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Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending Council Regulation (EC) No 2236/95/EC laying down general rules for the granting of Community financial aid in the field of trans-European networks**

(presented by the Commission)

**eEurope**  
**2005**

## EXPLANATORY MEMORANDUM

### Increase of the maximum Community contribution for eTEN telecommunications service deployment projects

#### 1. eTEN AT THE HEART OF THE eEUROPE ACTION PLAN 2005

eEurope is an essential element of the Lisbon strategy to make the European Union the most competitive and dynamic knowledge based economy in the world by 2010. The eEurope Action Plan 2005<sup>1</sup> aims to stimulate services, applications and content, covering e-government, e-health, e-learning and e-business. It also addresses the underlying broadband infrastructure and security matters. It is in **promoting the deployment of the services explicitly covered by the eEurope Action Plan 2005 that a re-oriented eTEN program will be principally active.**

The eEurope Action Plan 2005 was endorsed by the European Council in Seville in June 2002 and set the common framework for the actions supported by the relevant programmes; specifically eTEN<sup>2</sup>, IDA<sup>3</sup> and eContent. It **committed the Commission to prepare proposals to amend the acts governing these programmes** to re-orientate them to the objectives and actions of the eEurope Action Plan 2005.

The telecom council of December 2002 welcomed the intention of the Commission to **ensure that allocated Community funds contribute to achieving the objectives** of the eEurope Action Plan.

eTEN has been re-oriented to become a key implementing tool for eEurope 2005: its main focus will therefore **be the practical realisation of eEurope** general interest services objectives. This global reorientation towards eEurope 2005 and the specific need to ensure that funds contribute to meeting objectives find practical expression in **this proposal by the Commission to raise the funding ceiling for projects from 10% to 30%.**

#### 2. BACKGROUND

eTEN is one of the Trans-European Networks, enshrined in the EC Treaty<sup>4</sup> with an objective to enable the citizens of the Union, economic operators and regional and local communities to derive the full benefit of the internal market. All TEN programmes are subject to full respect of competition rules in order to avoid all market distortions susceptible of being caused by the contributions.

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<sup>1</sup> COM(2002) 263

<sup>2</sup> eTEN was formerly called TEN Telecom.

<sup>3</sup> Interchange of Data between Administrations.

<sup>4</sup> Art. 154.

In order to encourage private investments in telecommunications networks, uncertainty for investors must be reduced by measures following two approaches:

- ✓ on the supply side, by creating an investment friendly legal framework,
- ✓ and by taking **actions that stimulate demand**.

eTEN is contributing to the second approach by concentrating on the deployment of **services** that make use of an underlying infrastructure, with a focus on using broadband and secure networks:

- ✓ As early as 1999, the TEN Telecom programme had begun a process of re-orientation by placing less emphasis on the infrastructure side and concentrating more on telecommunications based services.
- ✓ The revised Annex 1 to the eTEN Programme Guidelines<sup>5</sup> (adopted in 2002) completed the process and strongly aligns eTEN with the goals of eEurope 2005, by focussing on services of public interest. It establishes eTEN as one of the main instruments in realising the ambitions of eEurope 2005 which might be summarised as accelerating the roll-out of applications and services for e-government, e-health, e-inclusion and e-learning.

### 3. FUNDING REGIME: CURRENT SHORTCOMINGS AND SOLUTION ENVISAGED

Council Regulation (EC) 2236/95 lays down general rules for the granting of Community financial aid in the field of trans-European networks. The regulation limits the total amount of Community aid to a maximum of 10% of the total investment cost<sup>6</sup>.

Unfortunately, experience shows that this funding percentage is **clearly insufficient to stimulate the deployment of services**:

- ✓ In spite of the efforts made to date the current eTEN project **portfolio is very unbalanced** in the proportion of market validation (or study) projects versus the number of market deployment projects (approx. 95% vs. 5%). It is the Commission's ambition by the end of 2004 if not to completely reverse this trend, to at least rebalance to approx. 50% validation vs. 50% implementation.
- ✓ eTEN has supported or is currently supporting validation study projects in areas crucial to the success of eEurope 2005:
  - In the area of eGovernment, projects include investigation of Europe-wide information services for regional economic indicators, best practice in new electronic services offered by municipalities to citizens and SMEs, and digital signature deployment in municipal services.

