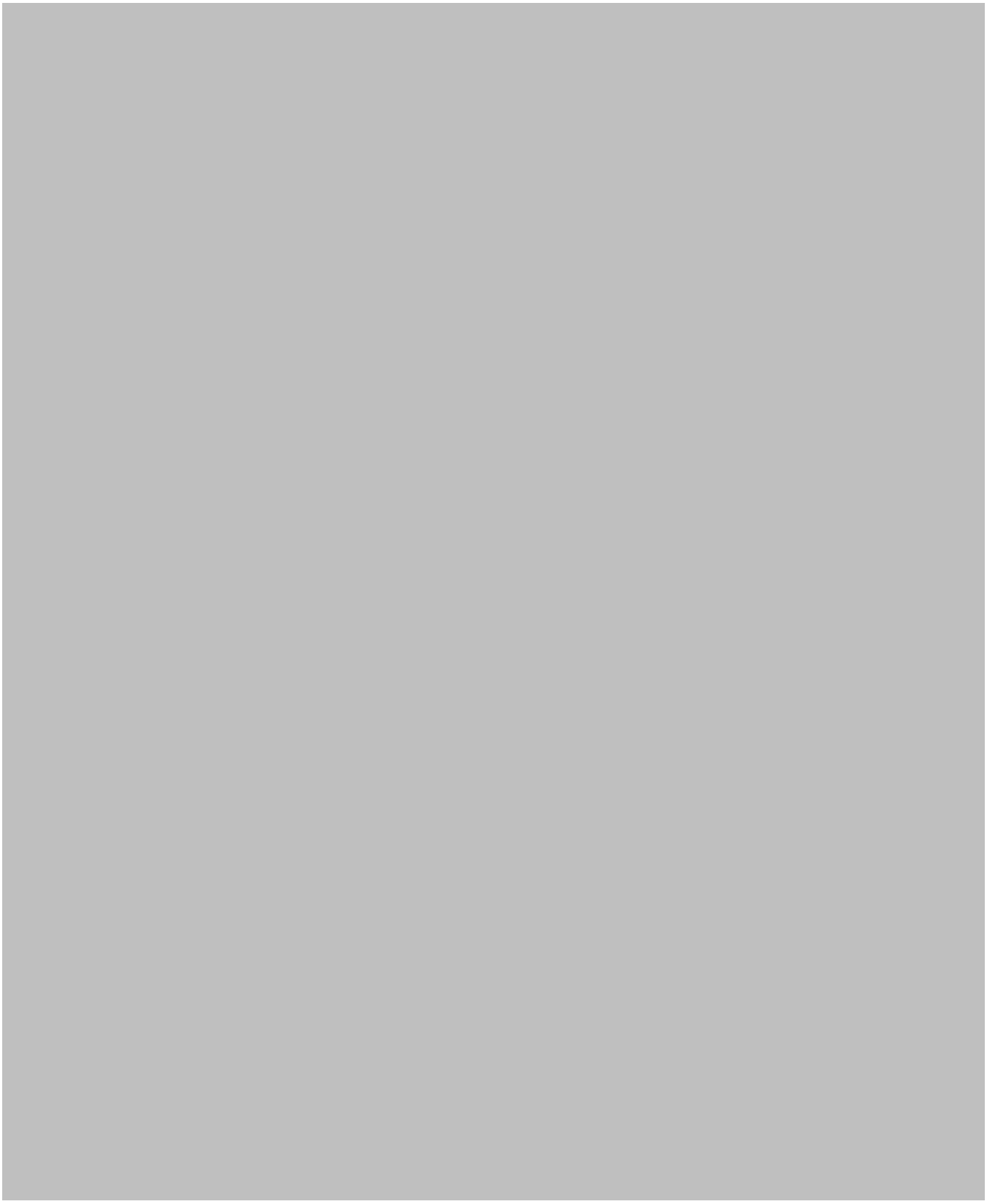
Comm. interest

- **The copper switch-off process is still ongoing in Spain**. The number of decommissioned copper exchanges increased from 476 to 1 010 (since the first closures in 2015), out of 2 990 exchanges scheduled. In January 2022, it was announced that Telefónica sold part of its copper to Macquarie (the largest shareholder of Spain's wholesale operator Onivia).

- **Telefónica is planning to further accelerate the shutdown of its ADSL exchanges in Spain and the migration from copper to fibre** in view of the surge in energy prices. The aim is now to bring forward the deadline for phasing out its copper network in Spain and completing the move to fibre, initially scheduled for 2025, to April 2024, in time for the company's centenary.

- Telefónica is set to shut down a further 730 ADSL exchanges in Spain in 2023 as part of the company's ongoing process to migrate from copper to fibre. The company completed the deactivation of 2,181 of its ADSL plants by the end of 2022 and will shut down exchanges in 7 batches throughout 2023, culminating in the closure of 388 on a single day (29 November).

CVs

José María Álvarez Pallete, Chairman and CEO, Telefónica, Chairman of GSMA

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