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**WHAT ARE THE RESULTS OF 15 YEARS DEREGULATION IN
TELECOMMUNICATIONS, WHAT ARE THE CHALLENGES AND OPPORTUNITIES
FOR TELECOMMUNICATIONS AND MEDIA OPERATORS AND POLICY MAKERS
IN THE COMING YEARS?"**

**15 YEARS - A SHORT LOOK BACK
AND INTO THE FUTURE**

COMMUNICATIONS AND MEDIA

Thank you for the opportunity to say a few words at the opening of this event. I have been asked to take a short look back at the past fifteen memorable years of development of the communications sector in Europe. And talking about the communications sector, one has to talk, at the time of convergence, also about media.

I have lived the liberalisation of the communications sector in Europe since 1987 from very nearby—and I have therefore followed this invitation with pleasure. EU Competition Law has played a key role in the liberalisation of the sector, as have other lines of EU policy: Internal Market, Research, Regional policies, and the general drive towards the Information Society. And I would like to add to this short look into the past a short look into the future. Of course, I am looking forward with keen interest to the other speakers that we will hear later during this conference on those future perspectives.

Let us then take the time machine and move for a moment fifteen years back. What would we see? At the time, back in autumn 1986/spring 1987, when the EU Green Paper on the liberalisation of the European Telecom sector was written, we were faced with this situation:

- A telecom equipment industry that was still largely focused on the national incumbent and on national standards in most Member States—but that had also become convinced by that time that the digitisation of the technology, and the new scales needed, would require new business models to generate cash;
- Telecom incumbents—in the EU, at the time, nearly all of them still run as government departments—that liked their voice monopoly situation but that also had become uncertain on how to handle the new services, the value-added and data services of the time, and that knew that change was inevitable;
- AT&T divestiture some years earlier in the US and its impact on Europe—as well as privatisation of BT in Europe in the early eighties;
- Of course, a general perception that public service had to be guaranteed;
- Users, mostly from the business sector, that were unhappy with the services offered;

- And, a general sentiment of uncertainty about the future of the communications sector.

The latter does not sound so unfamiliar, when we compare this with the sentiment of uncertainty and sometimes disarray of the sector today. At the time we managed, together with the Member States, to move the sector out of that sentiment of uncertainty—and out of outdated perceptions and regulations—into the growth enthusiasm of the liberalised European telecom market of 1998.

I do not want to take you here through the many stages, and the patience, it took from the stalled monopoly situation of 1987, via the Telecom Review of 1993, to the fully liberalised growth market of 1998.

Let me simply summarise some lessons from that period:

- The first is that we were lucky to find progressive actors, with foresight, in all Member States to take things forward. This country, of course, is a major example. I just recall the Steenbergen Commission of the late eighties, one of the first in Europe to look into the matter, and the role of OPTA afterwards.
- The political climate was right. Europe understood that economic change and the integration of the Single Market required what we did. Consecutive European Commissions and Commissioners gave continuous support and took things forward, from the start of liberalisation in 1987 up to the Lisbon strategy of 2000, and the subsequent eEurope plans.
- Competition for excellence was a driving force throughout the process—between the phone companies, in their radical transition from government departments to real companies, fit to face market transitions; trade unions that convinced their members that we would open the future, and not close it; and competition between regulators, by picking the best as bench markers—OPTA in this country being an example.
- And, it turned out that taking risks can pay. We had the courage, back in 1986, to take the risk to pick GSM as the winning mobile technology for the nineties—somehow infringing our basic convictions of technology neutrality. And to issue the

1986 GSM Directive that laid the basis for parallel market development of the system across Europe. It paid. We got a Europe-wide system, developed on a competitive basis in a de-centralised manner that allows Europeans to talk from one end of Europe to the other. We saw a completely new communications culture develop, with the handy now a major lifestyle component of hundreds of millions of young Europeans. We got more than 250 million mobile users in the EU and 75% penetration, within those fifteen years—unthinkable in the fragmented mobile markets of the eighties where mobile users counted in the two digit thousands in many Member States, and some had no public system at all. And, we got, within ten years, a world-leading technology.

But let me now move on to today—where telecom and cable operators are looking at a cash-stripped and debt-ridden industry—far away from the 1998/2000 boom and the enthusiasm that followed the 1998 liberalisation, and the emergence of the Internet as a mass phenomenon. Sometimes one has the impression that investors and shareholders are still in a state of shock.

