

Europe's €25bn digital deficit

***Internet speeds four times higher in better regulated markets, study finds
Governments must tackle telecoms monopolies for Europe's recovery, says ECTA***

3 March 2010; Consumers and businesses are losing €25bn per year and broadband speeds are being restricted due to uncompetitive telecoms markets, reveals a study on Europe's Digital Deficit released today.

As the EU launches its 2020 strategy for Europe's recovery with a flagship programme to deliver benefits from a Digital Single Market, the report finds that competition in the Telecoms sector is a key driver for lower prices and substantially more attractive broadband speeds. It claims that the take-up rate of superfast broadband in Germany could double if networks were opened to competition.

The report, by leading telecoms consulting group Analysys Mason, looked at the Telecoms landscape in six European markets - Belgian, Germany, Italy, Poland, Portugal and Spain as well as producing a pan-European analysis of business services. It finds that incumbent retail market shares are high, stable and even in some cases increasing and lists a catalogue of potentially anti-competitive and discriminatory conduct by dominant firms.

The report also reveals how competitive market entrants are struggling to make a return on their substantial investments while dominant firms continue to reap consistent profits.

"The European Competitive Telecom Association (ECTA) will be calling on the Commission and national regulators to investigate competitive failures in the Telecoms sector and to examine the possibility of using new functional separation powers on dominant firms where necessary", commented Hubertus von Roenne, Chairman of ECTA. "We also see the forthcoming recommendation on Next Generation Access as a key opportunity for the Commission to address failings and take action that will deliver a liberalised electronic communications market in Europe over the next ten years."

A study prepared for the Commission estimated that effective take-up of broadband across the EU27 would deliver an extra 1.1million jobs and a GDP increase of €850billion by 2015*. However, findings from the Analysys report suggest that take-up of high speed services that are crucial to the digital economy and to jobs and growth may not be realised unless the dynamic benefits of competition can be harnessed.

Looking to the future, the Digital Deficit Study highlights Next-Generation broadband services as a particular concern and cites Belgium where VDSL has been deployed, where next generation speeds are not offered by the incumbent and the service costs €70 per month compared to just €20 in France (where similar speeds are provided over ADSL). It suggests that the situation will deteriorate unless measures are taken to prevent discriminatory conduct.

"In the early 2000s dominant firms prevented Europe's citizens from receiving affordable broadband services by refusing to open their networks to competition. The story has not changed, but the stakes are even higher because telecoms networks now form the basis for

the wider digital economy. Consumers in many countries will have a more limited choice of providers, experience great differences in prices and quality of service, and investment in high speed Internet will be very limited if urgent action to open networks and enhance competition is not taken. European policy-makers need to rediscover the impetus they had when they initially opened the market if they want Europe to be a worldwide leader in communications.”,” concluded von Roenne.

* Micus study

Ends

Key findings and conclusions from the report:

- Many countries show high, and stable or even increasing market shares for the incumbent. In the fixed calls market, incumbents still retain 60-70% of the retail market by value, whilst broadband and mobile retail market shares remain unbalanced
- Major competitors remain significantly less financially secure than incumbents with EBIT margins significantly lower and capex equal or higher as a proportion of revenues. Incumbent EBIT margins have been maintained even whilst they are making investments in ‘next generation’ fibre networks.
- Less concentrated markets consistently deliver better prices for consumers and businesses – and in the case of broadband significantly higher speeds. Where material competition from ‘unbundling’ of the incumbent network exists typical consumers receive 8Mbit/s instead of 2Mbit/s.
- Regulation is not yet sufficiently protecting the interests of consumers. In particular remedies aimed at promoting competition are lagging market realities and competition law enforcement has proved slow and ineffective in preventing abuse of dominance
- Evidence from a survey of competitive operators and available data suggests potentially discriminatory conduct by dominant firms including refusal to supply essential inputs to competitors, margin squeeze and substandard service quality

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About ECTA

The European Competitive Telecommunications Association (ECTA) looks after the regulatory and commercial interests of new entrant telecoms operators, ISPs and suppliers of products and services to the communications industry.

ECTA works for a fair regulatory environment that allows all electronic communications providers to compete on level terms in order to multiply investment and innovation throughout an effective European internal market. The association represents the telecommunications industry to key government and regulatory bodies and maintains a forum for networking and business development. ECTA member companies include operators, service providers and suppliers as well as National Associations of such which all contribute towards regulatory policy development and participate in our comprehensive range of networking events, conferences, seminars, briefings and executive meetings. www.ectaportal.com