

## EU 2020 Vision: leveraging telecoms for economic growth

ECTA represents more than 100 of the leading challengers to dominant incumbent telecoms providers across Europe. Our members have been the leading innovators in Internet services, broadband, business communications, entertainment and mobile. We were the first – and are still the leading - investors in high speed fibre-to-the-home infrastructure in the EU. Without our members' disruptive and innovative offerings since the market was liberalised, Europe's consumers and businesses would not be benefiting from affordable Internet and broadband services.

We believe that a dynamic and competitive telecoms sector is the foundation for innovation in high speed services and the significant benefits that can be gained in the wider economy including €850bln additional growth and 1m jobs as identified in a study by MICUS/WIK for the European Commission. We therefore very much welcome the high profile you have given to the digital economy, deployment of high speed networks and your overall focus on competition and the single market.

However, greater **emphasis is needed specifically in the context of telecoms on securing competitive markets for today and constructing the high speed networks of tomorrow in a sustainable and inherently open way** to ensure that consumers and businesses benefit from innovation and affordable prices for crucial Internet and other services across the single market.

There is an urgent need to reinforce these messages now because competition is deteriorating in several major markets and even large-scale telecoms entrants which made substantial investments are facing difficulties in reaching sustainable profitability due to problems accessing bottleneck local infrastructure controlled by incumbent firms. Moreover many dominant firms are designing next generation networks in a way which forecloses competition and there is a rising trend, fuelled by the economic crisis, towards protecting national champions as incumbents upgrade existing copper networks with more modern fibre technology. .

Telecoms Ministers have already collectively highlighted the importance of competitive telecoms markets and the value of open networks in driving innovation and demand in their conclusions at the December 2009 Telecoms Council.

We encourage you to reinforce these important commitments with Heads of State through highlighting as priorities the following 5 actions – in line with the conclusion reached at the December 2009 Telecoms Council:

1. **Reinvigorate efforts to achieve competitive markets for ICT networks, products and services**
  - Commission should use new Framework powers to fully enforce sectoral competition rules and provide guidance on implementation
  - Member States should empower national regulators and ensure a level playing field for competition
2. **Encourage the efficient deployment of Next Generation fibre access Networks in a way which is sustainable, open and supports choice and diversity in services.**

- Encourage open architectures and business models for new networks supported by regulated non-discriminatory access where competition is not effective
  - Permit infrastructure sharing where appropriate whilst ensuring that competition in the market and the principle of non-discrimination are preserved
- 3. Support the development of and competition in high speed mobile and wireless services throughout Europe**
- Allocate the digital dividend by 2012 in a way which supports deployment and enhances competition in mobile and wireless networks
  - Identify a long term solution to mobile international roaming which addresses bottlenecks to pan-European mobile services at their root
- 4. Achieve broadband for all by 2013**
- Target public funding to extend the reach of open high speed fibre networks in line with the Commission guidelines on State Aid adopted in 2009
  - Facilitate deployment of complementary wireless technologies especially in regions where high speed fixed connections may not be viable in the medium term.
- 5. Enable a single market for business communications**
- Ensure that access needed for business communications is provided consistently across the EU to support Europe's industry and growth

We elaborate further on these specific recommendations in our submission below.

## **European telecoms markets: the context**

### **The importance of competitive telecoms markets for the European economy**

At this time of recovery there is an opportunity for Europe to emerge re-energised as a leader on the international stage through a knowledge-based economy. A competitive and vibrant communications sector which provides the underpinning for Europe's economy will be central to achieving this.

A study produced for the Commission by MICUS, found that growth could be boosted by €850bn and jobs by as much as 1m through better exploitation of communications. Meanwhile an Indepen report concluded that GDP could increase by 1.6 to 2% through benefits to businesses if sectoral telecoms regulation more effectively applied<sup>1</sup>..

Through competition and open networks, consumers received dial-up Internet services for the first time in the 1990s and affordable broadband services in the 2000s. Mobile markets have thrived where there has been a strong impetus from disruptive entrants and European businesses have received secure and tailored services integrating communications with IT across the EU when previously they were compelled to buy expensive bandwidth from a single supplier.

Competitive telecoms markets have also been positive for investment – inside and outside the sector. ECTA's Regulatory Scorecard, a benchmark of market openness in telecoms has consistently shown that more open markets have higher investment in the communications sector<sup>2</sup>. Countries which have adopted protectionist policies towards next generation fibre access such as Germany (corroborated in a recent Court Case brought by the Commission) and Spain (criticised in a 'serious doubts' letter by the Commission) have achieved lower roll-out rates for fibre than countries such as the Netherlands and UK where open access policies prevail.

It is crucial to ensure that in the quest for investment and job creation, there is no misguided retrenchment to national monopolies or uncompetitive oligopolies in the telecoms sector

### **Europe's competitive deficit in telecoms**

In a sector that is so affected by competition, it is troubling to see that the competitive dynamics that were unlocked with the full liberalisation of the sector in 1998 have in recent years diminished.

Commission data shows that competitive progress in broadband has been at a standstill for nearly 3 years<sup>3</sup> and has been reversing in key countries such as Spain (Telefonica market share at 57% from 51.5% in 2005) and Germany. (Deutsche Telekom gains 59% of new broadband customers in Q2 2009 – a steady increase since 2008).