What went wrong? Certainly, not everything. Quite unnoticed in the general disillusionment of today—the sector in Europe continues its steady growth at rates of around 10 %, even if there was a dip in that growth down to 7% last year. Users, both the consumer and the business user, gained vastly, in price, quality and choice—and the Commission's yearly autumn reports on the implementation of liberalisation in the EU document this in detail. Quite unnoticed, the seminal shift of our economies towards the information economy goes on, and may even accelerate across traditional industries and distribution, as the e-shopping Christmas boom in a number of countries has shown. And, we are at the eve of the transition to a new information age—broadband.

But it is, of course, true that all actors of the sector have made mistakes and that we have seen an unheard of slump of the sector since its heights in spring 2000, down to where we are now.

So, what went wrong? Let me first of all make one emphatic *caveat*. The basic line followed since 1987—liberalisation and deregulation—was right. Liberalisation and deregulation are the only recipes to handle a situation of uncertainty where nobody

knows which business model will be successful. Nobody in 1987 was talking about the Internet in Europe—even if we had had some precursors in the early eighties, such as the Euronet data network that however never got a real chance under the monopoly conditions of that time.

But liberalisation made it possible that the Internet could enter into Europe during the early nineties without major problems. Without it, not a single ISP could have operated in most European countries. And we would probably still be talking and debating if the consumer in Europe needs the Internet, or if he would buy it—with nobody providing it, except in sterile and expensive trials.

We also managed to get competition into the phone sector very quickly after 1st January 1998—at least into international and long distance—and to generate huge consumer benefits. Even if, of course we were very much less successful in the local loop.

The breakthrough was the benchmarking of interconnection agreements in 1997—pegging Member States' interconnection rates to the best regulatory practice in Europe. The best regulators pulled everybody else—again the principle, of what I would call, regulatory competition for excellence.

And, of course, we got the whole industry moving and restructuring, from the incumbents to the cable companies, particularly during the second half of the nineties.

But it is a fact that a number of things went wrong. Many here will have their own list of what went wrong, and their own view. Let me just add some points to that list, as I would make them:

- We saw an overstretching of resources by our main operators, and an expansion into global ventures since the mid-nineties, that was simply beyond their cash flow base, and therefore very much based on market values—that got out of proportion and proved volatile. The sector turnover grew by a solid near 10% throughout the period—and, of course, much more in the mobile sector, the sector's growth flagship. But market values of companies after 1998, throughout the Internet boom, grew by 1000% in certain cases, ten times the original value. Financing expansion into global

players in the booming world telecommunications market by that gain in market value, that liberalisation generated, was a huge temptation—and it was reinforced by peer pressure, and by investment funds expectations. And nearly all of the big players succumbed to that temptation. The current debt structures of many of our main actors testify to that.

- Our regulators—at least some of them—succumbed to the temptation as well. A total cash charge of 110 billion € was taken out of the sector in the form of the UMTS licence fees at the most unfortunate time—when the European telecom sector would have needed that cash to sustain the downturn in the US market after Spring 2000. Auction proceeds got out of any economic proportion, in spite of drawings on the wall, as early as the mid-nineties, when the European Commission had warned in its Green Paper on mobile communications that reliance on auctions as an economic tool of allocation of frequencies and licences "should not lead to an excessive transfer to the public budget".

While the licence problem was handled in different ways in different Member States, the integration of the sector and of the financial markets has meant that all suffered—Member States, incumbents and competitors—as capital markets dried up and investment funds and banks dramatically lowered their exposure to the sector.

- We have had a debate since the late nineties on convergence of telecommunications and media, as the base for the next phase of growth—but that convergence has still not been realised. The business models of the media sector remained essentially based on the booming advertisement revenue of the time for financing its own expansion into the new cable and satellite platforms that will be a major component of our future communications structures. Quite unnoticed, the media sector in Europe went into global deficit as early as 1998. Once the volatile advertisement growth stalled by Spring 2000, the media sector saw no better performance than telecoms, and even worse, and is looking desperately for new business models itself.
- Of course, we should all have taken the many speeches of the nineties about the integration of the global economy more seriously. We were growing with the US economy, and we went down with it. And we did not take the necessary precautions. I believe that this is another lesson to be taken.

