

Speaker's Notes: J. Scott Marcus

Policy and Regulatory agenda

- How should the Digital agenda objectives be rethought to take stock of the latest competitive and technological developments of the telecommunications and ICT sector?
 - How could the current European regulatory framework be reviewed in order to support investments and international competitiveness in ICT?
 - Which should the new priorities be? Which infrastructures, services and innovations goals (e.g. number of start-up) would allow Europe to re-gain a top spot in the global ICT arena?
 - Which actions and policies interventions would be needed to reach this new set of goals?
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The European institutions are expected to use Impact Assessment to figure out how to make things better. It's a useful way to tackle problems, large or small. With Impact Assessment, you progressively define and refine (1) what the Problem is, (2) what your general and specific Objectives should be in addressing the problem, (3) what policy interventions might realistically help to achieve the objectives, (4) how to group those policy interventions into meaningful sets of Options, and (5) what the costs and benefits of each of those Options might be expected to be, both in terms of the Objectives and also in terms of side effects (both good and bad).

The Problem?

When the Regulatory Framework was put in place in 2002-2003, the problem seemed fairly clear. Europe had not yet fully liberalised. Thanks to the legacy of state-owned monopolies in most Member States, prices were high, network utilisation was depressed as a result, and the lack of competition provided little incentive for investment in modernisation of the network. Services and networks were somewhat fragmented, resulting in a lack of economies of scale. The European equipment industry was seen as compartmentalised due to monopsony purchasing patterns by the incumbent operators in most Member States.

Twelve years into the process, we need to ask ourselves which of these problems are still relevant. Some have been more-or-less solved; others were addressed, but did not yield the expected gains. For instance, solving the monopsony problem failed to benefit European equipment manufacturers. What problems do we need to look at today?

Liberalisation of telecoms markets in the EU is substantially complete. Prices are low. Competition based on wholesale remedies is well established; however, it would not be self-sustaining in the absence of wholesale remedies. Contrary to what many have claimed, network investment is reasonable in my view, as exemplified that fact that Europe has achieved the highest fixed broadband adoption in the world.

The next round of problems is quite different. Investment in ICTs is still behind many global competitors – we never reached the Lisbon goal of 3% of GDP. Europe still does not produce enough entrepreneurial success at the application level. Our media markets are fragmented along national and linguistic lines – *a huge and under-appreciated problem relative to deployment and adoption of fast broadband*. Cross-border e-government services are limited because the underlying services are fragmented and diverse.

Generals are sometimes accused of fighting the last war, rather than the next one. Solving the next round of problems may call for different approaches than those which were employed in 2002 ... but this does not necessarily imply abandoning the successes already achieved, and the tools used to achieve them.

The Objectives?

The 2002 objectives are in some sense well expressed, but in other ways not sufficiently thought through. There are too many objectives, no acknowledgment of the tensions among them, and no prioritisation. Trying to satisfy all of them at once satisfies no one.

The logical objectives today are not that hard to identify; finding solutions, however, is daunting. Nonetheless, we as Europeans need to tackle them, one by one.

- The overall level of investment in the use of ICTs needs to approach the levels found in our global competitors. The best EU companies invest as much as the best companies anywhere. For whatever reason, many of our companies do not. SMEs probably need special attention.
- We need to do a better job of promoting digital entrepreneurship. The move from the Framework Programmes to Horizon 2020 may help ... or not. Are we promoting entrepreneurship, or are we only supporting post-graduate education?
- We have to find better ways to produce high quality audio-visual content, and to make it available over-the-top and by network operators; otherwise consumers will have no reason to acquire or use fast broadband services. Europe already produces more films than Hollywood, and our artistic quality is high, and our cultural diversity is something that we as European cherish; however, we collectively earn *far* less than Hollywood. Fragmented markets are a problem, but a million problems relating to markets fragmented along linguistic and cultural lines, release windows, copyright, and competition issues get in our way. As Einstein said, *things should be as simple as they can be, but no simpler.*
- We need our market players to have sufficient economies of scale, and sufficient profitability, to hold their own against global competitors. The degree to which recent real and attempted acquisitions in Europe are driven by Latin American wars is striking, and troubling. At some point, we will need to acknowledge that regulated prices have reached sufficiently low levels – pegging them even lower would *transfer* welfare without increasing it, and risks sacrificing medium and long term dynamic efficiency to achieve short term static efficiency gains. But where are we relative to that point?
- Cross-border e-government services are quite important; however, the EU in which we live is a confederation, not a federal system, and the voters have made it clear that they want thing to remain that way. Enabling operation cross-border is *hard work*. In a recent study for the European Parliament, we concluded that *not a single cross-border e-government initiative is delivering much in the way of results.*
- In the ongoing discussion of the Digital Single Market, we need to be *much clearer* about what we think it is, and why we think we want it. Consumers presumably want to be able to use services anywhere in the Union, with as few barriers and as little complexity as possible. Businesses need to connect their operations seamlessly, at costs that rival those of global competitors including the US and China. Services providers should be able to reach consumers throughout the Union, without being subject to artificial barriers, and they should be free to benefit from the scale economies of EU-wide operation. Those are the considerations that should drive the discussion.

The Action Lines?

All of these challenges call for substantial policy interventions; however, very few of the actions that are needed are regulatory actions. *The new actions that will be needed for the next phase are likely to have a great deal to do with industrial policy, and very little to do with regulation. We sometimes confuse the two, but they are not the same thing.*

Indeed, a range of tools is needed, not just one. We should be thinking not only about telecoms regulation, but also about research policy, standardisation, competition law, (audiovisual) media policy, and industrial policy in the large. “When all you have is a hammer, everything looks like a nail.”

It is much easier to pose the questions today than to state the answers – but our 2013 studies for the Parliament contain, if not answers, at least hints of answers to a few of the questions. The relevant questions might include:

- Based on the lessons of the past twelve years, where might it be possible to simplify the regulatory system?
- Where is regulatory *uniformity* needed at European level, where is it more appropriate to (in the words of Chairman Mao) “let a thousand flowers bloom” in recognition of different national or local circumstances?
- Can we come up with a more nuanced view of the target profitability of firms? Is it possible to strike a different balance between static versus dynamic efficiency, between Schumpeterian creative destruction versus neo-classical economics, without undermining the integrity of our regulatory instruments?
- Do we want trans-European networks? Why? Are we impeding the ability of firms to merge to achieve European scale? Are we undermining incentives to merge? Do we care?
- How do we achieve a fundamental reinvigoration of audiovisual media as an industry in the EU, not only in terms of distribution (especially via OTT players and network operators), but also in terms of production for a European and global audience?
- How do we promote digital entrepreneurship? To what extent are our European social institutions compatible with a culture of true entrepreneurship?