

EUROPE NEEDS CHANGES

Intervention by Luigi Gambardella, ETNO Executive Board Chair

ETNO Total Telecom Regulatory Summit

May 30

Let me first welcome you today at this first Regulatory Summit organised jointly by ETNO and Total Telecom. I would like to thank our distinguished speakers for having accepted our invitation to be here today and in particular Georg Serentschy, 2012 BEREC Chair and Anthony Whelan, who will open this day with me.

This Summit is very timely as intervenes a few weeks before the next Digital Agenda Assembly. We should take this occasion to look at how markets have changed over the past years and at the major challenges our sector is faced with.

This year, the gross domestic product of the Eurozone is expected to shrink by 0,3 % on average. And the decrease will be stronger in some Member States, for which it will often be the second or the third year in a row of negative growth. We cannot ignore these circumstances which will determine all important decisions that have to be taken.

We believe that to achieve growth and allow investments to happen, **Europe needs to change its policies for the telecom industry by rethinking completely the way in which the current rules are shaped and implemented.**

Let's look first at what we have achieved and at some elements of the current market situation:

The number of competitors has increased and prices have been sharply falling. In Europe there are 170 operators for 490 million citizens, in the US there are 17 operators for over 310 million citizens and in China there are 4 operators for 1.319 billion citizens. To acquire critical mass, many EU operators invest outside of the EU. Our markets are too fragmented and regulation is one of the causes of this fragmentation

Prices of fixed and mobile voice and data services have been going down constantly in the last years in Europe: specifically, average prices of voice and broadband bundle from 2 to 30 Mbps speed range, dropped over 10% from 2009 to 2011, and average revenue per minute in mobile communication, a proxy of mobile voice prices, plummeted by around 30% from 2008 to 2011, according to Bank of America and Merrill Lynch.

Access regulation has produced results:

- unbundled local loops equal to around 30 per cent of the number of access lines;
- Broadband lines: share of the incumbents in July 2011: 43.0 %;

- monthly growth of broadband lines by mid-2011: 5 600 a month for the incumbents, 13 300 for the entrants.

A few weeks ago several European CEOs met MrGeorg Serentchy, the Chairman of BEREC and have engaged to enter into a strategic dialogue to see what to do for the future of the sector. We welcome such a commitment from BEREC, as much as we welcome the open dialogue we want to keep having with all the European Institutions, in particular the European Commission.

We believe that the profound changes in the industry have to result in changes to regulation. Industry is committed to invest, but is expecting both the European Commission and NRAs to engage in a review of their policies that takes into account current and foreseen market conditions. **The current way of application of ex ante market regulation must be overcome.** If and when the market changes, the rules of the game need to change.

The sector faces a huge demand of investments in new infrastructures, but with the dramatic change of business models and over the top players entering the telecom market, the long-term investment capacity of telecom players is at risk.

Will the industry meet the investment challenges to give Europe a future proof broadband infrastructure? How to start this strategic discussion before it is too late? We should build upon our experience but with a new mindset: re-thinking a clear vision for Europe and its vital communication infrastructures, is the most urgent issue. This implies re-thinking the role of the European Institutions and NRAs, **so that regulation becomes an enabler of market development and technological evolution, not an obstacle.** A forward looking approach is indispensable for a sector which is preparing our future style of communicating and sharing.

Today the EU should address the following question: is it possible to ignore the economic health of the regulated sector? If the private sector has to deliver on public goals, how to grant the best way for market players to deliver?

It is very clear to us that **policy intervention today should shift the focus:** opening up markets is an achieved result. Policy makers and regulators should look at how to make markets grow to ensure a leadership role for the EU in the years to come.

We have to deal with several crucial topics for the future of our sector: how to boost investment and to create the necessary incentives; how to reverse the decline of revenues; how to ensure an effective level playing field for telco and over the top players, how to maintain our sector's role in the employment rate.

We could be even more ambitious than the Digital agenda targets. We, as European telco industry, would like to be the first in the world for ICT penetration and take up of ultrafast broadband and mobile services. We don't want to follow, we want to lead.

