

The impact of the regulatory framework on investment across the EU

Siôn Jones

London Economics

Contents

- ☐ Background
- ☐ Investment patterns
- ☐ Explaining investment trends
- ☐ Role of the Regulatory Framework

Background I

- ❑ Study undertaken for DG Information Society
- ❑ By London Economics, with assistance from PwC International Survey Unit
- ❑ Views expressed are those of London Economics, not the European Commission
- ❑ London Economics also gives advice in the e-communications sector to:
 - NRAs
 - Operators
 - Equipment manufacturers

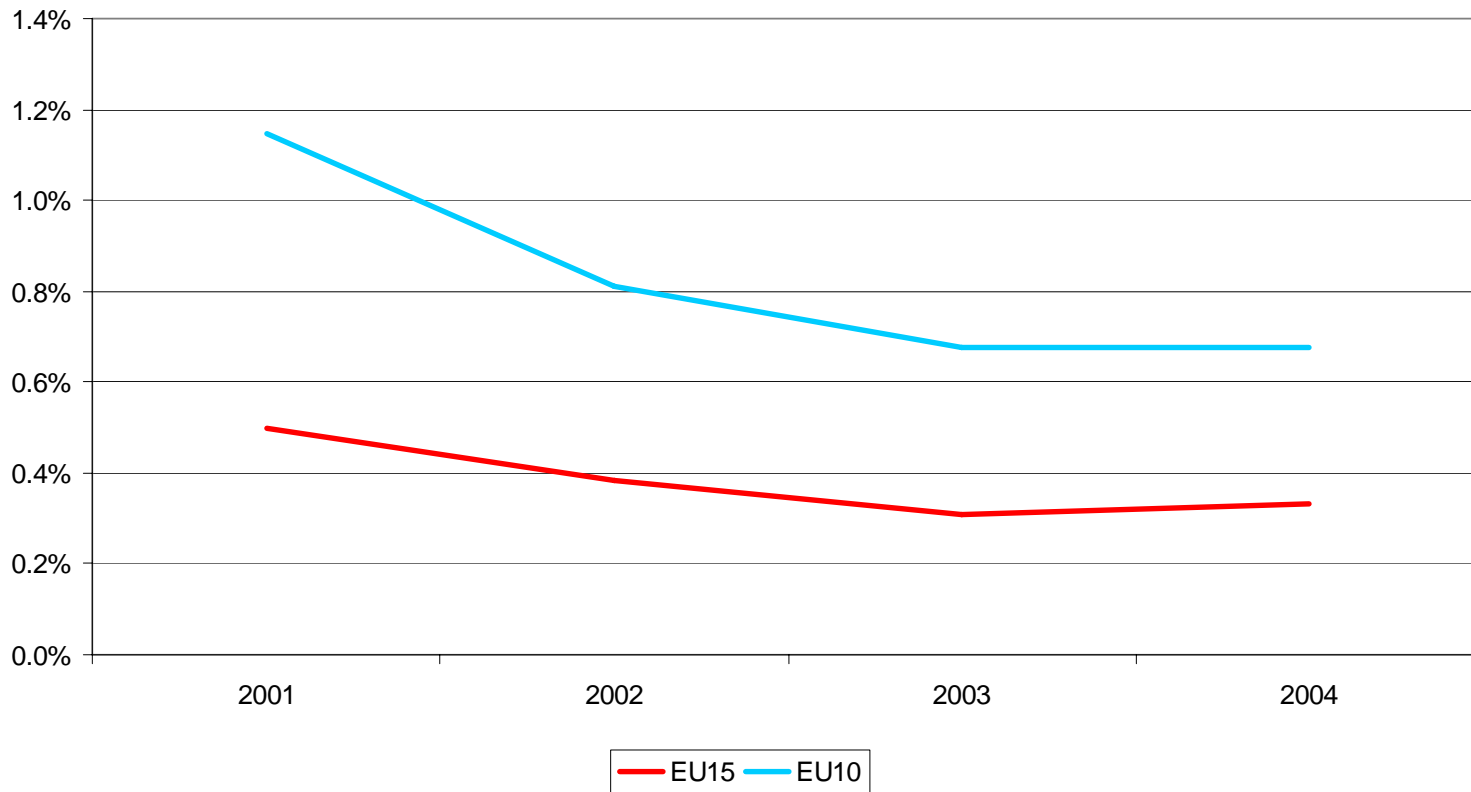
Background II

□ Study Objectives:

- Build a dataset relating to investment in physical infrastructure
 - Split by country and by sub-sector
- Review key drivers of investment and impact of regulatory framework on investment

□ Focus today on the relationship between the regulatory framework and investment

Total gross investment as % GDP



Statistical Analysis of Investment Drivers

□ GDP per capita

- + 1% GDP/capita → + 0.7% investment.

□ Regulatory index

- - 1% index (reducing the regulatory impediments) → + 1.1% investment.

□ Firms' incumbent status

- Positive and significant

□ Multinational and multi-sector

- Firms operating in more than one sector invest more, but not firms operating in more than one country.

Operator Views on Investment - Regulation Links

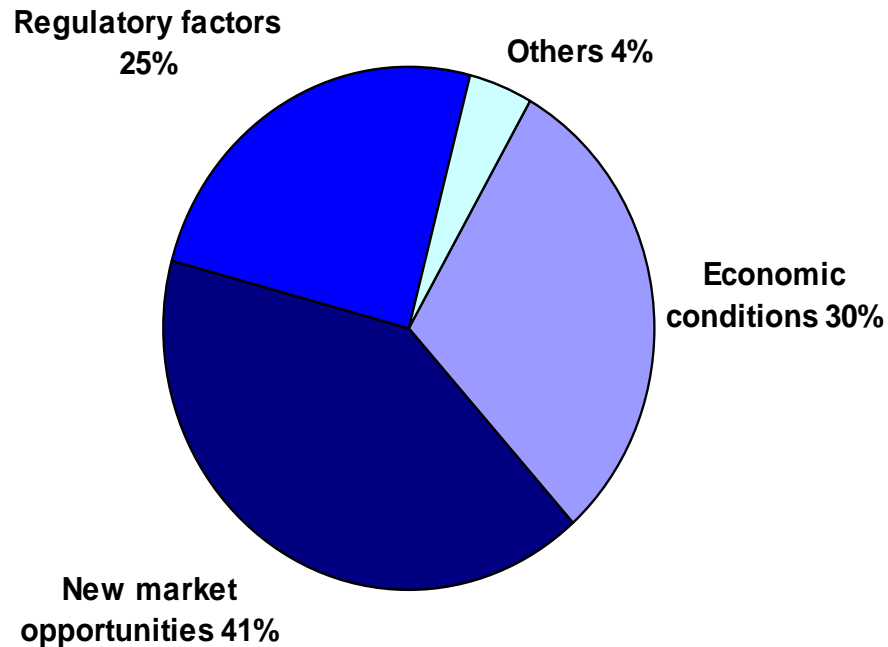
□ Operator surveys

- [Main operator survey \(125-150 interviews\)](#)
- Second interview programme (10-15 interviews)