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<sup>5</sup> Decision No 1376/2002/EC of the European Parliament and the Council of 12 July 2002, OJ L 200, 30.7.2002, p. 1.

<sup>6</sup> It permits studies related to projects to be funded at 50% of the total cost of the study.

- In eHealth, examples include tele-radiology networks, trans-European use of health smartcards, and a Europe-wide service for transplant organisations.
  - In eInclusion services for home care and a comprehensive portal to provide information and transactions in the context of travel and sports events for people with special needs are being investigated.
  - In the field of eLearning and access to culture, the European Computer Driving License is supported, and several services to make access to the arts in rural areas easier by electronic services are being investigated.
- ✓ The support by eTEN has made the **study and validation** of these services possible. Unfortunately, however, due to the low level of financial support, **deployment has so far taken place only to a very limited extent.** This is essentially because projects for the deployment of trans-European services of public interest deployment are confronted with important financial obstacles. Principal among these we include:
- The need to adapt to environments of multiple languages, multiple cultures, multiple legal systems and multiple administrations,
  - The limitations of the budgets of public entities on local, regional and national level,
  - The difficulties to obtain private capital for investments in the telecommunications services, especially in smaller markets,
  - The complexity of the innovative applications and services,
  - The additional overhead necessary for the management of a trans-European consortium
- ✓ A study<sup>7</sup> carried out in 2000 in the course of the intermediate evaluation of the programme found that for at least **40% of the projects a potential for deployment exists.** However, the current maximum level of support is too low to work as a true incentive to continue to this phase.

It is therefore proposed by the Commission to raise the funding ceiling for eTEN projects from 10% to 30%.

This increase shall only apply to projects for the deployment of services and applications. It is expected that this amendment will change the focus of the projects to spending two thirds of their budget in the deployment phase. This will lead to more tangible impact generated by the programme budget, and will be fully executed within the already agreed budget. **No overall increase in funding is foreseen for the program:** there shall obviously therefore be **fewer but more focused and higher impact projects** in the future.

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<sup>7</sup> Intermediate Evaluation of the TEN-Telecom Action, Final Report, Nov. 2001.

In short a program with higher overall visibility and greater, measurable impact should result from the proposed change.

#### 4. ADDITIONAL CONSIDERATIONS

##### 4.1. Experience and consistency

Experience in the funding of comparable service deployment pilots – for example in the **5<sup>th</sup> Framework Programme’s IST “Deployment” or “Take-up” projects** shows that a funding ceiling in the 30%-40% is necessary to stimulate the participation of genuine sector actors – the key to long term success. The IST Thematic Priority of the 6<sup>th</sup> FP is focussing more on long-term research areas, and demonstration and exploitation activities exist in the 6<sup>th</sup> FP only as integral parts of larger integrated projects. The re-oriented eTEN programme becomes a natural complement to these actions, by supporting the Europeanisation of smaller, localised or very focused telecommunications based services of public interest..

This approach is **consistent** with the recent evolution of Commission program policy in general (witness “Integrated Projects” and “Strategic Objectives” in the IST Thematic Priority of the 6<sup>th</sup> Framework Program) which focuses essentially on more effective use of Community funds. It also respects the spirit of the new financial regulation where ex post program “impact” evaluation has become systematic.

Hand in hand with focus and impact, the change proposed will also promote critical mass not only in consortium composition (where it is essential to attract deployment actors) but also in the size of projects which must be such so as to offer a realistic prospect of sustainable market viability after the expiry of the funding period.

