



## **ETNO-Mlex Regulatory Summit – 25 April 2013**

### **Mr. Luigi Gambardella, Chair of the ETNO Executive Board**

#### **The Single European Telecom Market – A Plan for Growth**

*Distinguished guests,*

- Let me start by welcoming all of you. It is a pleasure to see so many top experts in the telecoms field, coming from both the public and the private sector. I thank you all for your participation. I am sure that your presence will contribute to a lively and insightful discussion.
- We urgently need a fresh and well-informed public debate about EU telecommunications regulation. Our sector is in fact at a **critical crossroads**:
  - consumers are eager to enjoy the benefits of existing and future communication technologies, with growing demand for a better user experience;
  - the Digital Agenda targets require more investments in fast and ultra-fast broadband networks, and in new and innovative digital services;
  - technology and network usage are evolving at the speed of light. In its recently released report “Trends in Telecommunication Reform 2013”, the ITU shows that IP traffic has skyrocketed from the mod-



est 1 petabyte two decades ago, to an estimated 44.000 petabytes in 2012. And, in 2013, IP traffic is expected to grow by some 14.000 petabytes per month; **1 Petabytes equals 1 million gigabytes**

- Finally, the EU is about to take decisions which will have a long-lasting impact on the fundamental health of and prospects for our sector.
- ETNO is of course ready to play its part. We are deeply committed to **our main mission**: providing European citizens with innovative, ubiquitous and reliable telecommunications infrastructure and services – reflecting the highest standards and best practices worldwide.
- To face these challenges, and to exploit new opportunities, we all need to reflect on how to create a **stable and forward-looking regulatory framework**. A framework that encourages companies to grow and invest, that fosters innovation and that creates the right conditions for satisfying consumer demand.
- Today, I want to focus in particular on the need to create a **real Single European Telecommunications Market**. **ETNO firmly believes that this**



**can have an enormous impact, with positive effects for the growth of the European economy as a whole.**

In this regard, I am glad to anticipate that ETNO is working on a set of proposals to contribute to the current debate. We have commissioned The Boston Consulting Group to develop an independent perspective on the program and roadmap necessary to make telecommunications the driver of European growth and welfare. Based on this and other work, ETNO is going to develop concrete proposals for a comprehensive plan for action.

### **The unsustainable state of the EU telecoms sector**

- Why is a European Single Market for telecoms needed? The answer can be found in some recent figures.
- Over the past years, we have been confronted with an extremely difficult market situation and over-intrusive regulatory conditions, which have resulted in a **prolonged decline in revenues:**



- With a total of **274.7 billion euro** in 2011, the overall EU telecoms sector turnover declined for the third year in a row. Between 2007 and 2011, revenues shrunk by **8%**. As a consequence, **Europe's share of the global telecoms market fell from 31% to 25%**.
- Moreover, estimates for 2012 have indicated a revenue drop of **3%**.
- **Europe's telecoms market is the only market in the world to register a revenue loss.** Between 2006 and 2011, the turnover of Asian and North American sectors has been increasing, respectively, by **72%** and **56%**.
- A recent report by AT Kearney argues that, if the current trend persists, the European telecoms industry's overall turnover could shrink by **up to 50 billion euro by 2020!**
  
- This situation is not only a matter of bad conjuncture. As the demand for electronic communications is growing all over the world, these figures show that **structural rather than cyclical changes are definitely shaping the sector.**



- Nevertheless, despite the current situation of economic crisis, **our members continue investing huge resources** to deploy networks. In 2011, investments in wireline networks in Europe amounted to **24.8 billion euro**, increasing by **4.9%** compared to 2010 (with ETNO members still accounting for **67%** of this expenditure). Investments in mobile networks represented **45.5%** of the total CAPEX in Europe, or **20.7 billion euro**, a **5.6%** increase compared to 2010. ETNO members accounted for nearly **63%** of this expenditure.

### **The need for scale – A Single Market for telecommunications**

- The fall in revenues is accompanied by a **substantial loss of value** of EU telecom companies. According to AD Little, between 2006 and 2012 the overall **market capitalization in Europe has decreased by 28%**. **By contrast, it has substantially increased in both Asia and North America, respectively by 18% and 7%**.