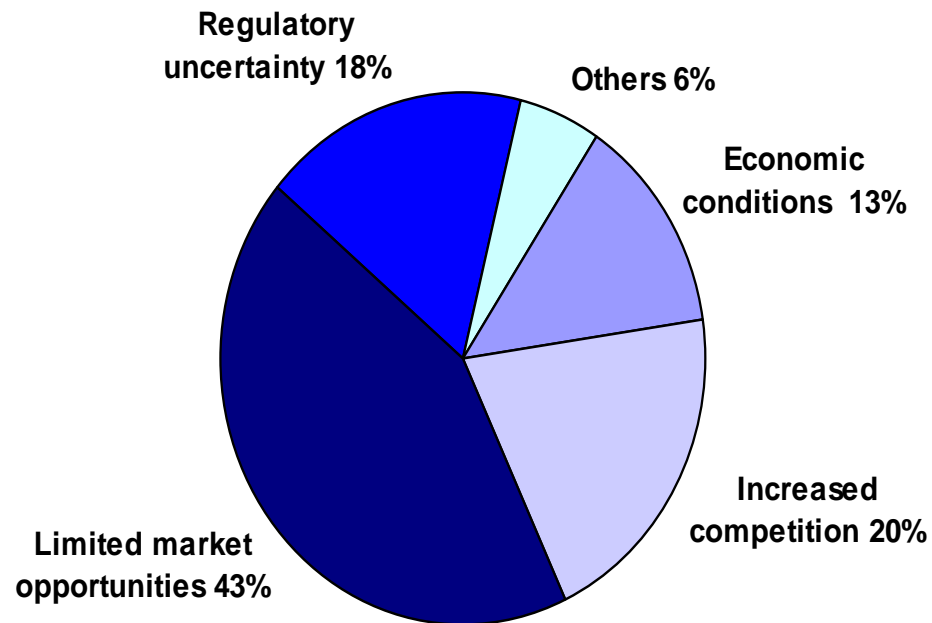
□ Desk-based research

- Investigation of operator views from consultation responses and other statements
- Data investigation and literature review

Factors leading to increases in investment



Factors hindering investment



Second survey – discussions with operators

- Regulatory uncertainty consistently raised as a key issue
 - across sub-sectors
 - incumbents and new entrants
- Main aspects of regulatory uncertainty problem appear to be:
 - Meaning and application of some of the key principles enshrined in the regulatory framework
 - Differences in application between Member States
 - Limited monitoring and enforcement, esp. with respect to remedies

Investment & Regulatory Uncertainty

“Risk and uncertainty lie at the very heart of the capital investment decision”

(Levy & Sarnat, Capital Investment and Financial Decisions, 3rd Ed.)

“The world's utility companies today sounded a warning bell as regulatory uncertainty holds back the investment needed in the sector to secure power supply. ”

(PwC press release, April 2005, following Global Utility Survey)

“Regulatory uncertainty is the single most important business challenging facing the industry right now” (Capgemini survey of US communications executives, Nov. 2004)

“Some regulatory uncertainty is unavoidableBut I see it as my job to reduce that uncertainty to the necessary minimum.”

(Philip Fletcher, UK water industry regulator, Oct. 2001)