In Asia and US the competition takes place on the basis of innovation. In Europe, too often an excessively intrusive regulation blocks innovation. Such a situation creates a paradox: hampering innovation is hampering competition. In Europe, the way rules are applied does not enable operators to innovate..

European citizens and consumers are not getting the full benefits that we could deliver to them.

Let me focus in particular on two aspects:

1) Competition

Competition has had great results in Europe. However, **when ex ante as well as ex-post regulation are applied, this needs to be done with a forward looking approach** not just as an exercise of mechanic application of the rules. Enhancing "artificial competition" may be harmful.

2) Health of the sector

There is an economic problem in the sector in terms of sustainability of the revenue model. NRAs have to take into account the need to keep an healthy telco sector.

We need to encourage the future growth and development of telecoms markets, services and technological innovation.

As we have stated in the past, **we need to address the challenges to the sustainability of the economic model of the Internet including the need to rebalance the Internet value chain**, so that content providers contribute adequately to the costs associated to infrastructure deployment and the need of an Internet IP interconnection system based on the principles of balance, transparency, efficiency, fair compensation and service differentiation.

What to do in the short term?

The Digital Agenda foresees the availability of an incredible array of new services delivered over high capacity networks. The new services will have a huge value for the users who over time will certainly be more and more willing to pay for this value. This may require prices for access that may be higher than today's prices, but that will still be very good value for money in the light of the value of the services delivered. **The main challenge that we have today is to allow for the development of business models that will drive sufficient resources into the building of the networks.**

European directives and national law provide for enough flexibility to take a much more investment friendly approach. This requires the political will to implement the framework in a way that supports growth. Will the Commission be ready to adapt its existing Recommendations where needed and give investment-friendly guidance with respect to their interpretation and application? And will it take an investment-friendly approach to its forthcoming recommendations under the framework? Would NRAs be ready to play a role, by taking decisions that will help market develop?

The review of the list of relevant markets

One important tool in the hands of the Commission to follow a regulatory growth agenda is the review of the list of relevant markets. **5 years after the Commission deregulated 11 markets in the previous revision, next year's revision is a timely opportunity to take a next bold step towards deregulation.** It would be important to not only reduce the scope of regulation under the recommendation of relevant markets but also to give more guidance for geographic market definition and to limit the application of remedies to essential elements needed to counter an identified market failure.

Price regulation

Europe must reverse the downward trend in regulated prices. This can be done in the short-term

As reiterated by capital investors, in a next generation environment, operators should have flexibility in setting the price of access to fibre instead of following a strict cost orientation approach.

Similarly, **regulated prices on copper networks should remain stable and should be allowed to rise where costs increase to provide continuous support for fibre investment.** There is more and more independent research available which shows that lower copper access prices discourage investments in fibre networks.

A new role for public policies

EU institutions, regulators and member states can help market growth by lowering the deployment costs in many ways such as: simplifying the granting of the rights-of-way, reviewing security standards concerning the way cables must be laid, allowing access to existing public infrastructure that could be used to deploy the networks, making available more spectrum through the digital switchover process, etc. In addition, governments should exploit the many possibilities that exist to build networks or passive infrastructure where the private sector cannot arrive using the EU structural funds. I am aware that it is

not always easy to satisfy the requirements inherent in the use of public funds, but it is disappointing to see that at the end of a programming period many countries have not been able to fully exhaust their allocation of funds.

As regards the use of public funds, for example through public / private partnerships, **we expect the European Institutions to look at the benefits that they can bring in terms of helping infrastructure development and bringing added value services to European citizens**

Of course, compliance with state aid rule must be granted, but at the same time, a forward looking, timely and prompt evaluation of projects is needed, because these can help achieving the Digital Agenda targets. Too long approval process bring risks for market players.

Allow me to conclude on a more positive note. Our sector has the potential to offer a growth story to Europe. The telecoms sector is part of the solution. Our sector can contribute to relaunch growth in Europe, create jobs and welfare, and reinforce Europe's competitiveness on world scene. That can happen, but we have to act now.

I wish you a fruitful exchange and a lively debate.