

Industrial policy, telecom regulation and market performance in Europe

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




























Brussels, 22 June 2014

EUROPE'S DIGITAL ECONOMY FACES MULTIPLE CHALLENGES ...

Competitiveness Europe losing ground in all segments of the ICT industry	Sector value Eroding market capitalization in Europe. Value shifts towards North America and adjacent Internet markets.	Market structure EU telecoms market highly fragmented. Insufficient scale harms ICT industry in Europe.	Revenues Prolonged revenue decline in European markets; at the same time, data traffic grows tremendously.
Investment EU lacks investment up to 270bn EUR for high-speed next generation networks.	Regulation Harsh regulatory framework despite intense competition in converging markets.	Convergence Competitive pressure from OTTs and global telco giants squeezing European telecoms industry.	Cyber security Europe lacks an integrated cybersecurity, data protection and privacy strategy.

... AMERICAN AND ASIAN COMPANIES DOMINATE ALL SEGMENTS OF THE ICT MARKET

ICT Leaders 2012 (by revenues)

IT Services	PCs/laptops/tablets	IT Hardware
1. IBM 	1. Apple 	1. HP 
2. HP 	2. HP 	2. Canon 
3. Fujitsu 	3. Lenovo 	3. Dell 
4. Accenture 	4. Dell 	4. Ricoh 
5. NTT Data 	5. Samsung 	5. IBM 
Software	Devices	Semiconductors
1. Microsoft 	1. Samsung 	1. Samsung 
2. IBM 	2. Apple 	2. Intel 
3. Oracle 	3. Nokia* 	3. Texas Instruments 
4. SAP 	4. HTC 	4. Qualcomm 
5. Symantec 	5. LG 	5. Toshiba 
Equipment vendors	Network operators	www (worldwide)**
1. Cisco 	1. NTT 	1. Google 
2. Ericsson 	2. AT&T 	2. Facebook 
3. Huawei 	3. Verizon 	3. YouTube 
4. Alcatel Lucent 	4. China Mobile 	4. Yahoo! 
5. NSN 	5. Telefónica 	5. Baidu 



European companies



US companies

* Mobile division sold to Microsoft on April 25, 2014

** Top sites

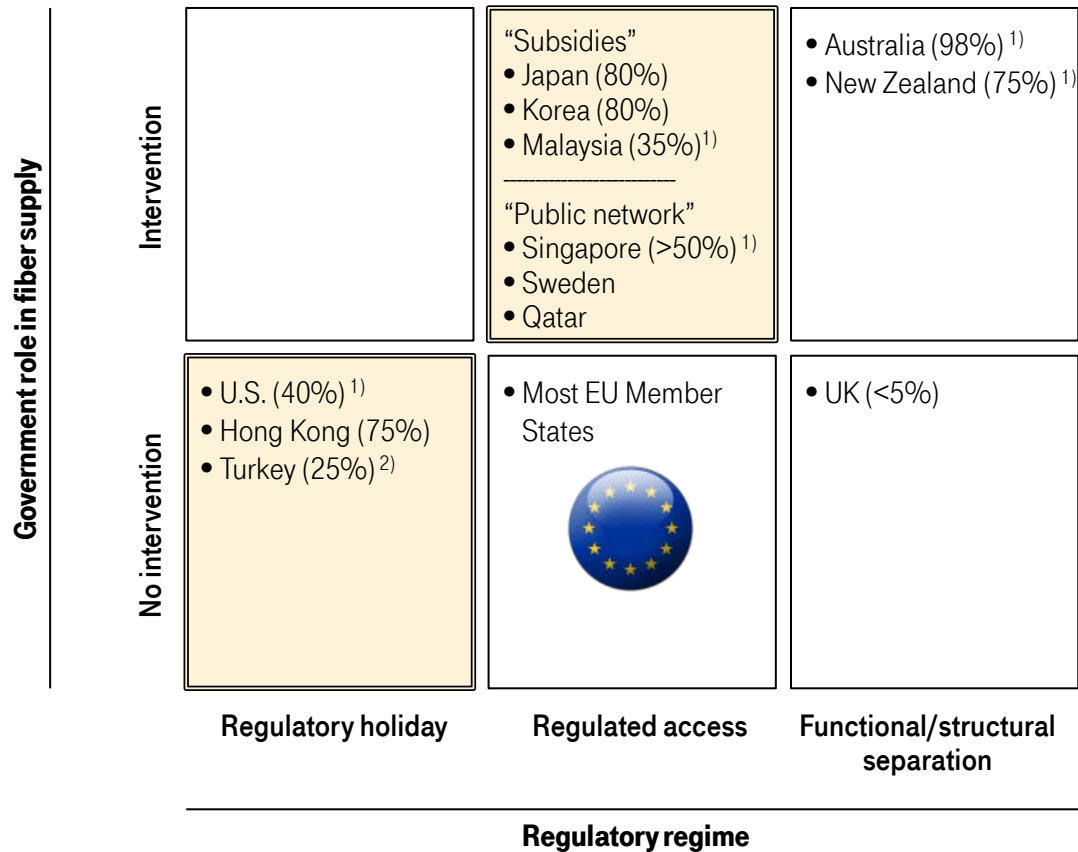
Source: A.T. Kearney, ETNO, Alexa

Trends

- Less than 10 percent of global ICT revenues are generated by European companies.
- Former market leaders have been picked up by global competitors (Nokia) or have exited market segments (Siemens).
- Many European industries are increasingly reliant on non-European ICT players.