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<sup>1</sup> Productivity growth and jobs: how telecoms regulation can support European business  
<http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/EuropeanAffairs/Studies/Productivity/index.htm>

<sup>2</sup> ECTA Regulatory scorecard <http://www.ectaportal.com/en/REPORTS/Regulatory-Scorecards/Regulatory-Scorecard-2008/> SPC Regulation and investment note:  
<http://www.spcnetwork.co.uk/uploads/20091007Investment2007Note.pdf>

<sup>3</sup> Communications Committee July 2009 broadband data shows “incumbent fixed operators market share stabilises around 45%”

A survey from consultants Analysys Mason of annual reports and operator data also shows that even leading telecoms competitors face difficulties reaching sustainable profitability more than 10 years after the sector was fully liberalised.

**Recommendation 1: At this time of renewal it is important for the Commission and Heads of State to recommit to take all the necessary action to secure competitive telecoms markets across the EU. Any weakness or retrenchment away from competition in this sector which underpins much of the knowledge society has knock-on effects on the wider economy and will hold Europe back from achieving recovery and growth.**

### **Comments on the Commission working document**

#### **Creating a competitive, connected and greener economy**

##### ***High-speed fibre networks***

The consultation rightly places significant emphasis on the role of high speed Internet in supporting Europe's competitiveness, but, unlike the December 2009 Telecoms Council conclusions, does not specifically highlight the importance of ensuring that high-speed networks are rolled out in an open way which supports competition in a diverse range of services. This is a serious omission for two reasons.

##### ***Infrastructure without competitive services will not deliver tangible benefits***

Evidence strongly suggests that the existence of telecoms infrastructure in the absence of competitive service provision does not deliver tangible benefits to consumers because the monopolist owner has no incentive to offer high speeds or charge affordable prices.

For example, despite widespread deployment of vDSL (fibre to the curb networks) in Germany and Belgium, there have been no step-change improvements in the services offered to consumers. Indeed in Belgium, despite operating networks which are capable of offering 50Mbit/s, incumbent Belgacom chooses only to provide a maximum of 20Mbit/s with offers that are priced 3 times higher than comparable services in more competitive France where next generation access networks have not yet been extensively deployed.

This is not a surprise, because historically, in countries which failed to ensure access to existing copper telephone networks in telecoms, broadband services were provided late and at a high price which deterred uptake.

No vision of a high-speed Europe is complete without emphasising the importance of competitive services alongside the need to appropriately reward investments made by all firms, be they dominant firms or entrant firms.

##### ***The fibre roll-out should be lasting and must be designed to support competition from the outset***

The way in which fibre infrastructure is rolled out has significant implications for future upgradeability and the potential for open access and competition going forwards.

For Europe to gain world wide leadership it is important to install architectures which will last for the next 50 years, are fully upgradeable allowing a continual expansion of

bandwidth to meet the growing demands of consumers and businesses, and are inherently suited to being opened to competition to ensure that telecoms services and all the economic benefits that rest on them are not remonopolised.

Equally when upgrading networks there is an opportunity to upgrade the systems and processes associated with them and potentially also to internally structure the business through functional separation (which can now expressly be mandated through the new EU Telecoms Framework) to ensure that there is a level playing field for competition in which dominant telecoms firms and their competitors are treated equally.

The network architecture and operational arrangements for next generation networks must be settled at the outset to secure effective results which will deliver long term benefits for European consumers and the economy. The EU 2020 vision presents a unique opportunity to secure a high level commitment Europe-wide to long term, upgradeable and open high speed networks.

**Recommendation 2: The Commission and Heads of State should commit to next generation access policies which will deliver long term open infrastructures which support competition, diversity and innovation in high speed services.**

### ***The role of high speed mobile***

The consultation mentions alongside fibre networks, the need for a massive programme of investment in wireless broadband. We agree that wireless broadband will also serve an important role in Europe's high speed future.

In some regions it may be the only form of broadband available, where it is uneconomic to install fixed lines – even with state aid - in the medium term. Elsewhere, increasingly, dominant firms are merging fixed and mobile units to offer converged fixed mobile offers in which the technologies are used in a complementary way with ultra-speeds at home used to deliver entertainment with seamless transition to mobile networks for access on the move.

However, just as for fixed fibre networks, the consultation neglects to mention the importance of ensuring competition in mobile services and in the converged fixed mobile offers that are becoming increasingly prevalent. Yet there are significant risks for a weakening of competition in mobile also.

Mobile markets have already been subject to consolidation which has seen the number of players reduced to as little as two or three in many cases. The way in which the digital dividend (spectrum released after the switch-off of analogue TV) is allocated could further restrict the number of operators in the market or discriminate amongst operators undermining their ability to compete.

The coming years will also require a fundamental rethink of how Europe handles cross-border mobile services as the EU Roaming regulation is reviewed. Rather than perpetually regulating retail roaming prices, it will be important to find a long term solution which addresses bottlenecks to competition in pan-European mobile service provision.

