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ETNO-Financial Times Summit: Opening Speech by Luigi Gambardella, ETNO Executive Board Chair

Dear Commissioner, distinguished guests,

It is a pleasure for me to welcome you today to this Summit organized by ETNO in collaboration with the Financial Times. We are honored to have so many CEOs from ETNO members. Your presence bears witness to the deep engagement of ETNO in the EU policy debate.

This summit has something special: this year ETNO celebrates its 20th anniversary: twenty years of fruitful cooperation with the EU institutions and in particular with the Commission. But today we will not look to the many past achievements in the sector. Let us use this occasion to look at the future of our industry. **How do we want our sector to be within 10 or EVEN 20 years?**

Dear Neelie, we are honored to have you with us today. It is always inspiring to get your ideas, especially in a moment where the industry is all the more in need for a common European approach to deal with the challenges that we are facing. Compared to one year ago, when the discussion was centered on the idea that the access price to telecom networks could be dramatically reduced to push investments, today we know that, as regards this issue, **the right choice has been made** by the European Commission. Moreover, the Commission has opted for more pricing flexibility for fibre wholesale products. We think that this is the **right policy to stimulate investments** in fibre networks.

Neelie, you and DG Connect can count on ETNO and its members to continue to contribute to the ambitious work that you have taken on regarding the implementation of the key principles of non-discrimination and equivalence.

We are confident that these decisions will be forward looking and based on the proportionality principle: **obligations need to be proportionate and minimize the associated costs.**



We welcome another important point recognized by the Commission: **ALL technologies** that enable greater speeds should be taken into consideration in the achievement of the Digital Agenda, in order not to distort investment incentives and competition.

To move on, today I would like to concentrate on two main areas:

1. **Some data and facts on the current situation of the sector: what is the reality?**
2. **The international challenges of the telecommunications industry: can the industry assume the risk of investing in the absence of clear rules on the sustainability of the internet model?**

First, how is the sector looking today?

Telecommunications is one of Europe's most important economic sectors. Its largest companies have invested in deploying infrastructure in every continent, allowing for seamless communications with an ease and at a price that our parents could not have dreamt of.

While we are in a situation of economic crisis, where companies are paying a lot of attention to cost control, our members continue **investing huge resources** to deploy networks.

Investments in wireline networks in Europe amounted to €24.8 billion, increasing by 4.9% **in 2011** compared to 2010 (with ETNO members still accounting for 67% of this expenditure) and regaining a level very close to pre-crisis spending.

Investments in **mobile networks** represented 45.5% of the total CAPEX in Europe **in 2011 or €20.7 billion**, a 5.6% increase compared to 2010 as network operators need more and more capacity to meet customer demand for mobile data, investing in 3G+ and first 4G networks. ETNO members accounted for nearly 63% of this expenditure.

At the same time, the telecoms sector in Europe is **heavily fragmented** – especially compared to the US or East Asian markets – which restricts the ability to rationalize cost structures and to lead on innovation.

In the EU there are over 1200 fixed telecom operators, over 100 MNOs, over 200 MVNOs and over 1500 cable operators. In contrast, in the US 6 MNOs control 99% of the market. Moreover, the EU industry is heavily impacted by regulation and has recently faced an unfavorable climate in terms of regulatory price cuts, restrictions on commercial strategy and **high costs** associated with spectrum auctions.



Not surprisingly, the EU telecoms operators' capitalization is shrinking just as Google's, or Apple's, is soaring. In September 2012, the consolidated market value of the five largest European incumbent operators is not even a third of Apple's value!

As a result, Europe's share of the global telecoms market has been declining regularly over recent years, from 31% in 2005 to just over 25% in 2011, as the gap between global growth (+3.2% in 2011) and that of Europe is broadening.

Let me now ask one key question: can the EU continue on the same road?

Or to say it in another way: should we not rethink EU policies for the sector, if we agree on the objective to strengthen the industry's capacity to invest and innovate?

To try and respond to these questions, let me anticipate some data that we have gathered in an ETNO report that will be released soon.

I don't want to overburden you with information, but reflecting on data may help us draw some conclusions on the appropriate policies for market development.