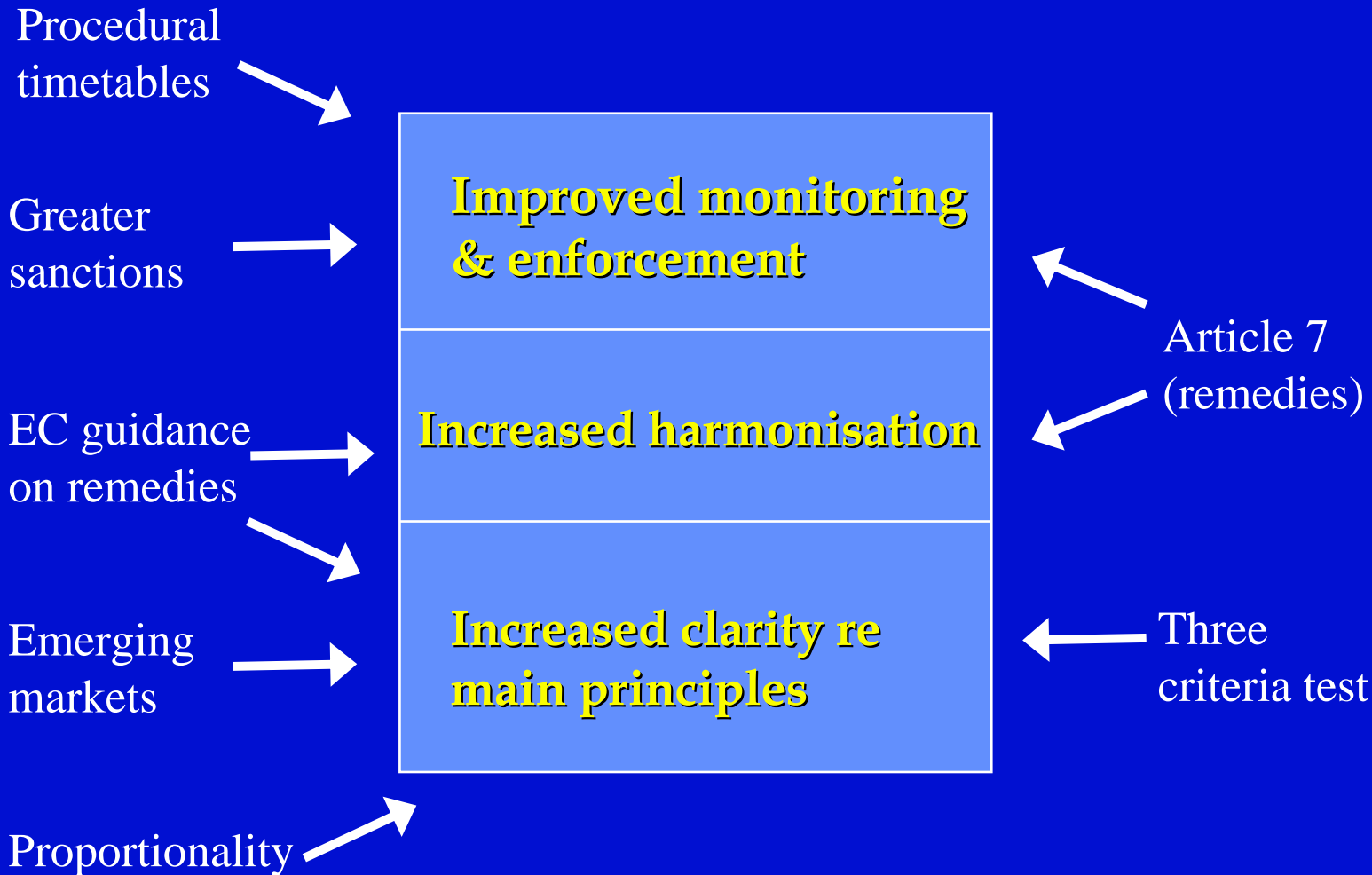
Regulatory Framework: Factors for Investment

□ Main Factor

➔ Reduce regulatory uncertainty

- a. Increase role of EC in monitoring and enforcing application of regulatory principles and objectives
- b. Increase level of harmonisation
- c. Increase clarity about meaning and application of main regulatory principles

Regulatory factors for investment



Regulatory factors vs. EC Proposals

Regulatory factors	Current EC Proposals
Improved monitoring and enforcement	<ul style="list-style-type: none"> ○ NRA decision on appeal ○ Breach of authorisation → sanctions
Increase level of harmonisation	<ul style="list-style-type: none"> ○ pan-EU authorisation ○ Article 5 veto ○ Article 7 veto → Remedies
Increase clarity re main regulatory principles	<ul style="list-style-type: none"> ○ emerging markets?

Contact:

Siôn Jones
London Economics

sjones@londecon.co.uk

Main operator survey - outline

- PwC conducted 135 telephone interviews with companies in Germany, France, Poland, Portugal and the UK
- Range of issues discussed, including:
 - Reasons for decline in investment since 2000
 - Future prospects for investment
 - Impact of change in regulatory framework
 - Positive aspects of current framework
 - Negative aspects of current framework