- And, I may add, we may have been sometimes too cautious on the regulatory and competition front. We did not have early enough a real debate about structural measures that a full-scale liberalisation of the local loop may require, beyond unbundling regulations, given the monopoly heritage of the past. The nearest we came to this was the 1999 Cable Directive that ordered structural separation of the incumbent's TV cable networks under Art 86 of EC Competition Law. But we did not go further. And we may have missed in this way the right time to take the right measures.

That then takes me to the future. As in 1987, we are faced with a fundamental shift to new technologies, with revenue potentials still unproven. We also face a situation of uncertainty, both in the telecom and in the media sectors. And, I believe, at the time of convergence, the future of the two sectors will depend on moving them forward together.

Inevitably, in both sectors, the main actors must move back to a reasonable cash flow base. We are seeing concentration on core business, and consolidation, in both the telecom and the media sectors. We have seen a new generation of business leaders moving into the guiding seats of our major communications and media companies, emphasising new business realism.

But we must also focus on the new markets that will be the ultimate guarantee for the future of the two sectors. From a competition and regulatory point of view that means that consolidation and fortification of market positions of the main European actors cannot go at the expense of the opportunities for new entrants, and of the consumer. We will need for the future development both, incumbents and competitors—and we need them in good shape. This then means that forceful intervention of our competition authorities and of our regulators remains vital in the current phase. The common line of our action under competition law in both the media and telecom sectors is that we cannot allow monopolisation or re-monopolisation of markets—neither old nor new. And we cannot allow that consumers are exploited. This is true for the telecom and media core sectors but also for markets like mobile and cable.

Fundamental change is ahead. According to forecasts, by the year 2005 penetration of households by Internet broadband, both DSL and cable, could be in the two-digit range

in a number of major European markets, and it could attain 50% by the end of the decade. Of course, only if we get conditions rights.

The political framework across the European Union is laid out—the Lisbon agenda, as reconfirmed in subsequent European Councils by the Heads of State: Feira, Sevilla, Barcelona. Since Spring of last year, the new electronic communications framework is adopted that is to bring the 1998 telecom framework up to coping with the convergent markets of telecoms and media of this decade, and that introduces the necessary flexibility—if it is used by regulators to best purpose. The new framework is up for implementation by July of this year in all Member States.

Other reform is going on. The Television Without Frontiers Directive—the basic TV regulation at EU level—will be reviewed during the year. And we are, together with our national counterparts, continuously reviewing and reforming the competition law framework and principles applied to both, the telecommunications and the media sectors, trying to find the right balance between justified efficiency arguments that plead for scale—and the requirement to keep market opportunities for competitors open. And the latter pleads for strict regulatory and competition law action. I have found these two competing principles very much at the base of the arguments throughout those fifteen years in the telecom policy debate—as I find them now at work in the media sector on which I have more recently concentrated. The consolidation of the current digital platforms in Spain and Italy are cases in point for the latter.

In all of this, the partnership between the National Regulatory Authorities in both telecom *and* media will play an even larger role, both at EU level and national. We have successfully applied that partnership during the liberalisation process of the nineties. Difficult issues, such as the future regulation of mobile and broadband, are currently under discussion, as are the future principles to be applied under competition law to access to TV distribution platforms and to critical content, such as the top football leagues' rights, and premium film rights. Again we will depend on the search for excellence between regulators, both sector specific and competition authorities, in order to make, together, the right decisions.

I am sure that the speeches and the debate during this event will take perspectives forward, and I understand that we do have some intriguing questions posed to the podium, on cable, mobile, future convergence of media and telecom markets. I would like to leave this for debate, and I am looking forward to this.

Let me conclude on a last reflection. What is the principal lesson, I believe, we should learn from the 15-year successful liberalisation process that we have seen in European communications? In periods of uncertainty on future prospects, as we are currently living through in both the telecom and the media markets, I continue to believe that the right answer is less regulation, *and not more*. Or, let me be more precise: to concentrate regulation on the vital links and bottlenecks in the economic chain that must be regulated, in order to safeguard a pro-competitive market development. It is always the creator and, I should add, the investors that create the future. We must let them create and invest, in order to allow the new markets to develop—and they need for that an open and flexible environment, and the possibility of returns that justify the risks they have to take.

Regulation is required for setting the ground rules, and to secure the goals that our societies agree should be achieved. *But* it is an instrument to be used with caution. I would suggest keeping this in mind.