

# The Single Market and Consolidation in European Telecoms

## Two sides of the same coin?

Bruegel Competition Policy Lab Oct 17, 2013

Ralf Nigge, Deutsche Telekom



LIFE IS FOR SHARING.

# LACK OF A SINGLE MARKET SEEN AS AN OBSTACLE TO CONSOLIDATION

*“The industry would do well to consolidate across national borders, if that meant lower prices and new and better services. [...]”*

*“I have to say markets – using a plural noun – because there are 27 of them in the EU; each Member State has its own regulatory environment and each awards its own spectrum licenses.”*

J. Almunia, Commissioner for Competition

*“Over time, as a genuine single market for electronic communications emerges, the geographical scope of markets will also need to evolve, for the purposes of both sector-specific regulation based on competition principles and the application of competition law itself. “*

Commission Communication on the Telecommunications Single Market

# CONSOLIDATION FROM OUTSIDE EUROPE A REALITY

June 28, 2012 9:47 am

## América Móvil meets 27.7% KPN share goal

By Matt Steinglass in Amsterdam and Daniel Thomas in London



América Móvil, the Mexican telecoms group, has pledged to become a long term partner for KPN after shareholders overwhelmingly backed its bid for almost 28 per cent of the troubled Dutch telecoms group in spite of management misgivings.

América Móvil, owned by billionaire Carlos Slim, said KPN shareholders representing nearly 40 per cent of all shares had accepted its offer of €8 a share when the bidding period closed on Wednesday.

América Móvil limited its stake to a maximum of 27.7 per cent in the hostile tender offer, and had already acquired 24.9 per cent of KPN's shares in other transactions before Wednesday, which means that just 2.8 per cent of the shares that accepted the bid will need to be purchased.



TECHNOLOGY | January 17, 2013

## AT&T Stalking Europe for Mergers

Article | Stock Quotes | Comments

By ANTON TROIANOVSKI, ANUPREETA DAS and DANA CIMILLUCA

AT&T Inc. ↑1.36% is once again starting up its deal machine.



The telecommunications giant is considering buying a counterpart in Europe, a bet that it can best escape constraints on growth at home by getting into a new wireless market where it can upgrade technology and roll out more lucrative pricing strategies, people familiar with the carrier's thinking said.

The company is currently studying targets, and a deal—if one happens—could come before the end of the year, those people said.

