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ECONOMIC AND SCIENTIFIC POLICY

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Cross-Competition Among Information (Digital) Platforms

Study for the ITRE Committee

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Cross-Competition Among Information (Digital) Platforms

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POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Cross-Competition Among Information (Digital) Platforms

Proceedings of the Workshop

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STUDY

Abstract

The workshop, prepared by Policy Department A for the ITRE committee, addressed the questions "should we avoid global information monopolies, and what place for European platforms?" It concludes that it is unclear how dominant large digital platforms actually are. Markets are often contestable due to dynamic competition for the market. Policy should focus on paving the way for European champions and there is a need for revising non-digital policies governing traditional industries in order to remove barriers for enterprises to adapt to new realities.

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EXECUTIVE SUMMARY

Background

The workshop was organised by the ITRE Committee and co-Chaired by MEP Jerzy BUZEK (the Chair of ITRE Committee) and MEP Miloslav RANSDORF (the Vice-Chair of ITRE Committee).

The need for this workshop was borne out of two concerns. First, Internet companies are growing larger, raising concerns about market power and the detrimental effect on innovations. Some argue, however, that in digital markets these concerns are unfounded as digital monopolies invite innovators to enter the market, routing them to innovate as well. Hence the question: “Should we avoid digital monopolies?” Second, it appears that most of the innovative solutions come from overseas (or move there shorty after take-off). Hence the question: “What place for European platforms?”, and furthermore, as European Telecom companies have experienced a period of increased competition from digital services and are pressured to re-invent their business model: “What role for European Telecom?”

Competition and innovation in digital markets

Internet has been a constant dynamic cycle of winners and losers, where today’s winners are tomorrow’s losers. Firms offering different services to consumers (e.g. social media and search engines) compete on their second market (e.g. while serving advertisers). The boundaries of these markets are not always clear and may rapidly change due to innovations. As such, the market (although characterised by scale economies) is inherently dynamic and allows for dominant positions to be contested by new innovative business models. So what we perhaps may have are monopolies without dominance.

In an attempt to mitigate the contestability, dominant platforms acquire potential rivals or innovate themselves. This may be interpreted as pre-emption or leveraging of market power, but innovations and acquisitions are not necessarily anti-competitive. They may also be driven by complementarities, resulting in a win-win situation: the prospect of a take-over by a giant is an incentive in itself for start-ups to innovate; and giants are usually in a better position to manage “bought up” ideas by integrating them with other services.

Competition policy should treat digital markets carefully and give priority to dynamics of competition. Traditional tools such as market definition, market shares, and concentration indices do not help here, and new concepts need to be developed with a focus on recognising dynamism in markets (like entry and exit).

European leadership in the digital era: start thinking *less* digital

With the Internet of Things on the horizon and the sharing economy happening right now, fostering European digital champions is about facilitating the integration and the adaptation of the real economy with and to digital developments. A problem for most digital initiatives is that they are hampered in their growth by a thicket of rules and institutions governing the real economy. While policy makers are focussing on designing new rules for the digital economy, they fail to adjust the rules governing the real economy to the new realities. This is a problem everywhere in the world, but if Europe integrates these two worlds faster than others, it can be a leader. Europe needs to adjust policy to allow micro-enterprises with

creative destructive ideas to grow into Internet giants by constantly re-inventing / re-organising themselves to new realities.

It is up to policy makers to think more like an entrepreneur while designing, implementing and enforcing its policy mix. Indeed this policy mix includes industrial policy and innovation policy as well, but since these tend to protect stakes they may work against innovation. Instead of helping established firms in existing markets, policy should help newcomers and entrepreneurs to create new markets that cannot be fathomed beforehand. The best industrial/innovation policy is probably to *think in less digital*.

Besides investments in education and infrastructure, the most pressing policy issue is the Services Directive that should pave the way for a new company to enter a 500 million person market and to turn it upside down. But it includes other parts of the traditional policy agenda such as labour regulation and bankruptcy laws. Europe's social model may prove to be an asset in this respect as the need for publicly provided social safety nets may increase - but again, the current safety net needs to be reviewed in order to keep up with new realities.

