

# SPEEDING UP EUROPE TOWARDS A DIGITAL SINGLE MARKET



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## INTRODUCTION

Since the turn of the century, the EU has been falling behind its global partners in spearheading innovation in the telecoms sector. While Europe was instrumental in the creation of the second generation Global System for Mobile Communications (GSM), the lack of a digital single market (DSM) has left the EU with an innovation and productivity gap compared the United States (US) and other global players, said moderator [Giles Merritt](#), Secretary General of *Friends of Europe*.

**“The dynamism of the US economy can be attributed to the fact that they have embraced the digital age while we Europeans have been muddling through.”**

Giles Merritt, Secretary General of *Friends of Europe*



The digital market in the EU remains fragmented along national borders, with over forty major telecoms operators – as well as hundreds of smaller ones – working within 28 different regulatory frameworks.

The link between contiguous telecommunications services and economic efficiency and increased competitiveness is strong. “The dynamism of the US economy can to some extent be attributed to the fact that they have embraced the digital age while we Europeans have been muddling through, with a great cost to our productivity and competitiveness,” Merritt said.

For example, he added, the US currently has 90% coverage of fourth generation cellular networks (4G), compared to the EU’s 25%.

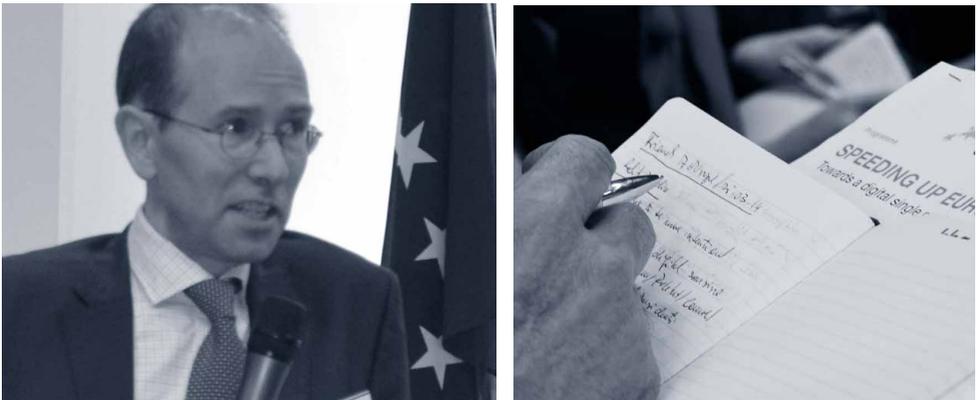
The discussion of cross-border telecoms compatibility in Europe goes back thirty years to the adoption of the Single European Act, underlined [Robert Madelin](#), European Commission Director General for Communications Network, Content,



and Technology. “While awareness of the need to streamline our telecoms sector has not been absent, we have underperformed in the digital marketplace,” he noted.

“The telecoms single market is a case where there is an opportunity for greater coordination in the EU and its institutions,” indicated **Adrian Whitchurch**, Vice President of European Affairs for BT. “Digital touches several sectors and, if we get it right, will be responsible for driving the European economy forward.”

**“Digital touches several sectors and, if we get it right, will be responsible for driving the European economy forward.”**



Adrian Whitchurch, Vice President of European Affairs for BT

## Digital mandate for the EU

Following the adoption in September 2013 of the new legislative package “Connected Continent: Building a Telecoms Single Market”<sup>1</sup>, the European institutions have been working on creating a connected and competitive Europe.

<sup>1</sup> For more information: <http://ec.europa.eu/digital-agenda/en/connected-continent-single-telecom-market-growth-jobs>

The report on the Commission's proposal, led by Pilar del Castillo's MEP from the Industry, Research, and Energy (ITRE) Committee, has been well-received by the Commission, noted Madelin, adding that "the way the Parliament has picked up on this legislative package has been proactive and productive. However, issues still remain with the broader vision, if we are to have a clear way forward for the DSM by the end of 2014."

The ITRE Committee proposal calls for more direct action to be taken in removing roaming costs between member states, with a deadline of 15 December 2015. Furthermore, provisions have been included for efficient spectrum management to aid the roll out of 4G and 5G networks in Europe.

In addition, the ITRE Committee has taken a strong stance on net neutrality, achieving guarantees that internet traffic should remain open and that no service provider should be able to restrict data flow and content from their competitors.