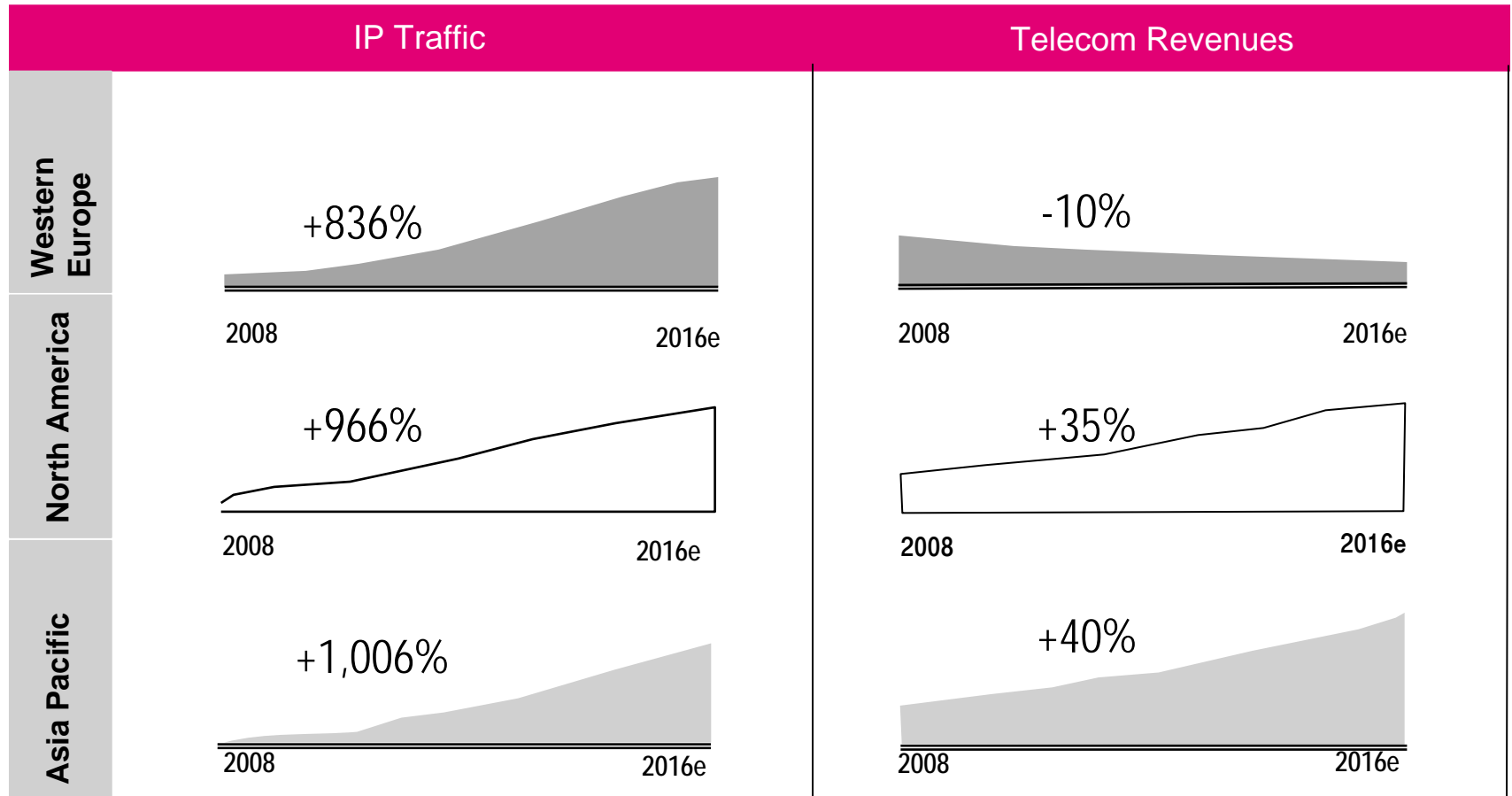


?



?

