

January 2005

## **ETNO Reflection Document on the European Commission Communication on Challenges for the European Information Society beyond 2005**

### **Executive Summary**

ETNO welcomes the opportunity to provide the European Commission with its views on the future of the Information Society policy beyond 2005. ETNO believes that despite the dynamism of the industry and the progress made towards the sectoral eEurope targets, in view of the challenges ahead, there is no room for complacency if the EU wishes to successfully achieve the ambitious goals it has set for itself in the Lisbon Strategy.

The Information Society is the key driver in the process of making Europe the most successful knowledge-based economy in the world. This is why ETNO wishes to highlight that the promotion of ICT as a key industrial sector and the development of new on-line content and services over the coming five years should be a top priority. However, as the prerequisite for the successful achievement of the Information Society there is a need to further develop the underlying networks. Without the investments needed to develop the next generation networks it will be extremely difficult to provide the whole range of innovative services identified in Commission's paper. Consequently, ETNO believes that public policy top priority should be to ensure that the investment climate, including the regulatory framework, favours the development of new networks.

ETNO is the recognised voice of the European Telecommunications network operators with over a decade of experience in shaping EU telecoms policy. The association represents 41 companies from 34 European countries. They account for an aggregate turnover of more than 210 billion Euros for Europe and employ more than one million people across Europe<sup>1</sup>. The association is widely recognised for its expertise on various topics including technical and regulatory matters, but also environmental protection, sustainability and network security.

ETNO members deliver through their own networks a comprehensive and growing range of electronic communication solutions for their customers. They combine services, both traditional, such as fixed or mobile voice, as well as innovative data. ETNO members are ambitious to provide value for

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<sup>1</sup> ETNO data

customers based on good quality customer service, creativeness and innovation. ETNO members are the only telecom companies that are heavily investing in tomorrow's technologies on a large scale and with a clear long-term commitment to society at large. Our Member companies devote a significant amount of its resources to R+D+i (Research, Development and Innovation) and are paving the way for the future.

Against this background, ETNO welcomes the publication of the European Commission's Communication on Challenges for the European Information Society beyond 2005 and is keen to provide input to the public consultation process that is due to set policy in this field for the coming years.

**Q1) According to you, what are the main technological, economical and societal developments that public authorities have to take into account while preparing the Information Society policy initiative for the next five years?**

**Technological trends:**

ETNO members envisage a profound transformation of the electronic communications sector over the next five years. Broadly speaking, in terms of technology, there will be a substantial development from the current situation where each service has its own terminals, access network, user and service management and application servers, towards a more horizontal approach that will include a broadening range of new services offered to different markets, running over common IP-based networks, complemented by flexible service platforms and service independent management systems.

Massive investments will be required to deliver the needed **network and services convergence**, to upgrade existing networks, simplify architectures, and develop next generation networks. These new networks will cater for different services and terminals, allowing for seamless linkage, single customer profile, important cost rationalisation over investment life span, reusable components, better speed to market, more customer flexibility and higher quality of service. ETNO members envisage that different networks and services will share technology, platforms and support teams, and new layers of services management will be added.

**Service trends:**

In line with the aforementioned technological trends, ETNO members envisage that the following trends in service characteristics will develop:

- Move towards IP-based, multimedia services.
- Increased mobility
- Seamless user experience across different networks.

- Electronic communications will become even more a user-driven industry that it is today: all (mass market) offerings to be user-centric with offers for each market segment
- Services and applications will be increasingly diversified
- Importance of personalisation of services, in line with increasingly enhanced user experience (control and management of services by the customer)
- Content increasingly less device specific, can be re-purposed – which will result in service continuity over various terminal types.

### **Future market trends :**

The electronic communications sector is currently undergoing major transformations. Rapidly evolving technologies, including new and more powerful customers' terminal equipment, together with changes in customers' behaviour, leads to a situation where the electronic communications sector faces various challenges: maturing markets, decrease in traditional fixed services revenues, competitive pressure on fixed voice by mobile, and the advent of new convergent technologies such as WiFi and VoIP, not to mention the Internet. These result in new market structures, competing infrastructures, new "types" of market, increased competition, new collaborative business models and an increasing number of services being offered. **What matters now are the services people want to use, not the means by which they are delivered.** A world where technological cycles are shortening and market trends and future investment returns are not possible to predict, entails more business and investment risks.

In line with these technological developments and characteristics of services, ETNO believes that the market structure will change drastically/rapidly, even more than in recent years, leading to a highly uncertain outcome. Broadly speaking, the European electronic communications market over the next few years could be characterised as follows:

- Increased numbers of players competing on existing and new markets. Competition will occur in a broader sense, not only for end consumers but also between competing models to shape future structure of the market.
- The future market structure could also evolve into more diversified sub-markets, as availability of infrastructure and infrastructure competition may vary much from the current market situation.
- Various access platforms will remain with IP giving a unified access to a "skeleton" network, with possibilities of accessing same services at any time and any location.