From left to right: Joe McNamee, European Digital Rights (EDRi), Giles Merritt, Friends of Europe, Robert Madelin, European Commission and Adrian Whitchurch, BT

Though promising, there are concerns that the process to create the DSM in the EU is moving too quickly, noted [Joe McNamee](#), Executive Director at European Digital Rights (EDRi). “The problem with the Commission’s proposal is that it is cumbersome and bureaucratic,” he stressed. “As things stand, the Parliament will produce a text that will leave a lot of elements for the Council to correct. Rushing into the creation of a digital single market will lead to further delays.”

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[Joe McNamee](#), Executive Director at European Digital Rights (EDRi)

“Part of the problem with the current telecoms package is that we have failed to learn from our successes,” he said. “With regards to network regulation, the EU has done what it can. Where successful regulatory frameworks have been put into place, it is because the European Commission has knocked down barriers to opening borders against the will of the member states.”

The EU has performed poorly in the area of services, McNamee indicated, particularly in bringing down barriers to payments and copyrights in the online marketplace. From a consumer perspective, the EU risks a situation

where telecommunications giants create a monopoly for themselves, with more barriers and less competition.

“As it stands, the proposed regulations have too many loopholes. A bucket with two holes is not worth much more than one with four. Either we get the DSM right or it will not work,” he underlined.

The EU’s institutions need the determination to include Digital in all the portfolios of the new Commission mandate and to have support from European legislatures to craft regulations that are fit for purpose in a rapidly changing world. “As it stands,” concluded Madelin, “there is no strategic vision of the opportunity cost of failing to manage our telecoms future. We need a DSM by the end of 2014 and to have it be part of the overall strategy for the new mandate.”

“The next presidents of the EU institutions have to be the first digital presidents of Europe,” noted Madelin. “Under the next mandate, we have to give our citizens not only slices but the whole digital sausage.”

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Robert Madelin, European Commission Director General for Communications Network, Content, and Technology



However, McNamee noted that “I do not think we need to complete our strategy too quickly. Rather, we need to get it right as quickly as possible. Even if we can fix the loopholes in the European Commission text, I am not sure how long-lasting it will be.”

## EU-specific challenges facing the digital single market

The major challenge the EU is facing is that it is trying to invest in the long term in an industry dependent on consumer trends that change rapidly and unpredictably, noted Whitchurch. This is exemplified by strategies such as BT's fibre deployment in the United Kingdom (UK) which began five years ago and is now being marginalised by the unforeseen rise in popularity of mobile, as opposed to PC, internet access.



**“There is too much diversity in how national bodies apply telecoms regulations. There is a greater need for harmonisation and consistency across the EU.”**

**Adrian Whitchurch, Vice President of European Affairs for BT**

In broad terms, the EU is not so far behind its global competitors, he said, adding that there are some areas where it is performing well and less so in others. In fibre deployment, some parts of the EU are up to 90% coverage, while a challenge remains in reaching rural areas.

In terms of 4G, the main reason why the EU is lagging behind the US has to do with disagreements between national regulators. In fact, noted Whitchurch, from an industry perspective, though the Commission is driving ahead with legislation to provide cross-border services, the reality is that local operators remain the most effective channels for consumers.

“There is too much diversity in how national bodies apply telecoms regulations,” he said. “There is a greater need for harmonisation and consistency across the EU.”

The issue of territoriality in the digital single market space goes beyond regulation, Madelin indicated. In the current fragmented market, European cybernauts are sometimes restricted from accessing their own passive content across borders.

“There are tangible barriers to the free exercise of digital rights in the EU today, as there were obstacles to the free transport of Roquefort cheese thirty years ago,” he noted. “Some of these barriers need to be swept away.”

“If any region of the world was obstructing the flow of data to the EU in the way that we ourselves are doing within it, there would be civil, political, and judicial consequences,” stressed McNamee. “Why do we tolerate within our borders that which would be unthinkable on a global level?”



Giles Merritt, *Friends of Europe*, and Robert Madelin, European Commission

Ultimately, the internet economy is by its nature global and it behoves the EU to consider the international aspects of developing its single market. “The internet economy is irresistibly global. Data fortress Europe makes no sense,” Madelin said. “Both in terms of research and economic considerations, our policymakers understand this.”

**“The internet economy is irresistibly global. Data fortress Europe makes no sense.”**



Robert Madelin, European Commission Director General for Communications Network, Content, and Technology

In order to move forward with key developments in multilateral and international trade agreements, the EU needs to get its digital house in order. The sooner the DSM can be put into play, the more prepared the EU will be to open and interact with other markets, digital or otherwise, around the world.

## Striking a balance between competition and consolidation

The question of competition is at the heart of the DSM. “There are hundreds of telecom operators of all sizes in the EU,” noted Merritt. “Yet consumers seem to be dissatisfied with the cost of internet services and telephony.

