

# 2007 EU Telecoms Reform #1

## The need for reform



Today Europe has a strong telecoms sector thanks to the EU's current Telecoms Rules of 2002. But it has failed to reach its full potential and risks falling behind our competitors. True, 27 national markets have been progressively opened up to competition and consumers have today more choice at lower prices than 10 years ago. Yet, Europe still faces significant obstacles in telecoms. Competition bottlenecks persist, in particular on the important broadband market. Cross-border competition and pan-European services are hampered by 27 different, partly inconsistent regulatory systems. Finally, radio spectrum, the lifeblood of all wireless services, is under-utilised in the EU, despite its strong potential to enhance competition, to extend broadband coverage and to deliver better, more innovative services to the citizen. A reform of the EU Telecoms Rules is therefore imperative if Europe wants to promote growth and jobs for its citizens.

Internet access, mobile and fixed phones, and TV are communication services used every day by millions of Europeans, whether for business or for private reasons. It is difficult to imagine life without them. At the same time, an effective functioning telecoms sector is a strong driver for the whole economy. Having broadband access, for instance, has a positive impact on competitiveness, and also provides better quality of life for Europe's citizens.

Back in the 1980s, state-owned monopolies controlled all forms of telecommunications – voice and data. Getting a phone connection was not easy at all. In 1988, however, the EU began liberalising all telecoms services. The opening up of national telecoms markets to competition stimulated investment in new services and infrastructure and as a consequence consumers got a better deal all around. Consumers now have more choice. People can normally choose between several offers when they want to make a phone call, access the internet or watch TV.

Thanks to stronger competition, **prices for phone calls** decreased dramatically. Since 1996 the cost of telecommunications services has **fallen by 27% in EU-15 against an average price increase of**

Information and communication technologies (ICTs) account for a **quarter of Europe's total growth**. The EU's ICT sector has an annual turnover of €649 billion, with the telecom sector accounting for about 45% or €289 billion. The telecom sector also accounts for 4% of EU jobs.

**more than 20%**. The EU average charge of a 10-minute call has fallen during the 7 last years by 74%. EU telecoms regulation is therefore a success story.

However, Europe is not reaping the full growth potential of the telecoms sector and more work remains to be done.

There are indeed only a few transnational or **EU-wide communication services**, and telecoms companies with a **European footprint** are still very rare. Most providers are mainly active nationally, while in the US, providers offer their services coast-to-coast. Why is Europe still fragmented into 27 markets in telecoms? Air waves do not stop at national borders. The internet can be accessed wherever you are.

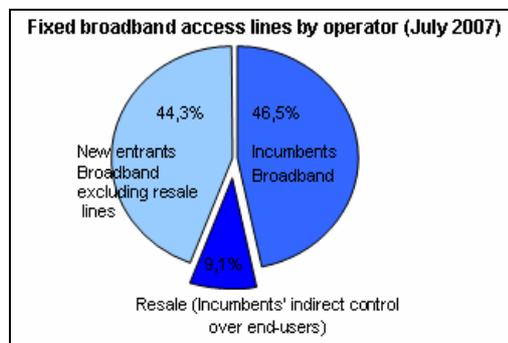
The practical conditions for operating telecoms services often differ between the 27 EU countries. For example mobile

termination rates vary considerably. These **regulatory inconsistencies** need to be addressed by the reform.

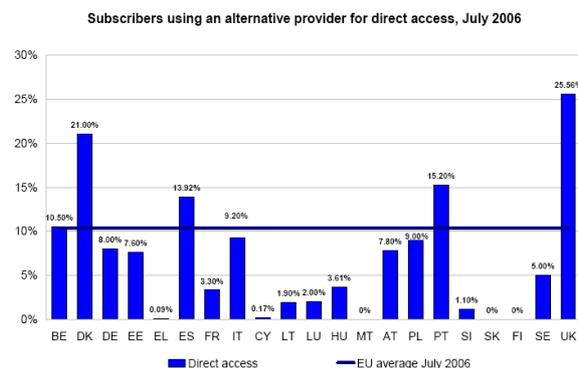
### INCUMBENTS STILL DOMINATE

The former state monopolies still hold a position of **structural dominance** linked to their networks which were initially built using mostly taxpayer's money. This stifles competition and the creation of a single EU telecommunications market.

In EU **broadband markets** the incumbents have an overall market share of **55.6%**. In many Member States the incumbent's dominance is well over 60%; in Poland (60.2%), Malta (61.3%), Italy (64.8%), Denmark (65.1%), Germany (66.7%), Finland (69.1%), Portugal (70.1%), Luxembourg (84.8%), and Cyprus (89.89%) The **lack of effective competition** in prices or in network choice leads to consumers losing out.



In the **fixed voice telephony market**, infrastructure competition is also in its infancy. In July 2006, on average only **10% of subscribers in the EU used an alternative provider for direct access** to telecommunication services.



In many cases the EU still **lacks an internal market**. In the case of mobile phone calls abroad ("roaming), the

transnational aspect left national regulators powerless. The recently adopted EU Roaming Regulation therefore had to force all EU mobile operators to lower prices by up to 60%, achieving homogeneity within the EU.

### A SINGLE TELECOM MARKET FOR 500 MILLION CONSUMERS

To shape up Europe's telecoms sector, the reform focuses on four main objectives:

- to **regulate less**, but **more effectively**, by reducing regulation where competition has already delivered results and by in turn focusing regulation on the main bottlenecks where competition problems so far cannot be tackled in a sufficiently effective way, as on the broadband market;
- to **strengthen the independence of national telecoms watchdogs** from operators and governments (often still partly the owners of telecoms incumbents) alike.
- to **preserve and enhance consumer protection** and user rights in such rapidly changing markets.
- to **enhance the security and reliability of Europe's communications networks** by stepping up the fight against spam, viruses and other cyber attacks.
- to create the right conditions so that we can **move to a single market**, by fostering pan-European markets and ensuring that EU rules are applied consistently across the EU. For this, a **European Telecom Market Authority** will be created, to support the Commission and national regulators in regulating better, more speedily and more consistently across the EU.

Through last summer's Roaming Regulation, the EU treated one of the most visible symptoms resulting from the lack of a single European telecoms market for consumers: excessive mobile phone prices when crossing a border in Europe. With the EU Telecoms Reform of 13 November, the Commission now goes to the heart of the problem: the fragmentation of Europe's telecoms market into 27 regulatory systems that is depriving European consumers of the benefits of cross-border telecoms competition. This is what we need to change.

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