

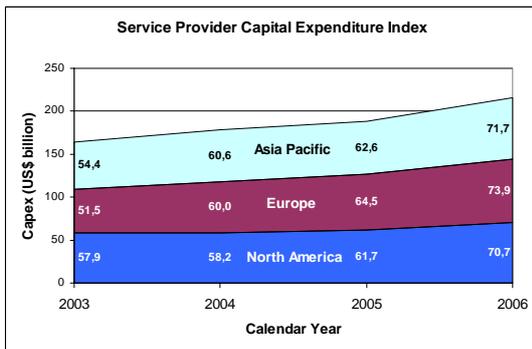
2007 EU Telecoms Reform #5

Investment: breathing new life into Europe's telecoms markets



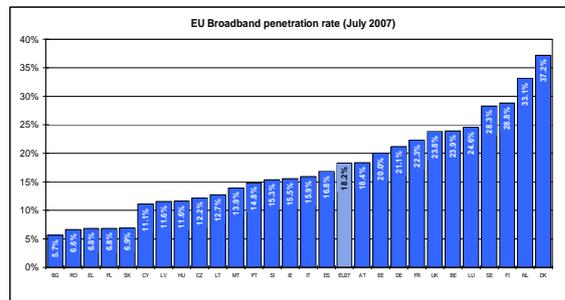
Investment in information and communications technologies (ICTs) is vital to the health of Europe's economy. It increases productivity, generates new consumer services and creates jobs. European investment particular in telecoms has been as high as, if not higher than in the US and Asia in recent years. These developments were only possible thanks to effective telecoms rules, stimulating competition and innovation. However, competition bottlenecks on key markets such as broadband persist and show that more is needed. By emphasising competition and by reforming the management of radio spectrum, the EU Telecoms Reform will boost the investment needed for business to grow in this globalised economy.

Estimates indicate that 2006 investment in the telecoms reached another high, over €47 billion – measured in capital expenditure, 5% up on 2005. This was the fourth consecutive increase since 2003.



infrastructures. Countries with greater competition consistently show better investment figures. For instance, in 2005 investment represented 27.3% of telecoms revenue in the UK and €185 per capita, compared to an EU average of €108.

Also those countries which have implemented the current EU Telecoms rules stringently – allowing for more competition - have typically the highest broadband penetration rates and broadband growth rates.



Investment in telecoms and growth

The ICT sector represents over 5% of total GDP driving about 20% of productivity growth and around 15% of overall EU growth. In 2006 44.5% of the €649 billion ICT sector revenues came from telecoms (fixed telephony, mobile telephony, fixed data services and cable).

COMPETITION DRIVES INVESTMENT

Investment in telecoms markets varies widely among the EU27 Member States. Investment and innovation are strongest where there is effective competition between

The continued dominance of one or several operators means that investment is only channelled in the networks and services of these operators, while reducing innovation and stifling investment by new players. In contrast, competition leads new entrants and incumbents alike to invest to expand and upgrade network infrastructure, to cut operational costs and provide innovative services. In 2006, both incumbents and leading mobile players invested around 13%

of their revenues in fixed assets. Due to their larger size, incumbents still continue to outspend their competitors in absolute terms, but when measured in relation to turnover, most of the new entrants are investing more than the incumbents. As their own customer and capital base grows, they invest more and more in their own infrastructure, reducing their reliance on the incumbent's infrastructure and progressively climb up the "ladder of investment" that in the end will allow many of them to invest in their own infrastructures.

INVESTMENT IN FUTURE NETWORKS ON THE RISE

With increased competition and the challenge of increasing revenue and maintaining profitability, both incumbents and new entrants are investing significantly in Next Generation Networks. These will allow them to deliver new and innovative products more efficiently and cheaply, reflecting the convergence between media and telecom, such as high definition television.

For example, British Telecom started to implement its almost €15 billion investment project in November 2006 to replace its existing telephone network in the UK with one functioning entirely on internet-based technology. Estimates say they will save around €1.4 billion a year by 2008/2009. But not only incumbents invest in next generation fibre optics. New market entrants in Germany, France and Italy, are also busily building high-speed networks.

ENHANCING THE COMPETITIVE FRAMEWORK

To stimulate further investment, more competition is needed. To reach that goal, the right balance between short term gain and sustainable investment, growth and consumer benefits in the long run is needed. The overall objective of the current reform is to ensure that the EU's regulatory environment facilitates that process.

Without sufficient investment in future high-speed networks, Europe risks being outperformed by other major economies (such as Japan, Korea and the US), which would undermine its competitiveness.

Unfortunately there is still not enough infrastructure-based competition, as incumbents have on average, nearly 56% of the EU market. This means that regulation continues to play a crucial role in maintaining competition and protecting consumers, by setting conditions for access to the incumbent's infrastructure.

The reform will add an extra tool in the regulators' toolbox to overcome the most persistent bottlenecks. The new remedy of functional separation will allow regulators to intervene particularly where non-discrimination behaviour cannot be ensured by other remedies. While Sweden, Italy and Poland are currently moving towards functional separation of their dominant operators. The United Kingdom has already introduced functional separation. When it began in September 2005, only 105,000 unbundled access lines existed. Since functional separation has been introduced, it has grown to 3 millions. The European Regulators Group, bringing together the Member States' regulatory authorities, has recently indicated its support for this proposal.

Functional separation has a positive effect on the market value of telecoms operators. For instance since functional separation was introduced in September 2005, BT's share price has increased as can be seen below.



Share price comparison British/Deutsche Telecom

For further information:

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