

Keeping up, the right way!

Europe needs to do something to keep up with global competition in broadband. But the EU Commission's idea of creating more competition through a new super agency would be the worst signal that Brussels could send, writes business editor Theo Geers.

VIVIANE REDING is winding up for a big hit. Politically strengthened by success in the struggle against excessive roaming fees, the EU Commissioner for Information Society and Media now wants to push through to what she perceives as the core of all problems for the European telecommunications sector (compared to the US or Japan): fragmentation of the market into 27 national sub-markets, with up to 27 different regulating authorities. She is convinced that the resulting conditions cause 500 million consumers in the EU to miss out on many modern telecommunications services. So she has proposed reforms of the European telecommunications sector, which were presented in November 2007.

The question remains as to whether her proposals truly represent a comprehensive solution. If the rules for the European ITC branch are to be altered as dramatically as planned by the EU commission, one thing must be kept in mind: This branch is responsible for ensuring that investments continue to be made in higher-performance communications networks, so that the old continent does not lose ground in global competition. Therefore, the new regulation framework must not aim only at more competition between the established top dogs and their challengers. It must also provide sufficient motivation for investment, especially in broadband networks. Otherwise, it will hardly be possible over the long term to master the growing flood of data. The fact that, after only a few years of existence, video streaming via YouTube alone absorbs 10 percent of total internet data traffic indicates the challenge arising from the growing demand for bandwidth. This demand is increasing faster than networks are being expanded.

Not particularly ambitious

Measured against this and the efforts being made in other regions of the world, Reding's suggestions don't seem particularly ambitious. The question is not why consumers need data transmission rates of 50 Mbps or what kind of content can or should be transmitted with this kind of bandwidth. Rather, the important thing is to be able to offer as many consumers and companies as much bandwidth as possible.

The need to catch up is clear, even in countries like Germany:

99 percent of urban areas have access to broadband connections, as opposed to 59 percent of rural areas. But even this statistic is padded, as connections with bandwidths of less than 1 Mbps are also counted. More worrying is the situation in other EU countries. However, no national economy can afford, over the long term, to allow millions of citizens in rural regions and high-density areas to be completely or partially cut off from modern internet communication.

Insufficient internet access also disadvantages companies that need data transfer for both external internet promotion and conducting their business. This affects schools, whose pupils are only familiar with the internet research prescribed in the curriculum from hearsay; or public administration, which is unable to realize savings potential in the context of e-government. "Broadband for all" – this initiative taken up again in Reding's telecommunications package is therefore appropriate. But the EU cannot occupy itself simply with closing the digital gap between city and country.

It must also ensure that the digital gap, compared to other dynamically growing regions where the pace of expansion of broadband connections is considerably greater, does not grow even larger.

Endangering expansion

This is precisely what could occur, as Viviane Reding is, now of all times, endangering the urgently needed expansion of networks by intending to keep the broadband market in Europe subject to regulation for the indefinite future. It's justifiable when, as in Germany, the dominant network operator, Deutsche Telekom, receives an official exemption in order to initially keep competitors at a distance from the new VDSL network. For such cases, Reding also wants to increase the power of national regulators. This should extend to the point that, as a last resort in the case of serious encumbrances of new competitors, the regulator would be able to force the dominant providers of telecommunications services to undertake a functional separation of networks and systems. But Reding does not seem to expect all that much of these strengthened national regulators; at the same time, she wants to create a new



European regulating authority. In extreme situations, the new authority would be able to overrule the decisions of a national regulator.

Insecure investors

However, to date there has been no indication that a new authority in Brussels with 100 employees would make better decisions than a national regulator. Because of their market proximity, national regulators are generally better able to judge whether their decisions stimulate competition or whether decisions generally targeted at a country's dominant network operators will instead be taken as a signal that investments in fixed networks no longer pay and therefore remain undone or will be reduced. Investor insecurity would be even greater with a European regulator, because a regulatory decision made at the national level might later be changed at the next higher European level. Especially against the background of global competition, this would be the worst signal that Brussels could send. Therefore, Viviane Reding's idea of creating more competition through a new European super agency might backfire with respect to network expansion. □

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