- High speed access has recently crossed **160 million subscribers**, implying that just over half of European households are connected.
- By the end of 2012, the number of mobile subscribers is expected to border on 800 million.
- In the last twenty years, incumbent operators' share of the mobile sector has fallen to 36% (in share of subscribers) and to nearly 60% in fixed telephony (in terms of revenues).
- Totalling €274.7 billion in 2011, the European telecom service market decreased for the third year in a row, by 1.5% that year, in a context of moderate economic recovery showing that **structural rather than cyclical changes** are definitely shaping the sector.

In his address on the State of the Union before the European Parliament at the beginning of September, President Barroso stressed again that ICTs and broadband networks are central pillars of the growth strategy of the EU.

WE DEFINITELY SHARE THIS VIEW; however, the evidence shows that the EU has to rethink its overall policy for the sector. In particular, we believe that not only are the new regulatory directions of the Commission required, **but also a new global framework for the sustainable development of the Internet.**

Let me now address this second area of policy intervention.



Currently, the only global regulatory framework applicable to telecoms is the ITRs Treaty, which was adopted by the ITU in 1988. Since then, the EU has revised its framework twice: in 2002 and 2009. The ITRs are **clearly outdated**. U.S. Assistant Secretary of State Lawrence Strickling observed that today, 98% of the traffic is exchanged without reference to art. 6 of the ITRs. And so there seems to be an oversight. For this reason, ETNO has made a **proposal to update** the International Telecommunication Regulations.

This **doesn't mean** that the ITRs should impose regulation.

Rather, in our view, ITRs should promote innovation by defining the basic principles in favor of a new era of the Internet.

Despite some recent criticism, **we are all the more convinced that our proposal has very good merits** and is worth reading by all interested parties around the world. The ETNO proposal is on the table now, it will be discussed in Dubai and we are confident that it will pass.

Our proposal calls for the ITRs to reflect the current reality. From a technical point of view, networks are evolving towards an 'all?IP' platform, where "Quality of Service" is becoming a central element in the provision of access and content services.

Just to illustrate how important Quality of Service can be:

- **Bing reports that a 2 second delay = a 4,3% reduction in revenue per client**
- **Google considers that a 400 millisecond delay = 0,59% less search on the web**
- **For the Aberdeen Group 1 second lost in responding to a request = - 11% visited pages, -7% ratio of visitors who convert casual content views or website visits into desired actions, - 16% client satisfaction**

Investing in faster network is to the advantage of both telecom operators– this will increase usage and the value of their networks – and content providers. To allow this win-win relationship to work, the ITRs should acknowledge that actors along the value chain should come to **agreements** on how get the most value out of networks and to provide better and more enhanced services to other players and to consumers.

The principle that contractual negotiation should be given priority is also reflected in ETNO's proposal and is at the core of the EU Framework. Who can be against this? The alternative is: **the law of the jungle!**



ITU is the ONLY global organization where these rules can be discussed and agreed. Let us not miss this unique opportunity to create regulatory predictability and legal certainty at global level.

We will have plenty of opportunity today to further discuss all these issues. What can we conclude at this stage?

The EU can do a lot **to reverse the current trends** and help citizens enjoy faster broadband connections and online services.

To quote a great politician of the last century, I could say that the only thing Europe lacks in order to re-gain a **leadership role** in the telecommunications is boldness and ambition.

As market players, we believe that the European Union should also take the following urgent steps:

- Firstly, the EU Commission must interpret the policy and regulatory framework in a **flexible and forward-looking manner**. Vice President Kroes has announced such an interpretation, but its implementation should not be delayed.
- **Secondly**, a new global perspective in order to allow the EU to compete in the digital economy and a **renewed role** for the EU in the international scenario.
- **The EU needs to be more pro-active at global level. It should push for an ambitious, forward-looking common position in the framework of the review of the ITRs. Such a position is key if we want the EU to keep playing a role in tomorrow's digital economy.**

LADIES AND GENTLEMEN, The stakes are very high, we are committed to reaching the common objectives of the 2020 growth strategy and we are ready to keep working with the European institutions to deliver a smart future for Europe. We trust that the Commission will also fully play its role.

Dear Commissioner, I leave you the floor.

Luigi Gambardella

ETNO Executive Board Chair