Chances for European telecom companies in the digital era

Digital services have had a much smaller effect on the revenues of US telecom operators compared to the EU operators. An important reason is that the EU has a tradition of pay-per-minute, while the US has a tradition of free calls, and free digital services typically challenge the per-minute services and complement flat-rate broadband subscriptions. For some time now, EU telecom operators have recouped some of the lost per-minute revenues via higher broadband subscription fees. The drop in revenues has reached the bottom; for the near future one expects a return to growth.

There is much debate among policy makers about whether operators should be allowed to achieve additional revenue growth by charging a price to digital service providers for passing on the digital signal. The arguments put forth at this workshop point to a lenient approach. First, telecom operators see their bargaining power quickly vanish as commoditisation of the broadband services intensifies competition among telecom operators. Second, there is little to gain as many of the benefits have been passed onto end-users in the form of free services; referring to the Google News episode in Spain, it seems that digital players prefer to leave a market than share what is left.

An option for telecom operators to strengthen their bargaining position is to consolidate across borders.[1] There are, however, some strong doubts about such strategy. History has shown that acquisition and mergers in the EU (as opposed to in the US) only burdened telecom operators with debts thereby inhibiting investments for the next decade.

European policy makers should focus on these investments; more specifically on closing down old platforms (copper) more quickly to enable the new ones (fibre and 4G) to emerge. This requires thinking about the role of public investments as well as about the structure of the industry as there are no incentives for private investments in fibre with the current vertically integrated market of telecoms operators.

Will Internet monopolies rule our economy in the 21th century?

As we move further into the Internet of Things there are causes for concern about large dominant platforms leveraging their market power into other industries: they have deep pockets and can therefore (more easily than any others) reinvest profits, *and* they control

[1] While maintaining competitive market structures at the level of the individual Member State.

the new oil of our economy (data). But there are also mitigating factors. The added value of ICT comes in the form of complementarities between specialists in ICT and specialists in engineering, driving partnerships and joint ventures rather than takeovers (e.g. BMW/Baidu, Toyota/IBM, Daimler/Infosys, Ford/Microsoft).

We need not worry that the leverage wielded by giant platforms will eventually stop innovation in other sectors. On the contrary, in some sectors innovation has been revived (e.g. the automotive sector) while other sectors are reshuffled entirely (e.g. the retail sector). More sectors will follow, from e-health to Industry 4.0.

If Europe fails to embrace the opportunities that ICT offers, others will, and we run the risk of degrading Europe's competitiveness across the board, as opposed to capitalizing on our know-how (e.g. car industry). To prevent this from happening, industries may need to consolidate further to ensure equal footing in partnering with existing giants e.g. in e-health (a similar strategy for telecom operators was highly debated). Moreover, the transition towards the Internet of Things should be combined with sharpened antitrust and unfair competition rules to avoid that "giants" capture all value added.

How to strengthen Europe's competitiveness – views from the Commission

The Commission recognises that the Digital Agenda relates to the economy as a whole and thus to economic policy in general. But it is still important to have a 'cheerleader'/'evangelists' of organisations to make it happen. If we want EU enterprises to take up opportunities of the 'cloud', we do not want to see 28 different 'cloud-policies'. Indeed this requires coordination among Member States and among policy fields. The latter is also reflected in the wide involvement of the various DGs in the Digital Single Market project team, which is deliberately designed to encompass many segments.

1. INTRODUCTION

The Chair Mr Jerzy BUZEK (MEP) welcomed the audience and opened the session by emphasising that protecting the free market economy always involved protecting the freedom of individual businesses against anti-competitive behaviour by monopolies. The Chair pointed out that in the digital economy we have the same problem. Mr BUZEK stressed that at the same time, the digital industry is the most promising and challenging area of progress for several reasons: it is essential for the **exit strategy from the crisis**, it creates **efficiency gains** of 260 billion euros per year and **hundreds of thousands of jobs** (notably for the young generations), and finally it **drives the innovativeness of SMEs**.