- These figures speak for themselves. We need to find solutions to bring investors back. We urgently need to strengthen the growth perspective of our sector.
- For this reason, **the market structure of the European telecoms sector must now change radically, overcoming the existing level of fragmentation** within national borders. However this cannot be achieved without a parallel evolution of the current regulatory approach.
- The new approach should **reconsider the way in which we have looked at competition so far**. In the telecoms sector, the focus has been on preserving existing market structures and improving competition within the internal market. . This was a good strategy that proved successful when national market competition was first introduced, and while the sector was still growing; but when a sector is faced with falling revenues and a lack of long-term sustainability, **such an industrial strategy can no longer be considered reasonable, credible or effective**.
- In reality, competition has shifted from the national level, and indeed from European level, to the global arena. In a digitally interconnected world the



most relevant geographic marketplace has become planetary in nature, and it is this overarching fact which both European competition policy and European industrial policy must now boldly address. If our industries are to compete successfully with the world's most gigantic players from North America and East Asia, **we need to be allowed to achieve greater scale through consolidation.**

- In support of my point, let me present you with some relevant figures:
  - **The telecoms sector in Europe is heavily fragmented**, which restricts the ability to rationalize cost structures and lead on innovation. In the EU there are over **1200 fixed telecom operators**, over **100 MNOs**, over **200 MVNOs** and over **1500 cable operators**. At the same time, in the **US** there are only **6 major operators**, and only **3 in China**.
  - The top 4 US telcos account for **86% of the US market**, which has around 330 million subscribers. In Europe, the first 4 operators account for **only 55% of the EU market**, which has 645 million subscribers.



- The average number of mobile subscribers per operator is substantially different between the two sides of the Atlantic. Each **US** operator can count on **21 million subscribers**, while in the **EU** the average amounts to **6 million**. US companies are therefore in a much better position to benefit from economies of scale.
- Moreover, mobile revenues per user are much higher in the US than in the EU. According to 2012 estimates, EU operators earn approximately **230 euro per subscriber**, while US companies earn around **400 euro**.
- The high level of market fragmentation in Europe has benefitted consumers in the short-run, in terms of high mobile penetration and lower prices for voice and data services. However, this has come **at the expense of the long-term sustainability of the sector**, translating into less potential for investment, less innovation, and slower deployment and upgrading of networks.
- **We therefore support a more dynamic and up-to-date approach to competition:**





- An approach that understands that end users will benefit from more investment and quality;
  - An approach that is capable of adapting to market and technological trends;
  - and, last but not least, an approach that allows the EU to have stronger telecoms champions, able to compete at the global level.
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- For all these reasons, **we strongly support the efforts of the European Commission to present concrete measures for the creation of a genuine Digital Single Market**, in line with the indications of the last European Council.
  - We believe that this work should be done **as early as possible, possibly well before next October**, when Member States will gather in the European Council to discuss the prospects of the Digital Agenda. **The situation demands that we act fast.**
  - In this regard, **we very much praise the leadership demonstrated by Vice-President Kroes** and we are eager to fully collaborate with her.



- Completion of the digital single market is crucial for the EU economy. According to the European Policy Centre, the failure to complete it would cost Europe at least **4% of GDP by 2020**.
- Moreover, the beneficial effects would also be felt outside the ICT sector, with positive spillovers in terms of productivity gains, innovation and efficiency.

*Ladies and gentlemen,*

- Let me conclude by looking at the bigger picture. Europe's top priority is to return to a path of sustained growth and job-creation. The only way forward is to foster the competitiveness of our economy vis-à-vis the rest of the world.
- In this respect, **the telecommunications sector can play a key role on three levels:**
  - **Firstly**, because it accounts for almost **3% of EU GDP**;
  - **Secondly**, because a 10% increase in broadband penetration could yield up to **1.5% increase in annual GDP** and raise **labour productivity by 1.5%** over the next five years;



- **Thirdly**, consumers benefit not just in the short, but also in the long-term from the increased network coverage, speed and pan-European innovation. Already now the Internet has a value of 2,500 to 3,000 Euro per user in Europe (BCG's Connected World study). Telco could give so many more people access to this great value and enhance the value of the existing users. To fully exploit this growth potential, the policy and regulatory framework **should not be a part of the problem, but a part of the solution**. This is in line with Vice-President's Kroes policy indications of the **12<sup>th</sup> of July**.
- On that day, the Commissioner affirmed that, and I quote, “Regulatory policy should clearly be an enabler, not an obstacle. **Regulation that is stable over time and consistent throughout Europe can underpin sustainable competition and efficient investment**”.

We strongly believe that this is the approach to be followed. This principle should guide all regulatory attempts, both in the short and in the long run.



- Thank you very much for your attention. I wish you all a very insightful and productive event.