- Accordingly the role of the players may also change as the supply (network equipment) industry enters the operational part of the electronic communications markets via outsourcing.
- Four main industries will be involved in shaping the convergent market of the future: the consumers' electronic, the equipment and software industry, the content industry and the telecom sector.

### **Economic and social developments**

Over the coming years, Europe will have to address and take decisive actions on a number of key economic and social challenges:

- Low rates of economic growth, employment and productivity compared with other regions of the world.
- Ageing population: potential decline in Europe's "active age bracket".
- Increasing global competition for European firms .
- More demand and growing costs for the delivery of public services.

ICT, and the electronic communications sector in particular, can be a key provider of solutions to these challenges. Indeed, there is ample evidence that **massive take-up of ICT in all sectors of the economy** and society has the potential of increasing growth, employment and productivity. For this to occur, a strong and innovative electronic communications sector will be required. To maximise the potential benefits of ICT's impact on Europe's economic and social challenges, supportive policies are needed that address key related issues, such as improving ICT skills for European workers, increasing lifelong learning opportunities and enhancing employment mobility.

**Q2) Do you agree with these 8 clusters as the most relevant and comprehensive for the strategy up to 2010? Do you identify others? What would be your Top 3 priority clusters and why?**

ETNO members share to a great extent the European Commission's view on the main clusters identified. They cover a broad range of issues that will require particular attention for network operators and policy makers. Caution is needed to avoid that in these areas major barriers would appear over the next five years will impede the EU from fully exploiting ICTs and realising the Information Society goals set out in the Lisbon Agenda.

ETNO members also believe that there is a key cluster missing in the Commission's Communication, namely the need to further develop the underlying networks, a priority most recently identified by the Council in its Resolution "Looking into the future of ICT". Without the investments needed to develop the next generation networks it will be extremely difficult to provide the whole range of innovative services identified in

some of the other clusters. In order to achieve this, public authorities must ensure that this objective remains a top priority for the development of the electronic communications industry.

Consequently ETNO would like to set priorities as follows:

**Priority 1 (new) - Ensuring that the investment climate favours the development of new networks**

ETNO members believe that public authorities' top priority over the next five years should be to ensure that the appropriate climate is created for industry to heavily invest in the sector, to enable Europe to maximise the potential benefits of ICT usage. The pace of industry investment is heavily dependant on the policy framework created by EU and national policy-makers.

ETNO members are ready to invest in generalised and high-speed broadband access for all, including Next Generation Networks (NGNs). This comprises network, end-to-end services, as well as final service innovation. ETNO member companies are willing to invest but to make this happen investors need to believe they will be properly rewarded for the risks they are taking. However, instead of the proper investment incentives, operators are facing regulatory constraints and barriers. In such a environment, the level of investment may fall short of the necessary level to maintain and not upgrade existing networks resulting in the bare minimum. This is not an effective, constructive long-term strategy for Europe.

The policy focus should be to fully and rapidly implement the new regulatory framework and market reviews across the EU and, additionally create a regulatory environment (avoiding unnecessary market intervention) that favours investment and innovation attracted by market-driven returns and that will ensure that the new technologies and services create value. Specific aspects of the existing Regulatory Framework may need to be reviewed in light of the evolution towards NGN's such as remedies.

ETNO members are faced with serious choices to be made and **planning of timing of migration is important**, and strongly believe that it is vital for public authorities to fully assess the implications of their decisions on operators incentives and rhythm of investment. The outcome of this should be the prioritisation by public authorities on policies that mitigate the regulatory risks and uncertainty associated with this migration.

## **Priority 2: ICT as a key industrial sector**

The potential role of ICT in general and the telecom sector in particular, in enhancing Europe's competitiveness, growth, productivity and sustainability are widely recognised amongst policy makers and stakeholders. At the same time, lagging investments in ICT in Europe are cited as one of the main reason for the increasing productivity gap between Europe and other regions, and even between the old and new Member States (a problem still to be addressed in the following years within the EU). The telecom sector is an essential part of the ICT which is central to higher productivity through its ability to generate "spill-over effects in other sectors".

Public authorities should also concentrate on ensuring a maximisation of the spill over benefits derived from networking effects by promoting the take-up of the most performing ICT and broadband communication tools by businesses and especially SMEs. These policies will acquire greater importance and significance over the coming years as European firms become increasingly faced and exposed to growing global economic competition.

Consequently, ETNO's view is that this cluster is closely related to clusters on "Exploitation on ICT business" and "Skills and work" and that all of them should be considered as a single very relevant package.

## **Priority 3: Content and services**

As the report from PriceWaterhouseCoopers on "Rethinking the European ICT Agenda" stated, the vision of "any content, any time, anywhere, any platform" has to be realized in the coming five years.