Mr BUZEK stressed that it is among the European Parliaments tasks to identify the sore spots in existing legislation. The ITRE Committee is a long standing advocate of an **advanced ICT policy** and has been very active in legislative acts in this area. For example, pan-European telecom regulation and laws **reducing the costs of broadband** are among the responsibility of the ITRE Committee and we hope to open as soon as possible negotiations with the Council on the Telecom Single Market package.

The Chair introduced the four main issues for this workshop: the first is about competition and innovation in digital markets; are they reinforcing each other or not? The second is how to create European digital champions. The third issue is about the role of Internet Monopolies in the 21st century. Finally Mr BUZEK expressed the ambition to learn from the discussions about how to strengthen European competitiveness in general and contribute to the exit strategy from the crisis in terms of creating growth and jobs.

Mr BUZEK gave the floor to the first speakers explaining that each panel would be closed with Q&A session involving MEPs, industry representatives and experts present in the audience.

2. CHALLENGES FOR COMPETITION AND INNOVATION IN DIGITAL MARKETS

2.1. Do Internet Monopolies Inhibit Competition and Innovation?

In his presentation **Dr Paul DE BIJL (Director of Radicand Economics and visiting professor in Regulatory Economics at the WHU Otto Beisheim School of Management)** distinguished between four digital business platforms:

- **Retail platforms**, mediating between end-users and retailers. A prime example is Amazon. Amazon offers a virtual shopping mall and integrates this with a highly efficient and low costs distribution system.
- **Service and information platforms**: mediating between end-users and service/information providers. Booking.com is a prime example.
- **Communication platforms**: facilitating the communication among consumers and between consumers and businesses.
- There are also **hybrid models** that integrate these different types of platforms.

Most of the business models that these platforms apply are not based on charging a price to end-users (consumers), but to service providers and/or advertisers. Consumers become an input for the proposition that platforms offer as they provide the platform with personal data, which the platform can use to improve its proposition towards commercial users with targeted profiles of the audience. This raises two issues causing a risk to harm consumers and entrants:

- The different **platforms do compete** with each other for "attention" or an audience. The key to success in this competitive process lies in scale in operations while becoming a gateway to the Internet for end-users. Scale economies and network effects may create substantial entry barriers and result in a **winner-takes-all competition, creating dominant positions**
- **End-users do pay a price** (in the form of giving up personal data), but many don't know the consequences and hence they **don't actually know the price** they are paying.

Dr DE BIJL posed the question: **Are these risks for a longer period or merely temporary?** He stressed that the market (although characterised by scale economies) is inherently dynamic, which allows for **dominant positions to be contested by new innovative business** models. In an attempt to mitigate the contestability, dominant platforms may react by acquiring potential rivals with the aim of pre-emption or by innovating themselves to leverage market power. Innovations and acquisitions are not necessarily anti-competitive. They may also be driven by complementarities. Moreover, the prospects of a take-over by a giant are an incentive in itself for start-ups to innovate.

Dr DE BIJL concluded that **competition policy** / enforcement should treat the digital markets carefully and **give priority to dynamics of competition and entry possibilities** for newcomers — while protecting consumers where necessary (e.g. privacy)

2.2. Do digital business models foster innovation?

Dr Pál BELÉNYESI (University Lecturer at the John Cabot University) elaborated on the analysis of Dr DE BIJL by highlighting that start-ups are by their very nature

innovative; and this innovation brings along consumer benefits: internet based service providers are 50% cheaper than their traditional counterparts. **Digital start-ups** often come from micro-entrepreneurs and are often driven by an **"I don't like this"-attitude**. In the traditional (offline) economy, these micro-enterprises are generally hindered by low access to capital; as a new strategy, they can now benefit from **crowdsourcing platforms** or persuade venture capitalists with the prospect of a **future take-over** by a digital giant.