**Recommendation 3: The Commission and Heads of State should commit to handling spectrum allocation in a way that is non-discriminatory and promotes**

**competition. They should also collectively commit to addressing competition in cross-border mobile services to make Europe a truly borderless region.**

### ***Broadband for all***

European Telecoms Ministers have made an important commitment to achieving broadband for all by 2013 whilst preserving effective competition. How this goal will be achieved will be an important debate for the coming year, and it would be helpful for the Commission and Heads of State to set some key principles.

The challenge will be to achieve this valuable objective in a cost-effective way that minimises investment distortions and leverages rather than undermines competition.

Current universal service provisions in the telecoms sector envisage that a single operator can be tasked with providing services at a minimum speed at an affordable price and that any net cost, where an unfair burden is proven, could be met by the sector or general funding from the Government.

However extending universal service to broadband could, if costs are high and imposed on industry, place burdens on the sector that ultimately negate the benefits to consumers. The concept of relying on one operator to provide a minimum service also no longer reflects the more diverse nature of the sector in which competition in retail services rather than a single provider of last resort is the main driver of affordable high speed broadband services.

There is an important opportunity this year to define new dynamics for achieving universal broadband access relying on a combination of competitive markets, state aid and wireless technologies in regions where higher speed fixed infrastructures are not yet viable.

**Recommendation 4: The Commission and Heads of State should commit to achieving broadband for all through market mechanisms as far as possible and without burdensome sectoral taxation. This can be achieved through reinforcing competition in broadband services to boost affordability, targeted state aid to extend the reach of open fibre networks and wireless technologies in regions where higher speed fixed networks cannot be supported in the medium term.**

### **Fully exploiting the single market for the European Digital Agenda**

The consultation mentions the importance of tapping the potential of the digital economy and achieving an online single market as key goals for the European Digital Agenda. The consultation also stresses that obstacles to cross-border activity remain and that there is an urgent need to complete the single market to increase consumer choice and productivity and fully implement sectoral policies.

We strongly agree that this should be a priority for Europe's 2020 vision. However, whilst the importance of enabling seamless cross-border retail transactions for consumers has been recognised in the European Digital Agenda, there is no mention of an area which is arguably even more crucial in driving the productivity and expansion of European businesses – the need to support seamless internal communications for businesses, so that collaboration between sites – particularly sites in different countries - is easier and cheaper...

Collaborative design of new models by car manufacturers and component suppliers requires secure reliable connections. The same is true for collaboration between a retail chain and a logistics contractor so that the contractor can receive automated truck loading orders calculated on the basis of daily sales data from all the stores in the chain.. Yet at the moment, European businesses and the communications companies which supply them are faced with access conditions which differ across 27 different markets making it difficult or impossible to receive and supply seamless fixed and mobile services. This is a major barrier to increasing productivity in the single market

To meet the needs of Europe's businesses ubiquitous deployment of high speed access networks is necessary but is not enough. EU policy must also take account of the need for substantial investment in the software platforms which are needed to provide pan-EU business-grade services. In other words, it must avoid prioritising investment in physical infrastructure over investment in equally crucial virtual infrastructure.

Fair access to physical local access networks Europe-wide will always remain a critical input to enable businesses to receive the sophisticated virtual services that drive their internal communications and supply chains. Equally any relaxation of sectoral rules to promote competition will have a series of unintended consequences: new investment in virtual infrastructure will be deterred; competitive provision of business-grade services will be blocked; and benefits for the broader economy will not be realised.

**Recommendation 5: The Commission and Heads of State should commit to collective action to ensure consistent access to the network inputs needed for business services across the EU.**