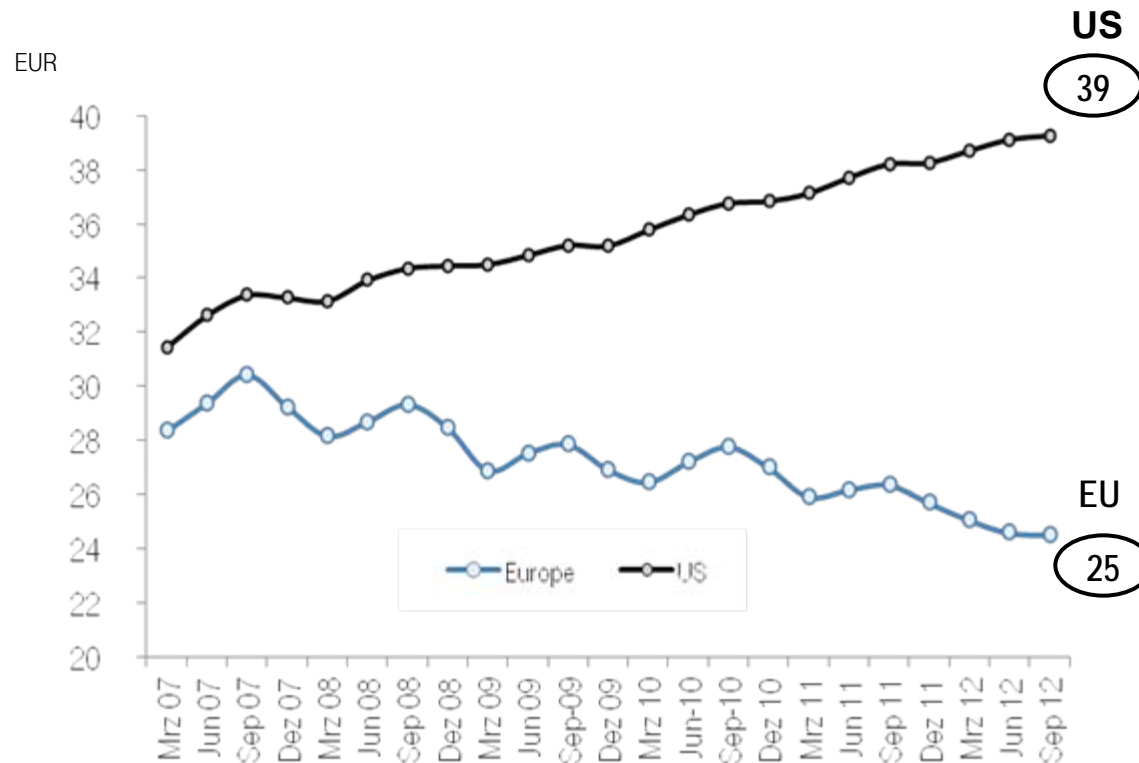
# DECLINE OF EUROPEAN TELECOM REVENUES COMPARED TO OTHER WORLD REGIONS



Source: European Commission (Sept. 2013)

# SPOTLIGHT ON WIRELESS

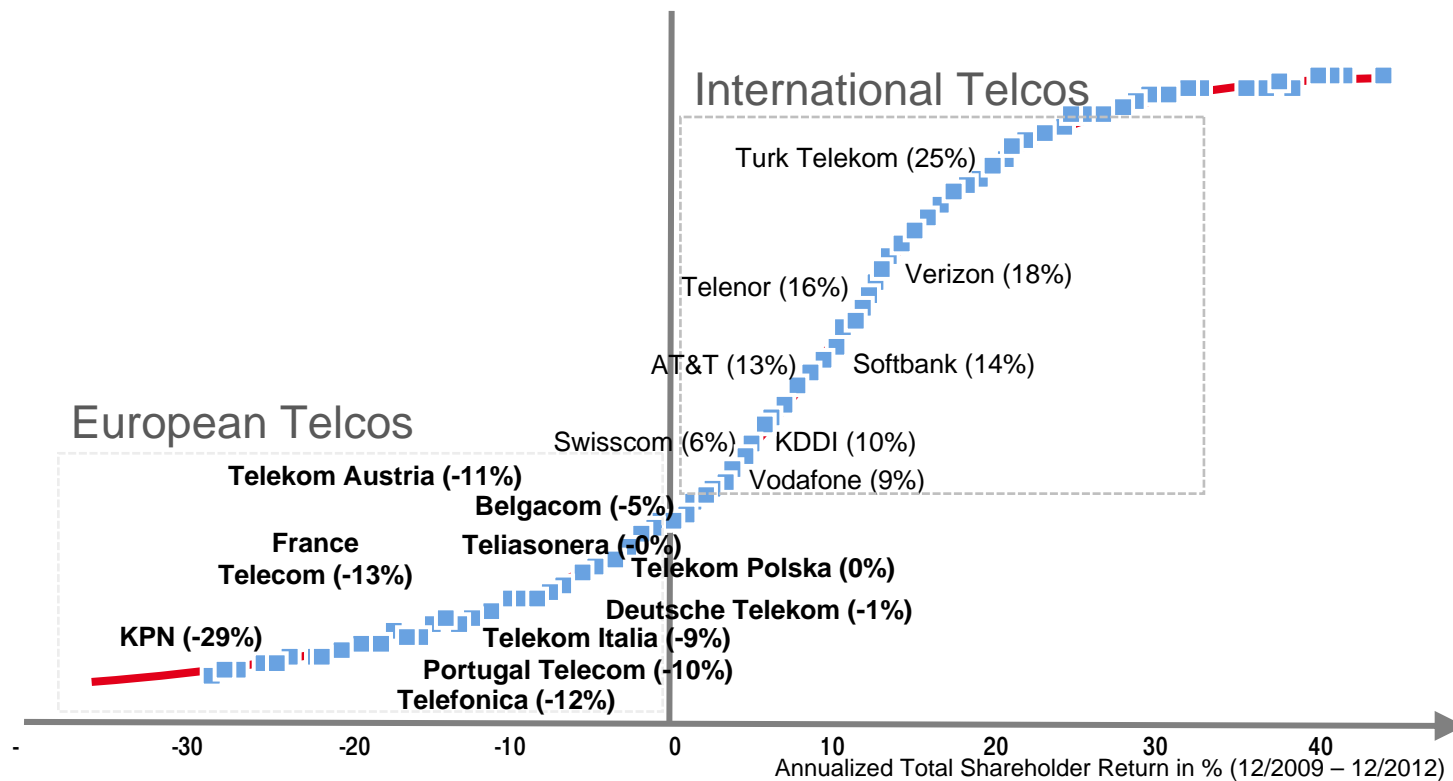
Wireless service revenues per capita in the U.S. and Europe



