



“A modern, market-oriented regulatory framework for the digital economy is absolutely indispensable if we are to realise sustainable growth and jobs”.

Viviane Reding Commissioner for
Information Society and Media



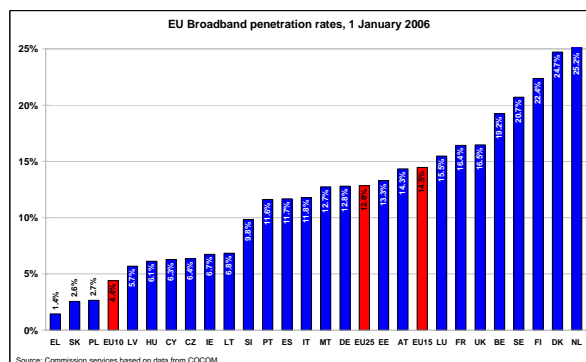
2005-2006: A period of rapid market developments

Watching TV or surfing the internet on your mobile phone, downloading the latest episode of your favourite TV soap to the desktop of your PC – technological convergence is a fast evolving reality. European policies are leading to concrete results: Traditionally separate Information and Communication Technology markets – such as telephony, television and internet – are converging, too. Today a single networked infrastructure can deliver the full range of multi-media content to both fixed and mobile devices. Markets are changing fast:

- **Telecom and cable operators are moving into each other’s markets** offering ‘triple-play’ services (data, voice and video) – sometimes even extended to mobile services. Such trends lead to new partnerships between network operators, Internet service providers and content distributors.
- The **device market has seen a sharp rise in sales of consumer electronics products that bridge the gaps between IT equipment on the one hand and consumer electronics on the other**. MP3-player sales almost tripled in the past year with over 25 million units sold in 2005 in Western Europe alone.¹ Sales of game consoles, now increasingly driven by online multi-user games, increased from 11.8 million units in 2004 to 16.3 million units in 2005.
- **There is evidence of both product convergence and the convergence of industries**: IT companies and mobile phone producers both sell portable music devices and digital cameras on a large scale. Radio broadcasts received via WiFi Internet, media centre PCs, home cinema and hi-fi systems in

the living room can all now be connected to Internet. Mobile phones are using Voice over IP (VoIP) and are becoming integrated with home networks and wireless Internet hotspots.

- **The online content market is estimated to be worth €1.4bn – an amount expected to double by 2009²**. The largest segments of the market are games (26% of the total), music (19%) and publishing (19%). Newly emerging markets for online film would give a further massive boost to growth in such services.



Convergence is increasing competition and leading to rapid growth of the broadband market:³

- **Broadband now reaches 12.8% of the EU25 population (almost 59 million lines)**, a 21% increase since 1 July 2005 (see chart above). In some Member States, more than half of fixed Internet access connections in households are broadband.
- **In October 2005, Europe overtook the USA in terms of the number of broadband lines**. Broadband penetration rates in Europe are still

¹ EITO 2006; data for Western Europe including Austria, Belgium, France, Germany, Italy, Netherlands, Spain, Switzerland and UK.

² EITO 2006.

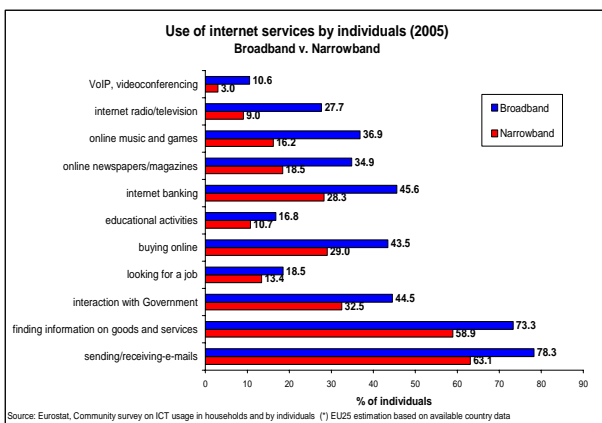
³ Market data are for January 2006, supplied by the Communications Committee (COCOM) supplemented by 3rd country data supplied by the Broadband Subscriber Database.

behind the world's leader (Korea) but take-up is growing fast and the gap is narrowing.

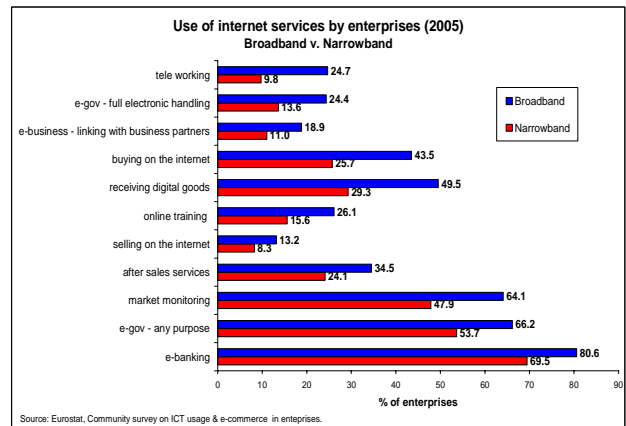
- Broadband growth is driven by increasing competition, with **new entrants gaining just over 50% of the broadband market in the EU25**. Competition is driven by both facility-based competition and effective regulation.
- There has been a significant change in the way that new network operators can reach their customers. Local loop unbundling (LLU) legislation now allows such operators to share the local networks of the incumbents. By the end of 2005, 42.5% of new entrants' high-speed Internet access lines were supported in this way. This is an increase from 37.6% in 2004.

The availability of broadband connections has had an impact on the intensity of Internet use and on the kind of services accessed both by individuals and businesses:

- **Persons who have broadband Internet access at home are more likely to be regular Internet users:** 81% of residents in household with broadband use the Internet at least once per week compared to 63% of narrowband household residents.
- PCs with a broadband Internet access tend to be left permanently on-line ("**Always on**"). The flat rate charges offered by many broadband Internet providers encourages extended periods of browsing and listening to on-line "radio" channels



- **Having a broadband connection increases the tendency to take up Internet services.** The effect is correlated with the bandwidth required. For example, email does not require bandwidth and is used by most regular users, with only a slight difference between broadband and narrowband households. However, people in households having broadband are nearly four times more likely to use more advanced services such as VoIP and video conferencing:



For enterprises, there is a similar pattern:

For a simple operation, such as finding information on goods and services, having a broadband connection is not a decisive factor. But for more complex applications, such as teleworking, enterprises having broadband are almost 3 times more likely to implement them compared to those with only narrowband (from 24.7% to 9.8%).

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