Dr BELÉNYESI reiterated the point stressed by Dr DE BIJL that **digital giants** (unlike monopolies in the real economy) do have an interest in innovation, as they **need to revolutionise to stay alive** (at least as long as the internet boom does not reach its peak). Moreover, digital giants are often in a position to **better manage "bought up" ideas** and are very good at distinguishing winning ideas from misconceptions as it is usually the case with SMEs.

Dr BELÉNYESI stressed further that many of the **current internet giants** (lie Apple, IBM, Microsoft, Google) **started** in the US **as micro enterprises** with great ideas or as an offspring of grand research. In addition, they found their **ideas backed by US government** – usually defence or intelligence – funding. While they grew into large corporations, these enterprises have **constantly been able to re-invent** and re-organise themselves to **adapt to new realities**. The latter stands in contrast to European companies who often fail to anticipate new technological challenges while they wait for (slow) regulatory reforms (of various kinds).

In addition to Dr DE BIJL's recommendation that more focus should be given to dynamics in the enforcement of competition law, Dr BELÉNYESI identified **room for improving** the "innovativeness" of the EU economy in **accompanying policy actions** – beyond competition and change in consumers' digital skills –in relation to:

- **reducing regulatory burden** for EU companies (across the board);
- showing a more **pro-active approach to innovation** by governments e.g. by: using the power of being a large buyer of technology (like we have always done in defence, but now also apply this to health, education, transport, etc.)

His conclusions underlined that in the new digital era, the question is not really whether small or large companies are better placed to innovate, but rather, whether proactive and innovative companies have an real chance to overtake or create markets. In Europe, consumers, companies and **policy makers should be more entrepreneur-like** and follow the examples of the US.

2.3. Questions and Answers

1) Mrs Kaja KALLAS (MEP) asked, What could be the non-conventional competition enforcement to be used in digital cases? How should they be adapted to deal with the points in your observations?

Dr DE BIJL answered that traditional tools (market definition, market shares, and concentration indices) that work well in regular markets do not help us and may even be counterproductive. New concepts need to be developed with a focus on recognising dynamism in markets (like entry and exit). These tools have to be based on economic theory (that is currently still developing; e.g. on two-sided markets and platform competition) and on a better understanding of underlying technology of platform layers and interconnection. It is too early to say that we fully understand the nature of competition in these markets. More work is needed. We need to be patient.

2) Mr Lambert van NISTELROOIJ (MEP) asked whether we should look into different directions to understand mergers in these markets.

Dr DE BIJL confirmed this and noted that the work of Schumpeter could be very useful here to gain a better understanding of dynamism in markets as a signal of healthy market functioning, rather than market shares and concentration ratios.

3) Mr Jerzy BUZEK (MEP) asked how competition enforcement can be more focussed on innovation if competition policy and industrial policies are not.

Dr DE BIJL responded by noting that industrial policy and innovation policy tend to protect stakes and may thereby work against innovation. This approach may do more harm than good. It is helping established firms in existing markets, whereas it should help newcomers and entrepreneurs to create new markets that cannot be fathomed beforehand. The best industrial/innovation policy is probably to invest in education and infrastructure. Such policies would complement competition policy, as they stimulate effective entry and exit.

4) Mr Jerzy BUZEK (MEP) asked if there is a danger that large digital platform suck out the rents and innovation is killed in these markets.

Dr DE BIJL confirmed that this danger exists. One should check if a platform actually helps small newcomers and individual entrepreneurs to create businesses, independent of what they offer (i.e. platforms should not act as gatekeepers). If platforms are selective and preclude some entrepreneurs, then an alarm bell should ring, as this is very worrisome.

5) Mrs Kaja KALLAS (MEP) noted that the main difference between regulators in the EU and the US, respectively, is that we see the digital world as a threat to current jobs and to data privacy, whereas we should see it as new opportunities creating new jobs. She asked, How can the EU overcome these fears and threats? Is it perhaps better to have regulation or have no regulation at all in places where it became burdensome?