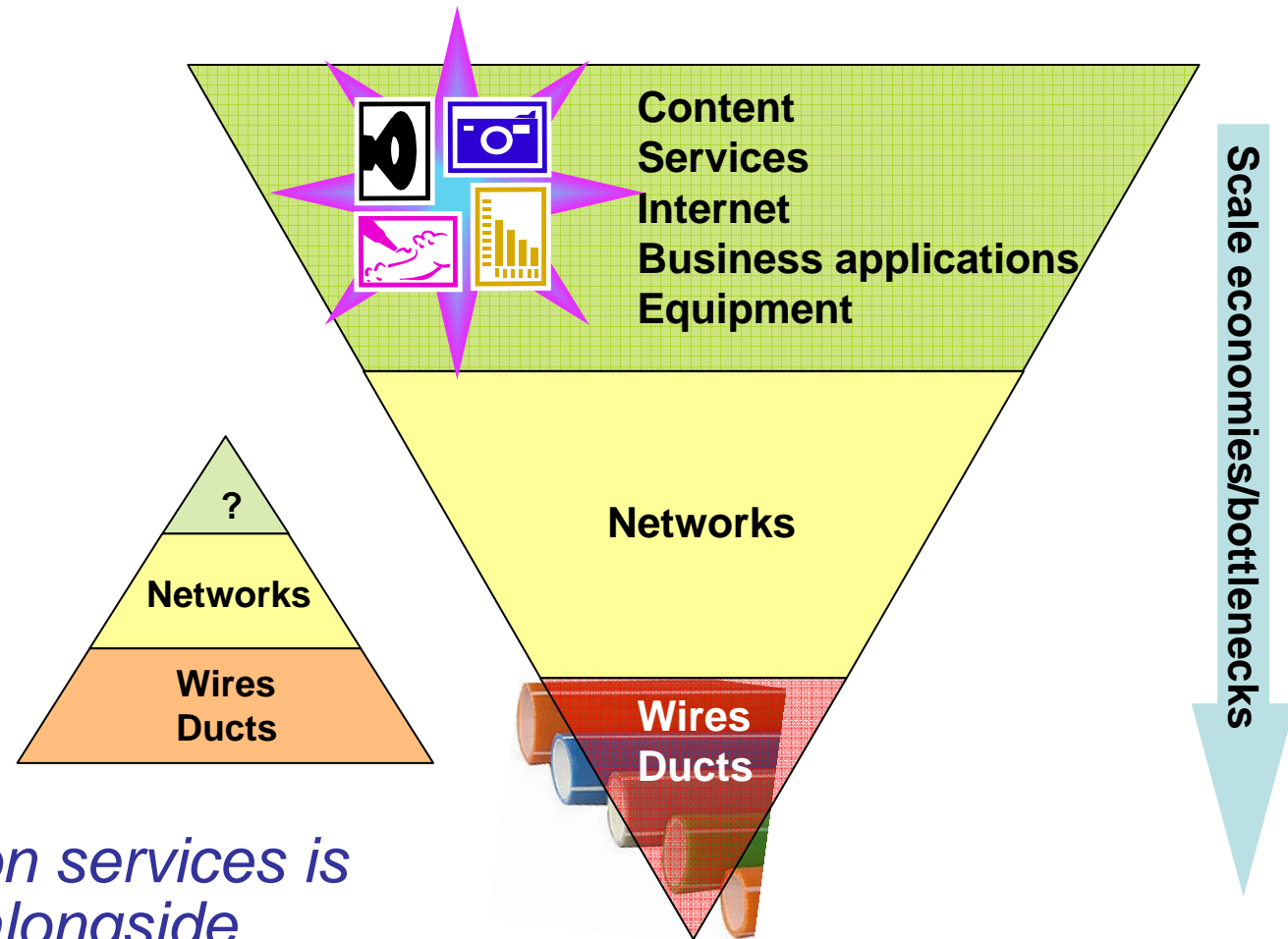
# The role of telecoms in driving growth and innovation



## Competition: the benefits

- ECTA represents more than 100 of the leading pro-competitive operators (large and small) across Europe delivering consumer broadband and entertainment, business and mobile services
- Competitors responsible for **nearly 50% of total fixed investment** (Commission Impl Report). **First to invest in fibre-to-the-home (FTTH)** – typically open access
- Competitors responsible for nearly **100% of innovation** in telecoms sector – dial-up Internet, high speed broadband, triple play (IPTV, voice and broadband), business services, value added services
- Take-up of high speed broadband (as for basic broadband) crucially dependent on choice and innovation. **Pipes without services are worthless**