Source: Bernstein Research (Feb 2013). Exchange rate USD/EUR as of Sep 12.

# NEGATIVE TOTAL SHAREHOLDER RETURNS FOR MANY EUROPEAN INCUMBENTS VS. GLOBAL PEERS

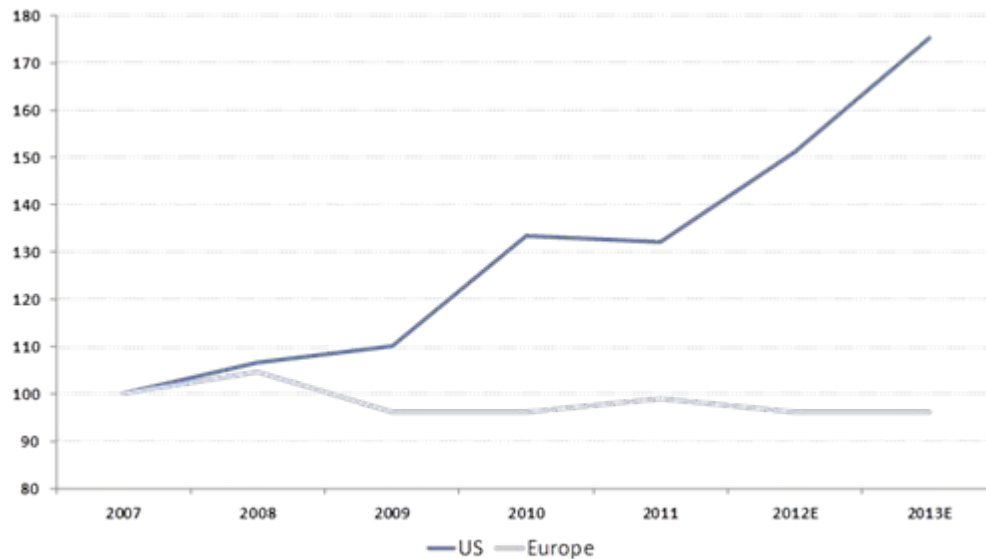
Annualized Total Shareholder Return (12/2009 – 12/2012)



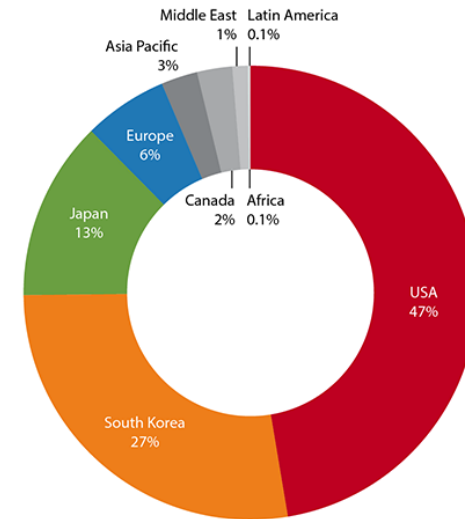
Source : BCG.