EUROPE'S POLICIES IN THE TELECOM SECTOR HAVE NOT INCENTIVISED OPERATORS TO DEPLOY FIBRE NETWORKS

OBSERVED SCENARIOS TOWARD FIBRE ACCESS REGULATION



Only a solution that delivers funding to the industry appears to work for large-scale fibre rollout

"Should Europe adopt an industrial policy to strengthen its telecoms sector?"

INDUSTRIAL POLICY: A DEFINITION

*“Industrial Policy is any type of **intervention** or **government policy** that attempts to **improve the business environment** or to alter the structure of **economic activity** toward **sectors, technologies** or **tasks** that are expected to offer better prospects for **economic growth** or **societal welfare** than would occur in the absence of such intervention.”*

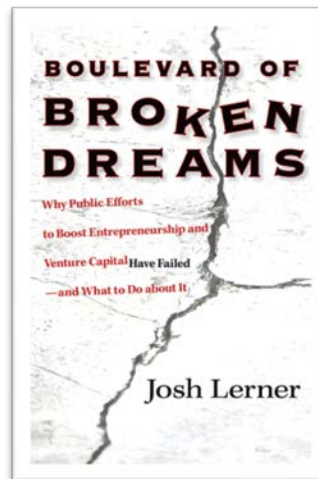
(OECD definition)

INDUSTRIAL POLICY HAS A BAD NAME ...

- Governments „picking winners“ and saving losers ...
- thereby distorting competition
- and exposing themselves to capture by vested interests



„This house believes
that industrial policy
always fails“



Flaws law

Attempts to establish semiconductor industries

Country	Date*	Estimated subsidies† \$bn	Sustainable competitive edge?
United States	1976-80	12-36	✓
Japan	1980-82	19-54	✗
Taiwan	1990	15-43	✓
South Korea	1990	9-26	✓
Singapore	1995	5-16	✗
Germany	1996	2-7	✗
China	1999	6-17	✗
Malaysia	2001	1-3	✗

* Point at which industry investments exceeded \$1bn

† Cumulative government incentives

Source: McKinsey Global Institute to 2008, estimated at 20-35% of total investment

... BUT THERE ARE REASONS FOR A RETHINK

Reasons

Explanation

Weak state of many European economies

- Need to reduce unemployment and stimulate growth

Structural imbalances in the economy

- Deindustrialization, preponderance of finance and property (UK, US)

Investment in the 'right' sectors?

- Capital market imperfections and credit constraints may limit capital inflow to sectors with growth potential and positive effects on the rest of the economy
- Path-dependence of innovation

Responding to foreign policy approaches

- Need for a response to policies adopted by economies such as China and South Korea?

TWO PROMINENT PROPONENTS



Philippe Aghion
Harvard University

„Without a proactive choice to develop a national industry through the provision of public funds, through securing a public sector demand for industrial products ... Korea would have remained a producer of rice instead becoming a global leader in consumer electronics“



Dani Rodrik
Princeton

„Industrial policy: don't ask why, ask how“

INDUSTRIAL POLICY IN THE TELECOM SECTOR: IMPLICITLY, ALREADY PRACTICED?

EXAMPLE: GERMAN 2010 SPECTRUM AUCTION

Acquisition of spectrum in the 800 MHz band implies **coverage obligations** must be observed (i.e. small communities must be served first with mobile broadband)



Deutsche Telekom's first LTE antenna tower in Kyritz, Brandenburg

→ *isn't this industrial policy?*

THE CASE FOR INDUSTRIAL POLICY IN THE EUROPEAN TELECOM SECTOR

Government's natural interest and competence	<ul style="list-style-type: none">• Telecoms as critical infrastructure• Persistent regulatory engagement• Proximity as success factor for industrial policy to work
Positive external effects	<ul style="list-style-type: none">• Telecoms as general-purpose technology (GPT)• Enabling function for other industries• Risk of market failure in the presence of external effects
Capital market imperfections	<ul style="list-style-type: none">• Very long investment payback periods• Sceptical investors due to disappointing sector performance in the past• Credit constraints due to sector's indebtedness
Optimizing laissez-faire equilibrium	<ul style="list-style-type: none">• Avoiding a digital divide: Government intervention may direct investment towards an equilibrium socially more desirable than the laissez-faire equilibrium