# Digital economy depends on competitive communications

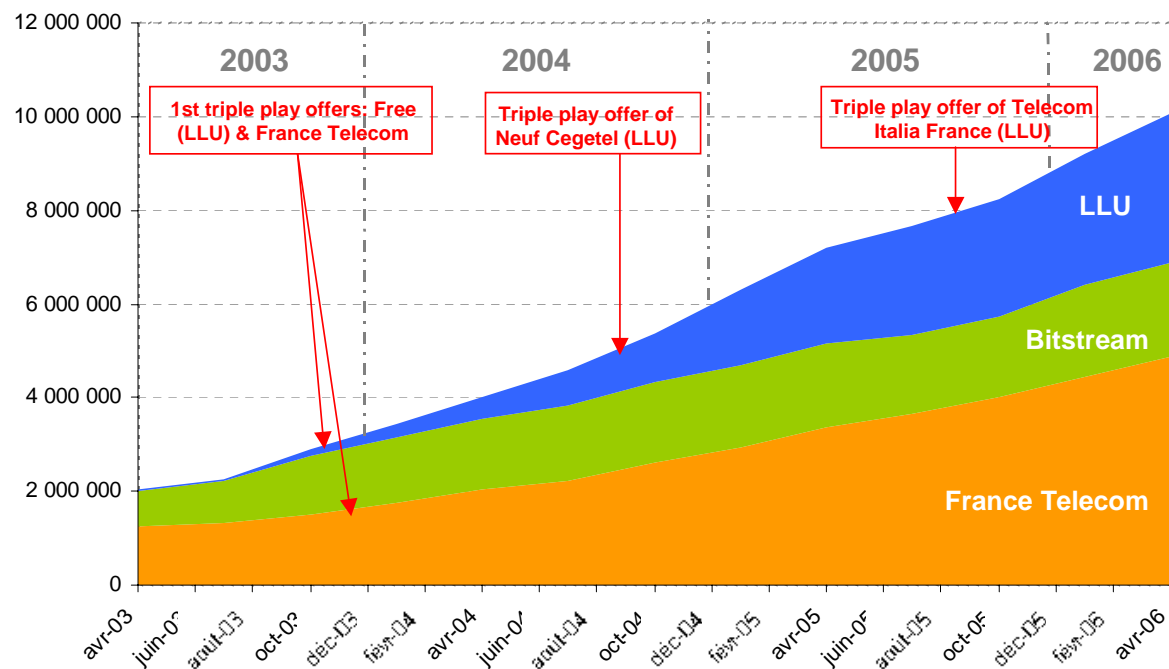


*A focus on services is needed alongside infrastructure*

# Open networks drive innovation, take-up

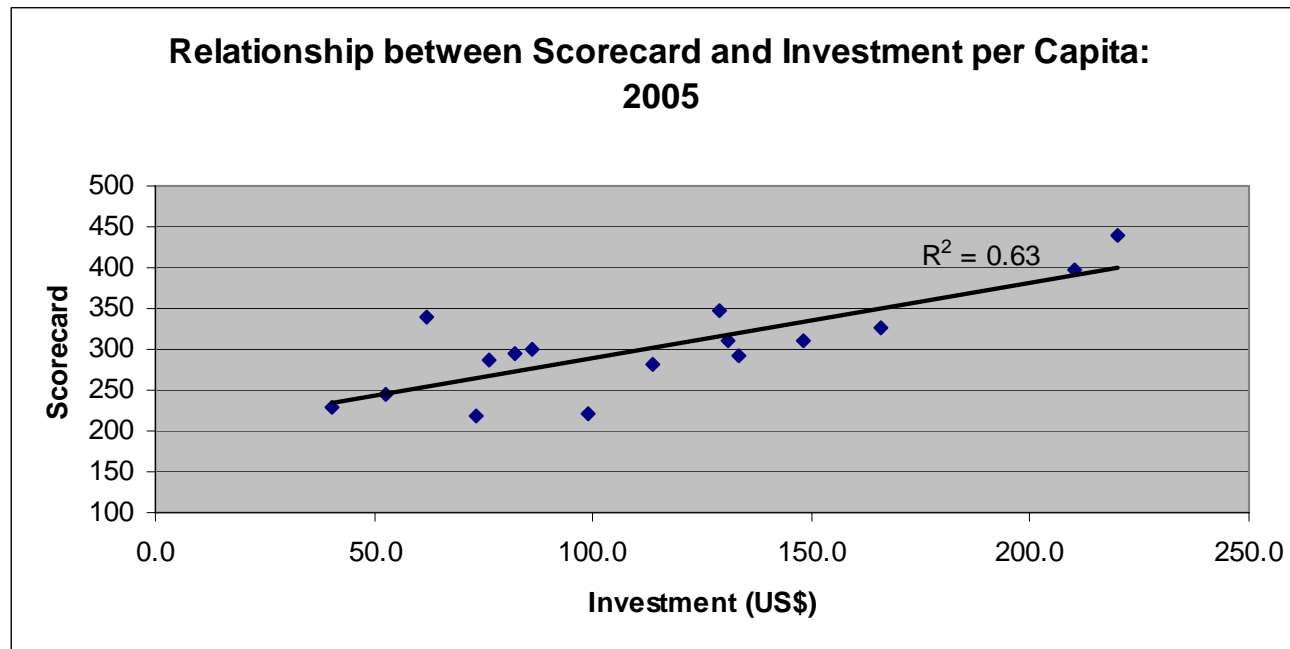
## France

### Retail DSL market



- All major leading broadband countries including Germany, France, UK and Nordics have benefited from 'unbundling' of the copper network
- Competition brought lower prices and new services (€30 triple play in France)

