

## **INFORMAL DISCUSSION PAPER**

In preparation for the meeting with the EC Commission on 18th January in Brussels, we have prepared a short background memorandum. The memorandum sets out the background to the proposed demand-stimulating measure within the experimental region 'Kenniswijk', and explains the scope of the measure, and the reasons why the Ministry believes that it does not qualify as a state aid within the meaning of Article 87(1) EC.

### **Kenniswijk**

The 'Kenniswijk' project is an experiment of the Dutch Ministry of Verkeer en Waterstaat (Traffic and Water Management) – hereafter 'the Ministry' - to encourage the use of innovative information technology by citizens, based on broadband infrastructure and services. In early 2001 the region of Eindhoven/Helmond was selected as the experimental Kenniswijk region by the Dutch cabinet. The Kenniswijk region Eindhoven/Helmond provides an experimental environment for the development of innovative broadband internet services and infrastructure for the consumer market. In order to be successful, the ambition for the Kenniswijk experiment is that these broadband innovations will be available and in wider use at least two years ahead of current market developments. Kenniswijk is unique in the sense that the experimental region in Eindhoven/Helmond comprises of tens of thousands of households. Thus, within the two year period, Kenniswijk should realise the broadband consumer market of the future, in line with the eEurope actionplan.

In order to fulfil the aims of the project it is necessary to ensure that the experimental Kenniswijk region is equipped with adequate broadband infrastructure over which an adequate level of service provision can be ensured. Given the experimental nature of the project, the Ministry is anxious to ensure that consumers make sufficient use of the available technology and services, and in particular that consumers are prepared to install a broadband connection in their homes.

### **Subsidy to individual consumers**

With this in mind the Ministry aims to secure that within a two year period approximately 75% of the total residential buildings in the Kenniswijk region will be connected to the broadband infrastructure. A total of Euro 13 million is to be made available providing for a

subsidy of approximately Euro 400 to 600 per connection to owners/tenants of residential properties (households) for an active connection.

Initial investigations into the possibility of providing this financing by way of direct subsidy to individual households have indicated that it may prove difficult to stimulate a sufficient number of customers to take up the subsidy within the envisaged time frame. Given the relatively minor nature of the individual sums involved, the Ministry is anxious to ensure that the scheme can be administered in the most effective manner. The eventual lack of adequate demand volume, however, could in turn reduce the incentive for infrastructure providers and service providers to participate in the Kenniswijk experiment.

### **A different approach**

Bearing this in mind, the Ministry is now considering a different approach to making the proposed subsidy available to individual consumers. In summary this proposed approach would involve splitting the total sum of Euro 13 million into two, possibly equal, parts to be administered by different routes.

Part 1 – a subsidy would be paid directly to the consumer and the administration of which would be undertaken by a government agency, such as LASER. This part of the subsidy would be used to generate a large penetration of activated internet connections in Kenniswijk

Part 2 – would be administered by the undertaking(s) which win the contract to build the broadband infrastructure. This undertaking would receive a sum, of possibly Euro 6.5 million, and would then distribute the full amount to individual consumers in the Kenniswijk region in the form of a lower connection tariff per household. Part 2 will thus stimulate otherwise reluctant broadband infrastructure providers to participate in the Kenniswijk experiment.

It is important to stress:

(i) The measure envisages that only an undertaking which provides back bone, local loop and active interconnection to the consumer could be eligible to administer Part 2 of subsidy.

(ii) Furthermore the consumer must receive the full benefit of the subsidy through a reduced connection tariff. If the undertaking does not succeed in realising a sufficient

number of connections within a stated period then the remaining subsidy must be returned to the Ministry (claw-back provision).

(iii) No administration costs or other fees will be paid to the undertaking in relation to the disbursement of Part 2 of the subsidy scheme

(iv) The opportunity to apply to administer the Part 2 subsidy scheme will be open to all interested undertakings proposing to construct broadband infrastructure in the experiment region Kenniswijk. The conditions of the scheme will be published in advance.

(v) Potential applicants will be required to submit a business case in which the proposed tariffs for service levels and interconnections are made adequately transparent and the provision of the full reduction in the connection costs for the consumer is guaranteed.

(vi) The undertaking selected to administer the Part 2 subsidy scheme must agree to certain conditions, including conditions relating to the type of connection apparatus to be used, the standard of service provision and third party access on the basis of non-discriminatory tariffs.

## **Conclusion**

The Ministry is of the opinion that Part 1 and Part 2 of the proposed measure does not amount to state aid within the meaning of Article 87(1) EC. The measure is intended to benefit and encourage the consumer – that is the owner or tenant of a residential building to install active broadband connections to their homes. Part 1 will in any event be paid directly to the consumer. Part 2 will be paid to the consumer via the undertaking which is responsible for infrastructure provision. This undertaking will not itself receive a financial advantage from the administration of the scheme but must ensure that the total value of the subsidy is passed on to the consumer. If the sums are not disbursed to consumers within a prescribed period then all remaining sums must be returned. Selection of the undertaking appointed to administer Part 2 will take place in fully transparent and competitive conditions – any interested undertaking which intends to construct broadband in the Kenniswijk can apply.