##### 4.2. eTEN and Enlargement

The integration of the accession countries into the European information society will be facilitated by the replication and proliferation of good practices engendered by the accelerated deployment and localisation of real, market-validated services and applications. Correctly focused Community aid will not only encourage entities from the new member states to start such projects, but it will also stimulate from the current member states to share their experience and good practices with the new entrants. Through this process take-up of advanced public services will be accelerated and the modernisation of administrative structures stimulated.

eTEN will play an important role in supporting this roll-out of services and applications. **The programme has to ensure that successful validation of services and applications is followed through by their deployment.**

##### 4.3. eTEN and Peripheral Regions

The European Regional Development Fund (ERDF) contributes “to the establishment and development of trans-European networks ... taking into account the need to link to the central regions of the Community regions suffering from a

structural handicap because of their insular, landlocked or peripheral status<sup>8</sup>". A re-focused eTEN programme will particularly focus on the **deployment of the services on telecommunications infrastructures** in these regions which "helps to increase the economic potential, development, structural adjustment and creation or maintenance of sustainable jobs in those regions (Objective 1)"

#### 4.4. Conclusions

Given the key role that eTEN must play if eEurope 2005 objectives are to be achieved, it is imperative that the lead that has been given in other policy areas towards more focused and results oriented programs be followed in re-orienting the eTEN program. Closely intertwined with focus and results is the need to achieve "critical mass" both in terms of attracting the proper profile of project participants (and particular the "service deployers") but also the correct size of project to ensure genuine market impact potential.

The re-orientation that has taken place in terms of actual program content must now be complimented with an impact oriented overhaul of the financing structure. This overhaul will result in:

- ✓ no change to the overall eTEN financial envelope;
- ✓ The financing of fewer, more highly visible, better focused, higher impact projects that are selected for their real market potential and supported at the level of 30% for service deployment activities.

This financing structure overhaul is justified by:

- The positioning of eTEN at the heart of eEurope service deployment activities. Experience both from within eTEN and from comparable programs shows that telecommunications services can not be successfully stimulated to deployment without financial support in the region of 30%-40%. This difficulty is only exacerbated where the services must be trans-European.
- Analysis of on-going eTEN projects shows a large, latent exploitation potential – not realisable at current financing rates.
- Successful stimulation of service deployment projects will be critically dependent on focus and critical mass considerations – both favoured by the suggested financing change.
- As the IST Thematic Priority of the 6<sup>th</sup> FP concentrates more on long-term research areas, the re-oriented eTEN is a natural complement supporting activities for the Europeanisation of smaller, localised or very focused services.
- The benefits that will accrue to both the accession process and regional development from successful eTEN funded telecommunications services deployment.

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<sup>8</sup> Regulation (EC) No 1783/1999 of the European Parliament and the Council of 12 July 1999 on the European Regional Development Fund , Article 2.

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THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the first paragraph of Article 156 thereof,

Having regard to the proposal from the Commission<sup>1</sup>,

Having regard to the opinion of the European Economic and Social Committee<sup>2</sup>,

Having regard to the opinion of the Committee of the Regions<sup>3</sup>,

Acting in accordance with the procedure laid down in Article 251 of the Treaty,

Whereas:

- (1) Regulation (EC) No 2236/95/EC<sup>4</sup> provides inter alia for the co-financing of studies related to projects of common interest for an amount which may normally not exceed 50% of the total cost, while the maximum contribution to projects in the area of telecommunications may not exceed 10% of the total investment cost.
- (2) Decision 1336/97/EC on a series of guidelines for trans-European telecommunications networks<sup>5</sup> identifies projects of common interest. Experience in implementing that Decision has shown that fewer than one project in twenty involves the deployment of a service, the remainder being deployment-related studies. As a result the direct impact of aid granted for trans-European telecommunications networks is limited.
- (3) The cost of deploying a trans-European service based on electronic data communications networks is significantly greater than the cost of a comparable service in a single Member State because of barriers of language, culture, legislation and administration.
- (4) The cost of a preparatory study for a service in the sector of telecommunications has been found to be a high proportion of the total investment required to deploy the

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<sup>1</sup> OJ C , , p. .

<sup>2</sup> OJ C , , p. .

<sup>3</sup> OJ C , , p. .

<sup>4</sup> OJ L 228 of 23.9.1995, p. 1. Regulation as last amended by Regulation No 1655/99/EC of the European Parliament and of the Council of 19 July 1999 (OJ L 197, 29.7.1999, p. 1).