# Open networks support investment

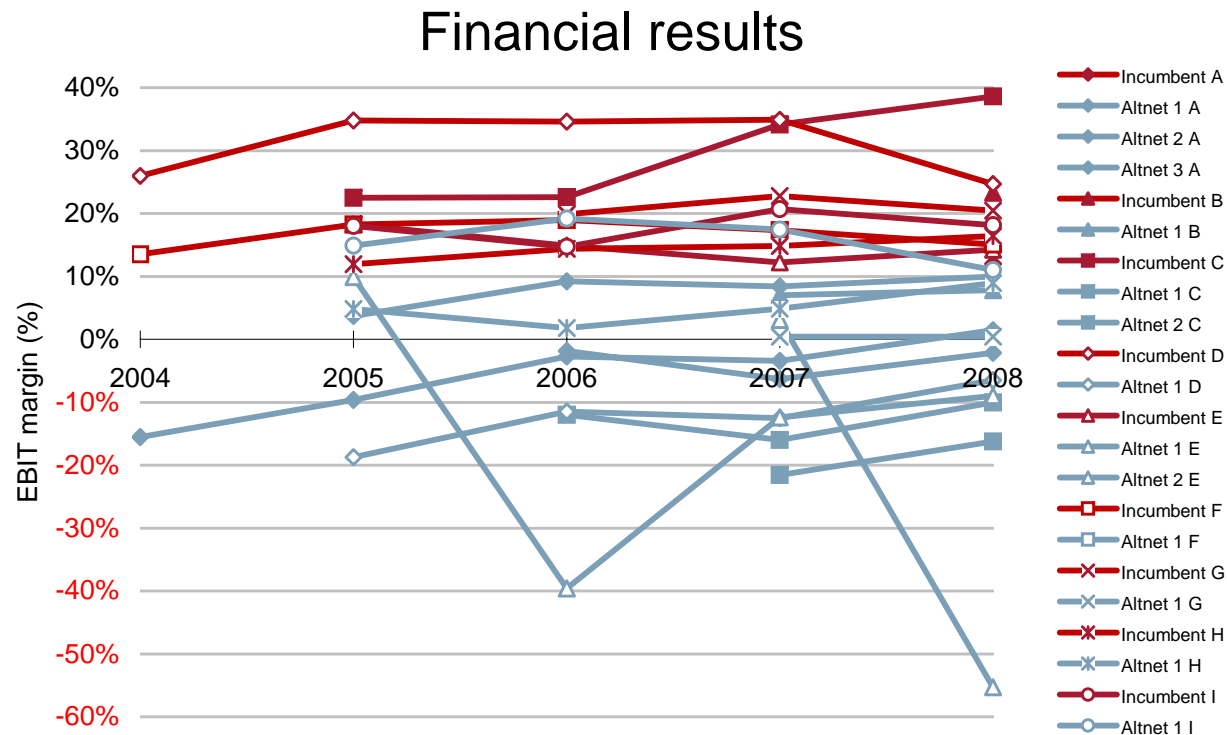


- Countries which have been more proactive in opening markets (ECTA regulatory scorecard) have consistently achieved higher overall telecoms investment
- European Commission data shows competitors made 46% of total fixed investments
- SPC Network Oct 2009 investment note finds that every 1% improvement in market openness contributes 0.6% increase in telecoms investment – concludes investors are looking for stable regime in which they will not be subject to strategic behaviour

## Open networks foster fibre deployment

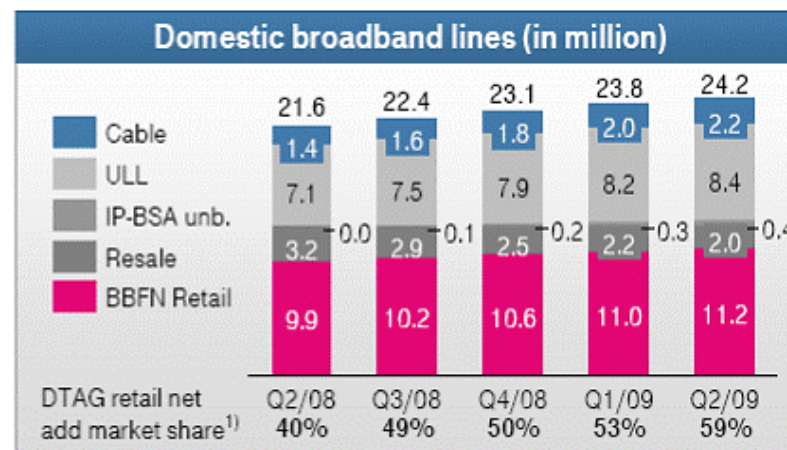
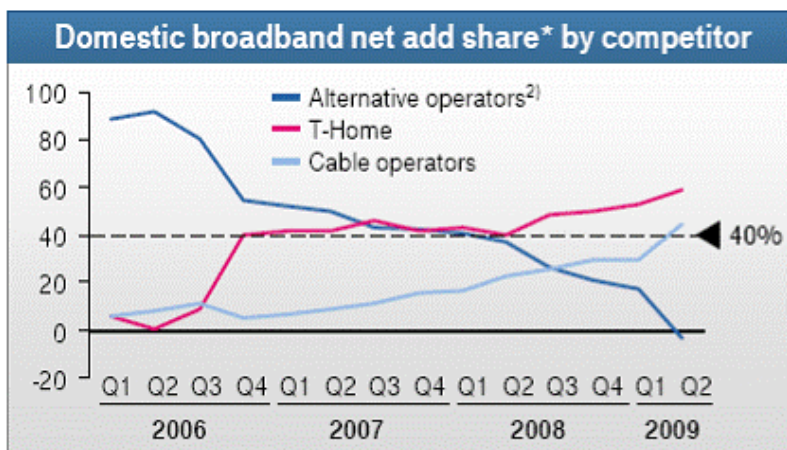
- Fibre networks are expensive and will not be duplicated extensively (Analysys for OPTA, BIPT, Comreg, OECD, WIK 'Economics of NGA' Sept 2008)
- But investing in 'open' fibre with access at a fair price which supports competition can boost take-up and improve the investment business case
  - KPN (Dutch incumbent) fibre penetration climbing steadily now at 1%. KPN CEO: *"An open network is not charity from us, in the long run it simply works best for everybody."*
  - BT announces acceleration of fibre deployment to 2.5m homes on open access basis
  - WIK 'Performance of leading telecoms carriers in Europe' August 2009 finds KPN most profitable – finds no link between regulation and poor performance.