# INCREASE IN INVESTMENT CAPACITY NEEDED TO REGAIN POSITION IN GLOBAL COMPETITION



Widening CAPEX gap between EU and the US



„Europe led the world in wireless communication: now we have fallen behind“  
(Neelie Kroes, January 2013)

Even at stable CAPEX ratios, revenue decline in EU vs. revenue growth in the US lead to widening CAPEX gap

# RATIONALE FOR RECENT CONSOLIDATION IN TELECOMS

## Recent M&A activity not driven by EU cross-border synergies

- High pressure to cut costs and decreasing revenues in the face of competition from regulation-based entry and new over-the-top (OTT) services.
- Need to achieve economies of scale and density
- Achieving economies of scope, including response to fixed-mobile convergence
- Strategic rational to enter EU as key global market when share prices in the sector are low

## Economies of scale and density

- Economies of scale through fixed-cost depression
- Efficient use of scarce frequencies
- Higher density of combined networks
- Countervailing power with regard to OTT firms
- Economies of scope through vertical efficiencies

## Other Effects

- Higher coverage due to geographically complementary networks
- Capacity for convergent offers (e.g. quad play)
- Better network performance
- Better return on investment will increase investment incentives and overall financial strength



# WILL THE TELECOMS SINGLE MARKET REGULATION ENCOURAGE CROSS-BORDER CONSOLIDATION?

On Sept. 11, Commission presented a draft regulation on measures concerning the Telecoms Single Market

Topic	Proposal	Relevance for consolidation - telecom network operations	Impact
Single EU Authorisation	<ul style="list-style-type: none"> <li>One EU authorization for telecoms operators</li> </ul>	<ul style="list-style-type: none"> <li>Low: network operations require local presence</li> </ul>	no / only for service-based
EU fixed wholesale access products	<ul style="list-style-type: none"> <li>three standardized wholesale products to be imposed instead of existing products if SMP is found</li> </ul>	<ul style="list-style-type: none"> <li>Low: will harmonise conditions for access-based service competition</li> </ul>	no / only for service-based
Spectrum Policy	<ul style="list-style-type: none"> <li>Coordination of allocation conditions and timelines of radio spectrum EU</li> </ul>	<ul style="list-style-type: none"> <li>Medium: allocation stays national; alignment of timelines and bands helpful for EU-wide operations</li> </ul>	yes / positive potential
Roaming rules	<ul style="list-style-type: none"> <li>No obligation to "decouple" roaming retail services if "roam-like-home" offers by 2014 - 2016</li> </ul>	<ul style="list-style-type: none"> <li>Medium, but previous concept that encouraged smaller players to join larger alliance abandoned</li> </ul>	uncertain
Harmonisation of consumer protection and net neutrality rules	<ul style="list-style-type: none"> <li>Full harmonisation of rules on transparency, switching et. al.</li> <li>Prevents fragmentation of rules on network management</li> </ul>	<ul style="list-style-type: none"> <li>Medium: network operations still require local presence, expertise</li> <li>Facilitates launch of similar services in EU several markets</li> </ul>	small for network operator / larger for service-based

# MARKET DEFINITION

## FROM EU SINGLE MARKET TO SINGLE EU MARKET?

### Geographic market definitions

#### IP services layer

- IP-based 'OTT' services substitute former telecommunication services through market convergence: competition at global level; market definition may be EU-wide or global

#### Network Access layer

- Fixed high-speed broadband access: competition conditions differ locally/ between regions; huge varieties within some EU member states
- Mobile access: markets currently national; cf. national spectrum assignment
- Impact of fixed-mobile convergence on geographic market definition?

### Product market definitions must take an integrated perspective

- Fixed-mobile substitution, platform competition
- OTT services (Skype etc.) providing strong competition to traditional telecoms services