It is well acknowledged that making digital content available on digital networks has the potential to bring benefits to all stakeholders. The broadband value chain will fully exploit this potential only if all players are jointly able to provide value for customers by means of high-quality content and services. The characteristics of the market will be shaped by technological developments, convergence, and availability of added-value services to the consumer.

Greater availability of appealing legitimate content and broadband development are inter-related towards the creation of new advanced services. All stakeholders across the new value chain want these new services multiply and reach consumers through different platforms (PC, mobile, digital TV and radio, etc.).

ETNO would like to stress that the availability of quality on-line content is vital for the flourishing of new content-based services. Regulatory uncertainty may very well deter the necessary investments both by the telecom and content industry.

**Q 3) In each of your top 3 priority areas, what are the priority actions to be launched by national policy agendas or by EU level initiatives (regulation, legislation, pilot projects, raising awareness, exchange of best practices)?**

**Priority 1 (new) – Ensuring that the Regulatory framework favours the development of new networks**

ETNO believes that the best way public authorities can enable an investment climate that favours the development of new networks and services is by primarily re-focusing EU electronic communications regulatory policy. This is of crucial importance for the following reasons:

- Ex-ante regulation is not fully adapted to NGN environments, which are better handled by ex-post competition law. Indeed, as infrastructure-based competition develops, regulatory policy should no longer focus on access but address concerns regarding regulatory barriers in closely related sectors such as the content and media industries.
- Current regulatory policy reduces the electronic communications industry's room for manoeuvre (on cross financing or integration) while the computer and content industries competing with it are not constrained by similar ex-ante and legacy regulation.

There is a clear need for regulation to evolve from its primary aim of introducing competition in the telecommunications sector, an undeniable success that has been achieved during the process of liberalisation, to the creation of an open competition framework for the electronic communications sector of the future.

As key players in building the Information Society, ETNO members consider that the European Commission and regulatory authorities must pursue a market-driven, investment-friendly regulatory approach, together with a demand-stimulation policy. This will be the driving force for innovation and achieving eEurope's objectives.

Amongst the key urgent measures to be taken it is worth stressing they should:

- Ensure that large investments needed for new infrastructures, new innovative services and for upgrading existing networks to NGN are not hindered by ex-ante regulation.

- Ensure that the EU position on emerging markets is profoundly revised since it risks rendering the concept meaningless.
- Ensure that access and price regulation is focused only on non replicable assets (copper local loop).
- Apply a holistic understanding of services market regulation by ensuring that the regulatory approach is aligned with commercial realities and not based on artificially compartmentalised relevant market realities.

### **Priority 2: ICT as a key industrial sector**

In order to maximise the benefits of ICT in terms of growth, employment and productivity investments are needed to reorganise the industries in this sector and ensure that the adoption of leading-edge business tools and increasing degrees of ICT integration into business processes becomes a reality:

- Shift eBusiness policy goals from connectivity to widespread use of ICT solutions.
- Stimulate eBusiness to incorporate ICT applications into their normal business processes.
- Encourage SME development and cooperation through alliance mechanisms: this can be a multi-sectoral approach that recognizes the need for a strong SME sector.
- Create innovative mechanisms to provide SMEs with access to finance for ICT take-up and implementation.

### **Priority 3: Content and services**

ETNO strongly believes that in the converged environment it is key to create a level playing field for the provision of new and innovative services. Public authorities and policy makers should ensure that all players can provide innovative IP-based services, including VoIP, as well as bundled services according to market demand and that this is not hindered by undue regulatory obligations.

Moreover, ETNO calls on the European Commission to encourage the development of a favourable environment for content delivery over all platforms, including new media. Policy makers should ensure that premium content rights are competitively available under fair conditions to market players, and that these are not unreasonably limited (e.g. too long exclusivity, holdback clauses, etc.).

Likewise, the Commission should clarify the regulatory status of new content-based broadband services. In the area of on-line multi-media markets, harmonisation should preferably be achieved through horizontal legislation (i.e. e-commerce, services directive, competition law) than

through narrowly focused regulation. Content regulation should not be extended to new media.

The potential development of a new content industry will only be achieved if an enabling framework is in place and the remaining barriers are overcome to create the virtuous circle between both content and infrastructures.

Furthermore, the European Commission should continue to monitor and actively support the new emerging market for the distribution of digital content, in order to ensure that a level playing field is established between the different convergent platforms and stakeholders in the availability and distribution of content. In this context, protection of IPR, the development of open and interoperable DRM systems and the reform of the EU system of national Collecting Societies are key issues.

Protection of proprietary content is a central issue in the broadband services environment. Effective and interoperable digital rights management systems, public awareness campaigns and copyright enforcement have to be developed further as useful tools to favour on-line availability of content.

**Q 4) Please indicate if you agree to your contribution being published on our website?**

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