# Competition is in trouble: financials



- Unsustainable financials: entrant profitability (including major entrants) persistently below that of dominant firms
- Incumbent fixed cashflows less than 10x those of fixed incumbents for large scale entrants

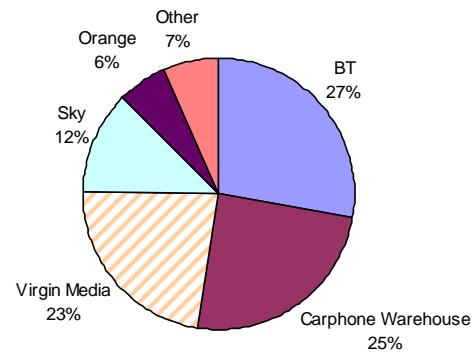
# Competition is in trouble: market shares



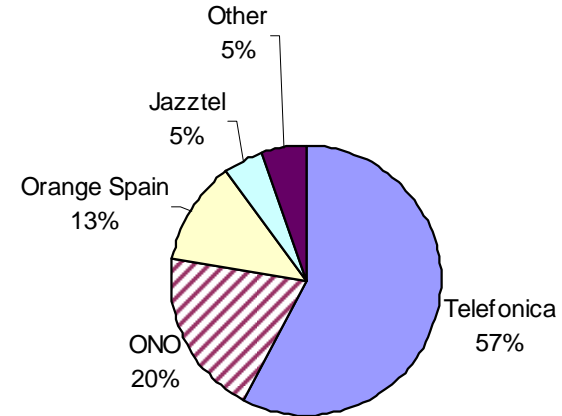
- Cocom July 2009 broadband data: “incumbent fixed operators’ market share stabilises around 45%”
- Average figures mask increases in major countries – DT acquires 59% of new customers in Q2 2009, Telefonica market share up to 57% from 51% in 2005

# Competition is in trouble: market shares

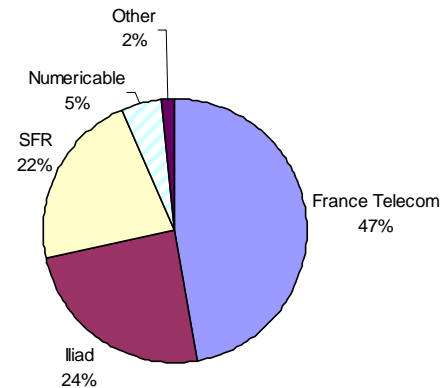
## The most competitive: UK



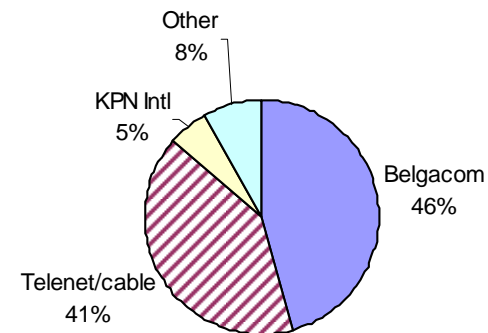
## The incumbent squeeze: Spain



## The stalemate: France



## The duopoly: Belgium



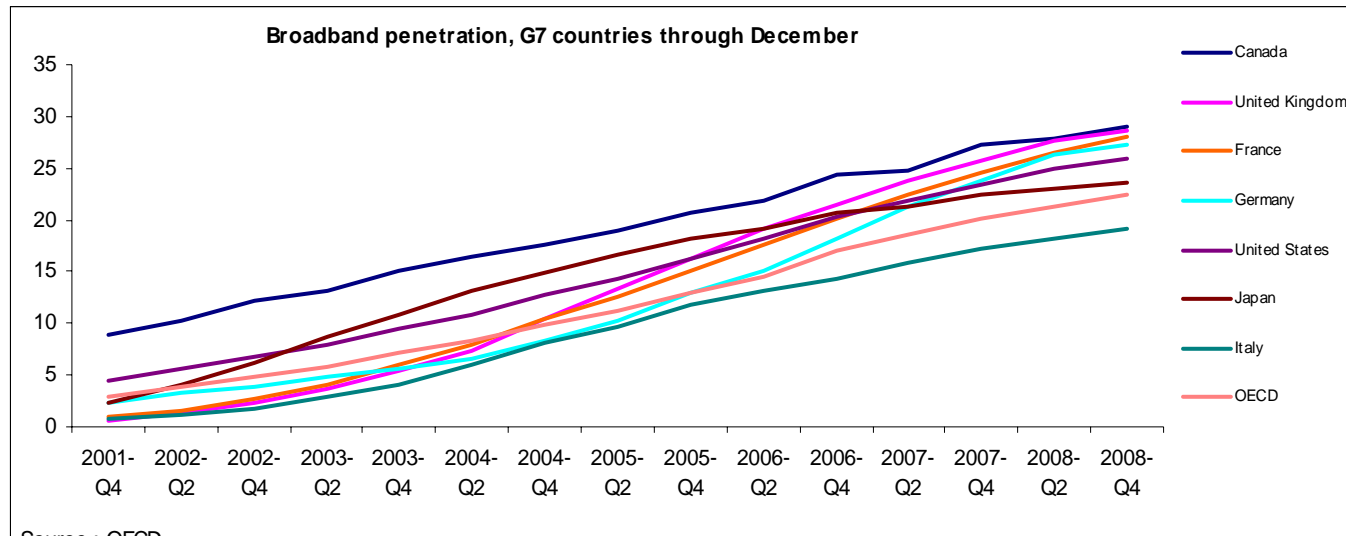
Shaded sections show duplicate infrastructure