# COMMON EU PRICING - A PIPE DREAM?

Costs deviate across Europe with regard to

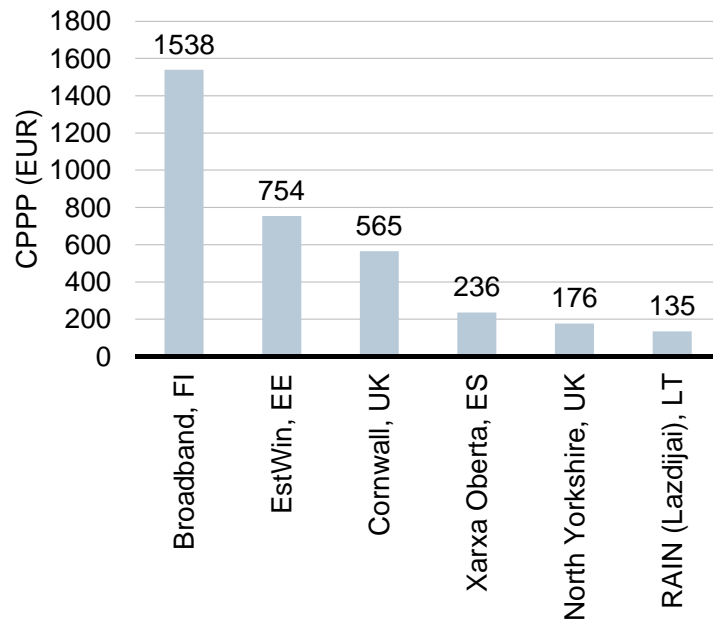
Geographical topology

- Population density
- Construction requirements

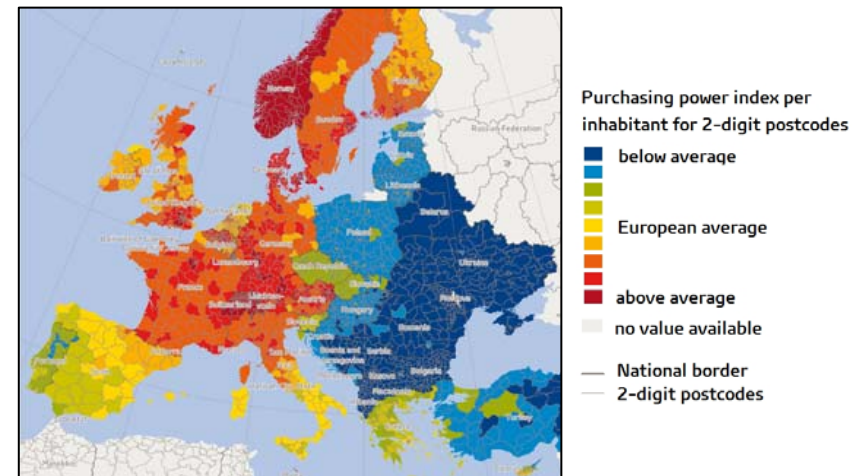
Market conditions differ with regard to

- Platform competition esp. from cable
- Population's purchasing power
- Reach and quality of the legacy infrastructure
- Consumer adoption patterns

Cost per premise passed for selected European fibre projects



Customer Purchasing Power Index



# EU COMPETITION POLICY AND MARKET CONSOLIDATION

## - INITIAL THOUGHTS

Is impact of current competition policy putting Europe at long-term strategic disadvantage?

- Reconcile ICT policy goals with competition policy
- Higher concentration in markets which heavily depend on scale and/or require more sustainable long term perspective like physical infrastructure businesses
- Merger policy has to evolve to better take into account long term dynamic effects on welfare - avoid 'inefficiency bias' of EU competition policy
  - More freedom to pursue in-market consolidation without remedies that undermine synergies

# CONCLUSIONS

- Rationale for present industry consolidation not linked to Telecoms Single Market
- Commission Single Market proposals will not fundamentally alter the business case for cross-border consolidation
  - Proposals will not result in EU-wide market definitions for broadband access markets
  - EU-wide spectrum allocation could be a game changer for mobile - not envisaged
  - Facilitating cross-border service provision is to increase competition in IP-based services but does not respond to EU investment challenge
- Policy shift needed to boost EU investment capacity and regain position in global digital economy:

- Ease market consolidation and cooperation in telecoms
  - Review understanding of market definitions and dynamic efficiencies in evolving ICT markets
- Adopt ambitious deregulatory agenda in telecoms legislation

**Thank You!**



LIFE IS FOR SHARING.