“With some operators in dire financial straits, what is the correct balance between consolidation and competition for the future?”

“The problem is that, as it stands, there are too many players in the field for the DSM to function efficiently,” Whitchurch indicated. Some kind of consolidation is needed, however, each case needs to be investigated separately by the European Commission Directorate General for Competition.

**“With some operators in dire financial straits, what is the correct balance between consolidation and competition for the future?”**

Giles Merritt, Secretary General of *Friends of Europe*



While recent trends show a reduction in the number of networks – from five to two core networks in the UK, for example – it is not easy to streamline and improve the financial health of the system by removing or integrating smaller players.

The balance between too many and too few telecoms is delicate but will be greatly aided by strong cross-border regulations. Europe has a system of 28 strong national regulators but each one is focussed on national markets. In order to increase competition and reduce prices for the consumer, the EU needs a single market for digital networks and services.

“Profitability, growth and competition do not need to be mutually exclusive,” he concluded. “We need regulation to protect the consumers while still allowing competition. The real risk is that, if we get it right now, the market may not look the same in five years time.”

## Net neutrality

In order to address the balance between industry and consumer needs, there must be a solid consultation on the issue of net neutrality. Though there is support for a ‘sending party network pays’ structure for internet traffic, this has generated huge costs for EU citizens and businesses, noted McNamee.

“What we need is legislation that prevents the principle of sending party network pays,” he stressed. “We need rigorous anti-discrimination rules and tools that regulators can actually use.” In fact, the EU has a real opportunity with the DSM to gain the advantage over the US in this area in terms of the benefits of the digital economy.

In the US, he said, the situation as regards net neutrality is convoluted, with an increasing number of internet service providers fighting to be able to limit what a customer can access.

Getting the net neutrality debate right at this crucial time could create a legislative advantage in the EU and increase the potential of having a strong and effective DSM to solve issues that risk hamstringing its global competitors.

**“We need rigorous anti-discrimination rules and tools that regulators can actually use.”**

Joe McNamee, Executive Director at  
European Digital Rights (EDRi)



“We must be cautious with the discussion on net neutrality,” Madelin stressed. “We have to be sure to define the nuances of its delivery or we could end up with a beautiful principle that leaves the field open for abuse.”

## Conclusions

The breaking point in the discussion on the DSM is to what degree the future of digital in Europe lays in the hands of national decision makers rather than the complex EU system, concluded Merritt.

“The EU can be quite effective in terms of our soft power in digital space,” noted Madelin. “In the case of Estonia’s rise to prominence in the digital marketplace, we already have a strong example in Europe of what can be accomplished in a global way by a small country thanks to a strong society and visionary leadership.”

The time horizon for the DSM is that it should be ready to roll out in the first quarter of 2015, concluded Madelin. As consultations between EU institutions continue, the European Commission is confident that this goal

remains realistic. “At the end of the process, whatever the rules say, we need to be ready to act quickly as we monitor the world,” he said.

As the process continues through the European Parliament and Council, it is imperative to not rush and risk further delays before achieving the right mix for the DSM, concluded McNamee. “Our first priority in the EU is to define what we want,” he said. “When this is clear, we can have the political leadership needed to build a strong single market.”

# ANNEX I – Programme

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## CAFÉ CROSSFIRE DEBATE

Speeding up Europe: Towards a digital single market

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The creation of a genuine European digital single market by 2015 is a top priority for the European Union. It promises not only to be a boon for the telecoms industry and consumers, it will also improve productivity and contribute to increasing Europe's medium to long term competitiveness. Crucially, it will also create jobs and, according to some estimates, lead to a 1% increase in Europe's GDP per year. However, once regarded as a leader in ICT investments, mobile industry and broadband speed, Europe has now been left in the dust by the United States and Asia. A key problem is that Europe's telecoms sector is very fragmented, with more than 100 operators in 28 countries, diverging national rules and broadband deployment, heterogeneous prices, network access fees and radio spectrum allocations.

What are the main challenges facing the telecoms sector, will the decline in roaming-linked revenues for companies threaten their capacity to invest? What barriers still block integration of the market and further investments in ICT, networks and innovation, and what sort of regulatory framework is needed? How should the digital economy be taxed without hindering growth? Shall we safeguard net neutrality?

**Robert Madelin**

European Commission Director General for  
Communications Networks, Content and Technology

**Joe McNamee**

Executive Director at European Digital Rights (EDRI)

**Adrian Whitchurch**

Vice President of European Affairs for BT Group

Moderated by **Giles Merritt**, Secretary General of *Friends of Europe*

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