# Next generation challenge

2001 incumbent market shares (IDATE)	Germany	France	UK
Dial-up	43%	35%	15%
Broadband (DSL)	95%	90%	95%

- Transition from dial-up to broadband in early 2000s reversed competitive positions within a short period and the same level of competitiveness was never reached again
- Abuses found in France, Spain, Germany

# Don't let Europe fall behind again



- Europe lagged US in broadband until unbundling was enforced (EU Regulation 2001)
- Europe cannot afford to lose ground now

# Uncompetitive markets: fibre in US

The screenshot shows a Windows Internet Explorer browser window displaying the Verizon Bundles website. The address bar shows the URL: <http://www22.verizon.com/Residential/bundles/fiosbundles.htm>. The page content is as follows:

Take advantage of the fastest growing 100% fiber-optic network. Go FIOS for the fastest Internet around and a mind-boggling TV experience.

**GOOD TRIPLE PLAY - Phone + FiOS Internet + FiOS TV**  
STARTING AT **\$109** 99/month w/annual agreement  
Includes:  
• Verizon Freedom Essentials  
• FiOS Internet 15/E Mbps  
• FiOS TV Essentials  
> [Learn more](#)  
**Get Started**

**BETTER TRIPLE PLAY - Phone + FiOS Internet + FiOS TV**  
STARTING AT **\$119** 99/month w/annual agreement  
Includes:  
• Verizon Freedom Essentials  
• FiOS Internet 25/15 Mbps  
• FiOS TV Extreme HD  
> [Learn more](#)  
**Get Started**

**BEST TRIPLE PLAY - Phone + FiOS Internet + FiOS TV**  
STARTING AT **\$129** 99/month w/annual agreement  
Includes:  
• Verizon Freedom Essentials  
• FiOS Internet 25/15 Mbps  
• FiOS TV Extreme HD  
• Premium channels  
> [Learn more](#)  
**Get Started**

**DOUBLE PLAY - Phone + FiOS Internet**  
STARTING AT  
Includes:  
Special Offers:

**See All Bundles**  
Bundle availability is based on your location. See all featured bundles in your area, or build your own bundle!  
**Get Started**

**Special Bundles Offer**  
OR...  
Check out our bundle offers that include a **FREE Compaq Mini netbook** (taxes, shipping and handling apply) or a **Flip Ultra™ Camcorder**.  
Special Offers:  
• Get a **FREE Compaq Mini netbook** (taxes, shipping and handling apply) or a **Flip Ultra™ Camcorder**  
• 2-year price guarantee  
• Plus, online orders get \$5 OFF per month for one year

The browser's taskbar at the bottom shows several open applications: start, Microsoft..., My Documents, Microsoft Ph..., F. L. F..., 09\_07\_03\_N..., Adobe Reader..., Verizon | Bund..., FiOS Tr..., and system tray icons for Internet, 100%, and 2:15.

# Uncompetitive markets: vDSL in Belgium

	Belgacom Internet Budget (6)	Belgacom Internet Light(1)	Belgacom Internet Go(1)	Belgacom Internet Plus(1)
Speed(2)				
downstream	1 Mbps	4 Mbps	12 Mbps	18 Mbps
upstream	128 Kbps	256 Kbps	1 Mbps	1,2 Mbps
Monthly volume included(3)	1 GB	4 GB	25 GB	60 GB
# of mailboxes x # aliases per mailbox	1 x 5	1 x 5	4 x 5	8 x 5
IP address	Dynamic (4)			
Internet access	24/24 hr (4)			
Personal Web space	50 MB Up to 500 MB of traffic/month			
Maximum # of PCs	1	1	1	4

## The Telephony + Internet + TV Packs:

	Price of the separate subscriptions*	Price of the Packs	Profit
Internet Light	€68,45/month	€49,95/month	€18,50/month
Internet Go	€78,65/month	€60,15/month	€18,50/month
Internet Plus	€93,95/month	€70,15/month	€23,80/month

**Limited Edition.** Offer limited to the first 25,000 customers, for every new 12-month-subscription to one of the Telephony + Internet + TV Packs.

\* Monthly price (including VAT) : Classic telephone line + Internet + Belgacom TV + decoder.

# 5 steps to a competitive single market in telecoms for Europe's recovery

1. Competitive telecoms markets
  - Commission to use new Framework powers to fully enforce sectoral rules
  - Member states should empower regulators, ensure a level playing field for competition
2. Sustainable investment in open fibre networks
  - Member states should encourage open architectures and business models for fibre supported by regulation where competition is not effective
  - Appropriate infrastructure sharing should be permitted but competition and the principle of non-discrimination must be preserved
3. A high speed mobile society
  - Competitive allocation of the 'digital dividend' to mobile and wireless and a long-term solution for roaming bottlenecks needed
4. Broadband for all through market mechanisms
  - Member states should target public funding to extend reach of open fibre networks
  - Complementary wireless technologies should be used where fibre is not viable in the medium term
5. A single market for businesses communications
  - Consistent access inputs needed across EU to help Europe achieve productivity goals