<sup>5</sup> OJ L 183 of 11.7.1997, p. 12. Decision modified by Decision No 1376/2002 of the European Parliament and the Council of 12 July 2002 (OJ L 200, 30.7.2002, p. 1).

service, and in consequence the maximum contribution allowable under Regulation (EC) No 2236/95 is applied to such studies, precluding the grant of aid to the deployment of services. In consequence, grant of aid under this regulation has had little direct effect in stimulating the deployment of services.

- (5) Community aid should be granted in preference to projects which aim to stimulate the deployment of services and thus make the greatest contribution to the development of the information society. It is necessary therefore to increase the maximum contribution in proportion to the actual costs arising from the trans-European nature of a service. An increase in the Community contribution should however be applied only to services of public interest which must overcome the barriers of language, culture and legislation and administration.

HAVE ADOPTED THIS REGULATION:

*Article 1*

Regulation (EC) No 2236/95 is hereby amended as follows:

In Article 5(3) the following subparagraph is added:

"In the case of projects of common interest identified in Annex I to Decision 1336/97/EC<sup>6</sup>, the total amount of Community aid granted under this regulation may reach 30% of the total investment cost."

*Article 2*

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*

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<sup>6</sup> OJ L 183, 11.7.1997, p. 12. Decision modified by Decision No 1376/2002 of the European Parliament and the Council of 12 July 2002 (OJ L 200 of 30.7.2002, p. 1).



## FINANCIAL STATEMENT

### **1. TITLE OF OPERATION**

Trans-European Telecommunications Networks (eTEN).

Revision of the TENs financial regulation to increase the maximum level of Community aid to projects in the telecommunications sector to 30% of the total investment cost (Decision No 1336/97/EC, as amended by Decision No 1376/2002/EC).

### **2. BUDGET HEADING(S) INVOLVED**

B5-720

### **3. LEGAL BASIS**

Council Regulation (EC) No 2236/95 as amended by Regulation (EC) No 1655/1999

### **4. DESCRIPTION OF OPERATION**

#### **4.1 General objective**

The general objective of this action is to grant Community contribution to projects of common interest in the field of trans-European telecommunications networks.

The purpose of the proposed amendment to the regulation is to raise the maximum level of aid which may be granted to a project from the present limit of 10% to 30% of the total investment in the project.

#### **4.2 Period covered and arrangements for renewal**

Article 18 of the Regulation (Budgetary resources) establishes a financial framework for the period 2000 to 2006. Article 19 of the Regulation (Revision clause) requires the Commission to submit proposals for the continuation or amendment of the regulation before the end of 2006.

### **5. CLASSIFICATION OF EXPENDITURE OR REVENUE**

DNO/CD

### **6. TYPE OF EXPENDITURE OR REVENUE**

- Co-financing of studies related to projects, the Community contribution not exceeding 50% of the total cost of the study.

- Subsidy for joint financing with other sources in the public and/or private sector of projects, where the Community contribution may be up to 30% of the total investment cost under the terms of this proposal.
- Interest subsidy.
- Contribution towards fees for guarantees for loans.
- There is no provision for reimbursement of the Community contribution in the case of successful projects.

## **7. FINANCIAL IMPACT**

### **7.1 Method of calculating total cost of operation (relation between individual and total costs)**

The costs will be related directly to the feasibility or deployment phase of the projects, that are part of the action. These projects are in line with the Decision No 1336/97/EC of the European Parliament and of the Council on the guidelines for trans-European telecommunications networks (OJ L 183, 11.7.1997, p.12), as amended by Decision No 1376/2002/EC, and will focus in particular on the development of new telecommunications services and applications.

### **7.2 Itemised breakdown of cost**

This action does not result in any additional costs beyond those already foreseen in the 2000-2006 financial perspective. A breakdown of commitments and related disbursements is included in 7.4 below pour memoire.

### **7.3 Operational expenditure for studies, experts etc. included in Part B of the budget**

No additional expenditure is foreseen as a result of this action.

