COMMENTARY
Thinking ahead for Europe

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Europe's telecoms reform fails to fly

William Echikson

Europe today enjoys a giant opportunity to step into a position of global internet leadership. While the new Trump Administration readies to pare back key digital policies, notably net neutrality, Europe is pressing forward with a new reform of its telecoms sector that aims to spread cheap, convenient and high-speed broadband access throughout the continent.

Unfortunately, Europe looks set to miss this golden opportunity. Instead of unshackling the telecommunications sector, my colleague Andrea Renda recently completed a comprehensive report for the European Parliament showing that the proposed reform looks set to throttle much-needed competition, slowing rather than speeding up high-speed internet adoption and piling potentially fatal regulation onto cheap voice-call options, such as Skype, and new emerging messaging services such as WhatsApp and Facebook Messenger.

How did we arrive here? First, the good news. Over the past few decades, Europe has deregulated the old state-run monopolies such as Deutsche Telekom, France Telecom and Telefonica and encouraged them to compete. New entrants arrived and competition has led to low prices. The average European today pays less than $50 a month for broadband access, about half the average American, and European mobile phone subscriptions are also two times cheaper than comparable American plans.

At the same time, Europe is in dire need of an expensive upgrade to its internet. In the US, broadband investment reached $562 per household in 2013, compared to a mere $244 per household in Europe. US telcos are flush with cash. European telcos face tight bottom lines. Americans enjoy unlimited data mobile phone subscriptions. Europeans face tough data limits.

The best way to reverse this disturbing trend would be to unleash the market. But instead, the European Commission's proposal requires telcos to invest in expensive high-speed fibre optic – even though it is unclear whether fibre represents the most cost effective technology. Mobile might do the job, at much lower cost. Yet on spectrum, the key raw material required to build high-speed mobile networks, the Commission proposes to extend the duration of licences, and couple the measure with more stringent requirements. It rejected more ambitious options, which would entail the full centralisation of spectrum management and allocation in key bands.

William Echikson is Head of the CEPS Digital Forum. He contributes this commentary as a companion piece to the in-depth report prepared by his colleague Andrea Renda for the European Parliament.

New internet-based messaging services face a troubling similar mish-mash of national control. Today, Skype, WhatsApp, Viber or Facebook Messenger represent a perfect demonstration of what Europe hopes to achieve – a true digital single market service. A Finn or a Spaniard – indeed any European citizen – receives the same free or low cost communications, no matter where he or she is located.

Under the new telecoms proposal, these internet innovations will be defined as telecoms services, responsible for reporting to 28 national European regulators. Potential obligations include the expensive, technically onerous requirement to connect to local emergency services and file financial reports in each different jurisdiction. The upshot? A Finn and a Spaniard might suddenly receive quite different access to messaging apps, with suppliers shutting down in countries imposing expensive regulatory burdens.

This new regulation is unnecessary. The telcos realise that voice calls offer no future. Data-rich applications such as WhatsApp and Viber are the future, driving data subscriptions to their networks. Instead of threatening the future financial health, the new internet apps and the incumbent telecoms should be allies.

One helpful move would be to end the tyranny of Europe's 28 separate national regulators and create a single pan-European regulator. To its credit, the European Commission attempted this reform back in 2001 and again in 2009, only to face strong national resistance. This time around, it went for small steps to increase regulatory coordination.

The timing could not be worse. Across the Atlantic, the new Trump administration seems determined to erode "net neutrality", the principle that all data transmitted through the internet should be treated equally. If net neutrality is buried, rich telcos will favour their own content and charge others a premium to obtain a place in the internet fast lane. The next generation of American tech innovators will be smothered in their cradle.

In contrast, Europe is keeping its strict net neutrality rules. Europe's tech start-up scene already is coming alive, with a record-setting $13.6 billion invested last year, compared with $2.8 billion in 2011. The next generation of global innovators could find that it makes economic sense to innovate in Europe, without the uncertainty of whether they will be gouged for internet access.

The fate of Europe's new proposed telco regulation will play a crucial role. The European Parliament and Europe's national governments are still free to amend and improve the Commission's proposal. They should take the opportunity. Deregulate the telcos. Stay away from new internet services. This recipe represents Europe's best chance to give birth to the next Silicon Valley.