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TELECOMS & DIGITAL COMMUNICATIONS: IS A SINGLE EUROPEAN MARKET A CREDIBLE POSSIBILITY?

DG Connect is pushing hard to radically shift the European digital communications landscape – but in the current economic climate, Neelie Kroes is facing an uphill struggle.

DIGITAL OVERHAUL

Neelie Kroes is proposing a complete overhaul of the EU telecoms and digital communications sector, urging the 27 EU Member States to align on mobile spectrum and fibre broadband with the ultimate objective of creating a single European digital market. Recent proposals from the Commission, including its pithily named Commission Recommendation on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment, seek to promote mergers among telco operators, provide for a more prescriptive Europe-wide regimen on pricing regulation, and propose fundamental changes in the sale and management of broadband and mobile spectra. On the table is nothing short of the most radical restructuring of the very fundamentals of the European digital communications market. So what is the likelihood of this being achieved?

THE CASE FOR RESTRUCTURING

The case for restructuring a massively fractured European market certainly looks compelling. Compared with markets such the US or China, the EU telecoms market is truly bizarre – just imagine a US mobile telecoms market with no national network, 3-5 operators in each of the 50 states, and significant roaming charges for consumers crossing state boundaries, rather than the integrated networks provided by operators across the States. That is the current situation in Europe, and it is a model many European operators – especially the bigger ones

operating in several EU markets – are eager to move away from. Whereas their counterparts in the US (six operators) and China (three operators) enjoy enormous scalability and can focus on infrastructure investment and market expansion, Europe's 100-odd operators are on the other hand grappling with a tight regulatory environment, declined in 27 different ways, and extremely tough competition. The resulting squeeze means that European operators are doubly hobbled; having to focus on paying down infrastructure debts rather than re-investing in next-generation networks, thereby further limiting their future prospects. The European Telecommunications Network Operators' Association's (ETNO) Chairman Luigi Gambardella has publicly called for "a much more integrated European telecoms market" and "real consolidation, because there are too many markets and too many players".

While a genuinely integrated, single European market is a (perhaps distant) vision that Kroes supports, it will be interesting to see how this plays out with her colleague Almunia, as DG Competition recently warned against radical change to overcome the existing level of fragmentation at the expense of EU citizens and consumers. But Almunia will be the least of Kroes' worries. The idea of a single European market also raises the prospect of a single European regulator – not something Kroes has specifically called for, but which many see as the logical conclusion of a single market.

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INDUSTRY STAKES

Large telecoms operators are certainly looking for greater consistency in regulation across Europe, and on 25 April ETNO called for less market regulation and a more flexible regulatory approach for broadband markets. But this may well be a development too far for national regulators, who jealously guard their own right to set the rules for operators within their national boundaries. Not only will national regulators object to the Commission's prescriptive finger-wagging approach, there is also the not insignificant issue of fiercely defending powerful vested interests. Indeed, in its response to the Commission Recommendation, the European telco regulators' club BEREC was careful to support in broad terms the Recommendation's intent, but it was pretty dismissive of almost all of the substance of its content. BEREC's reply was a shot across DG Connect's bows and a clear indication to Kroes that the road towards a single digital market will not be smooth.

BEREC will likely have natural bedfellows in national governments, who may represent the biggest roadblock to a single digital communications market. As political lubricant to facilitate the transition to a single European digital market, Kroes is clearly pitching the overhaul as a spark-plug to reignite the European economy and help drive investment and innovation: the preamble to the Recommendation states its intent, inter alia, is to "contribute in a technologically-neutral manner to the overall objective of boosting growth and jobs". Whether it will be a moot point, as it is whether EU governments, currently in the midst of the longest economic slump in living memory and a slapdash management of the euro that lurches from crisis to crisis, will perceive it as such. Many governments of smaller Member States may be eager to protect their national incumbents and won't necessarily want to see them being swallowed by larger European players, while others with dominant national champions playing internationally might seem more favourable. However even the big three of France, Germany and the UK seem at best lukewarm to the single telecoms market, and will actively oppose any move to giving up their right to regulate nationally and – crucially – control the sale of spectra, which of course will net them billions.

LICENSE ALLOCATION

Greater scrutiny of wireless license auctions is also on the table – particularly as allocation could become a nexus around which to build the digital single market. Steps are already underway to compile an inventory of Europe's airwaves (to be compiled by the end of 2015) – the point being to pick out frequency slots that are inefficiently used and which could be better utilised. With only 65% of the EU-authorized 1,200 megahertz of spectrum for wireless broadband sold, Kroes has been pretty vociferous in her criticism of Member States' lackadaisical approach to broadband spectrum

sales, and has even raised the specter of launching infringement proceedings against the more recalcitrant. She is also particularly animated by the trend for governments not to ring-fence the proceeds of spectrum sales for infrastructure re-investment, but to use them to help lower national deficits.

SITTING TIGHT

The push to a single European digital communications market will require a Herculean effort. Whether the combative Kroes will manage to win the argument and the politics of this issue is hugely questionable, especially given the unpropitious economic climate in which she is seeking to advance this agenda. While the major telcos are on her side, the crucial decision-makers – national governments – in the current economic climate seem not unreasonably to prefer to stick to the hard cash they can generate in the immediate future from spectrum sales to the vague and unconfirmed promise of economic uplift from a more integrated digital marketplace.



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