## 7.4 Schedule of commitment and payment appropriations

EUR million

	2003	2004	2005	2006	2007	2008 and subs. yrs	Total
Commitment appropriations	39	39	40	40			158
Payment appropriations							
2003	11,5						11,5
2004		11,5					11,5
2005	16		12				28
2006	11,5	16		12			39,5
2007		11,5	16				27,5
2008 and subs. yrs			12	28			40
Total	39	39	40	40			158

## 8. FRAUD PREVENTION MEASURES

The use of appropriations will be subject to financial control measures and efficient monitoring and evaluation:

- At the project level, the Commission technical service in charge monitors the technical progress of the project. This is done with the information provided on a regular basis by the Monitoring Report issued by the project which contains the achievements to date, the issues addressed and the course of action undertaken by the project to perform according to the contract;
- In particular, annual reviews will take place during the execution of these actions to ensure that the results achieved are in accordance with the objectives identified in the Technical Annex of the contracts. The annual review of the projects may be performed with the assistance of independent technical experts. These experts will review the results of each project and will recommend the required measures should the technical achievement not be in line with the contracts commitments;
- The Commission services of DG INFSO responsible for the action will ensure that proper monitoring and control is implemented. Control will be exercised by the Commission services responsible for the implementation of these preliminary actions, assisted by independent experts when necessary;
- In addition, internal audits or external audits may be carried out by the Commission services or the Court of Auditors in accordance with the Treaty establishing the European Community.

## **9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS**

### **9.1 Specific and quantified objectives; target population**

The action has the aim of encouraging projects which roll out services (deployment projects), in place of the feasibility study projects which have dominated the programme in its previous form as TEN-Telecom. The target population is bodies which provide telecommunications based services in the public interest in the Member States.

The short term aim is to double the proportion of deployment projects with a longer term objective of balance between feasibility studies and deployment projects.

### **9.2 Grounds for the operation**

- The trans-European telecommunications networks, although already established in some Member States, still differ considerably in their actual implementation, thus fragmenting the whole possibility of exploring the benefits of the internal market for the European industries and citizens. Major lacks are in the construction of a full interoperable end-to-end environment for telematic services and on investment conditions for the development of new telematic applications.
- In the adopted guidelines for the trans-European telecommunications networks, the purpose is to stimulate investment in the launch of new multimedia applications and generic services in the areas of public interest and to support the strategic development of global networks which will deliver such services. eTEN aims at sustaining the efforts of the private and public sectors to broaden the markets, reduce the gap between information haves and have-nots, and create the conditions of better access to and use of information.
- In this context at the European level, the actions herein contained are intended to promote the access, usage, interconnection and interoperability of the trans-European telecommunications networks and services for the accession countries of eastern and central Europe. They are intended to provide the opportunity for relevant market sectors (users, network operators, telecom manufacturers, service providers, etc.) to work together with counterparts in the Member States on specific and economically viable projects with common objectives.
- The reason for increasing the maximum level of contribution is that the current limit makes it impossible to support services where a study has shown that they are viable and in the public interest, but where it is not possible to launch them due to short term financial obstacles.

### **9.3 Monitoring and evaluation of the operation**

The implementation of the operation is regularly monitored by the Commission services in charge and by the Committee established according to Decision 1336/97, Art. 8.

Evaluation of the operation will be executed according to Decision 1336/97, Art. 14.

Before 31 January 2005, the Commission shall submit a report on the implementation of this Decision during the period July 2000 to June 2004, to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions.

The report shall contain an evaluation of the results achieved with Community support in the various project fields in relation to the overall objectives and shall contain an assessment of the social and societal impact of the introduction of the applications after they are deployed.

**10. ADMINISTRATIVE EXPENDITURE (SECTION III, PART A OF THE BUDGET)**

**10.1 Effect on the number of posts**

There is no impact on the number of posts required to implement the eTEN programme.

**10.2 Overall financial impact of additional human resources**

No additional human resources are required.

**10.3 Increase in other administrative expenditure as a result of the operation**

None.