Dr BELÉNYESI agreed this is the main problem in Europe. In the US, new opportunities are inherited from generation to generation. Some 250 years ago the US itself was a 'start-up'. How is this problem overcome ? It requires that all parties involved change their attitude: consumers should become more digitally literate; firms should be more open to new business models that seek to exploit complementarities between digital and traditional firms (e.g. telecom operators); policy makers should learn to understand the digital business models, allowing them to gain scale to better serve end-users and facilitate growth in other sectors, as opposed to breaking them up once they become "too" large.

6) Mr Jerzy BUZEK (MEP) asked, Would it be possible and desirable to have a single regulation (or one-size-fits-all competition policy) for both start-ups and large established companies, seeing that the nature of both groups is different?

Dr BELÉNYESI answered that there do not necessarily need to be different competition policies between start-ups and big companies. At the heart of competition policy, there are

consumers, and the consumers simply want better and more services for less money. This will not change.

7) Mr Simon HAMPTON (Technology Policy Advocates) asked, Are we getting enough innovation out of large companies. How can we measure the innovative acts of these companies? And how do we determine whether we get enough innovation out of the market?

Dr BELÉNYESI answered that whether there is enough innovation is up to consumers to decide. In the US, out of the first 15.000 most visited internet sites in 2002, 86% have completely disappeared because consumers changed their preferences; they thought that someone else is better. Other companies popped up and followed the new consumer demands. Churn is high, which is mainly due to innovation-related pressures by competitors or newcomers.

3. KEY NOTE SPEECH: COMPETITION ISSUES AND INDUSTRIAL POLICY IN THE DIGITAL ECONOMY

Prof Dr Massimo MOTTA (Chief Economist of DG Competition) was invited as key note speaker. He stated that the views expressed in his Key Note speech are his personal views, and do not necessarily represent those of DG Competition or of the European Commission.

Prof Dr MOTTA pointed out that **competition and investment go hand and hand**. He presented a number of examples: in the US where competition in the mobile market has boosted investments in 4G and where Google Fibre initiatives have urged AT&T to invest in fibre as well; in Europe there are many examples of inter- and intra-platform competition leading to investments and spurring NGA roll-out.

Prof Dr MOTTA agreed with Dr DE BIJL that **free entry and exit are the basic building blocks** for healthy competition, contributing to productivity, innovations, and investments (and thus growth). But in the view of Prof Dr MOTTA, this is a **general principle that does not exclusively apply to digital markets**. The same goes for other principles on which competition policy is based, so at the core, competition policy gives enough guidance on how to assess firms' behaviour:

- Agreements are bad if they **fix prices** or outputs; good (under certain conditions) if they achieve **efficiency gains** (e.g., Network-Sharing Agreements, Standard-Setting Organisations, etc.);
- There is no problem if firms **are dominant** because of investments; but we do have a problem if they **abuse it** by preventing rivals from challenging it (e.g., Microsoft);
- We allow mergers if they **create synergies/efficiencies**; we don't if they **allow firms to increase prices** (we look at them case-by-case)
- State Aid is good if it **delivers what the market would not**; but if it **distorts** competition/trade and/or wastes public money, aid should be limited to the minimum.

Prof Dr MOTTA stressed that **competition policy cannot do the job alone.** Better regulation is necessary (e.g. more regulatory harmonisation and EU-wide IPR policies) and accompanying policies need to be developed (privacy, labour and social policies, innovation policy, access to financing, bankruptcy laws etc.)

Prof Dr MOTTA shared the concerns expressed by Dr DE BIJL that **industrial policy aimed at** supporting **particular enterprises or projects** is a **waste of resources** and that industrial policy should alternatively **focus on creating an environment** where ideas and innovations can emerge and compete fairly so that good ones will grow and bad ones will not.

4. THE CHANCES FOR A STRONG EUROPEAN DIGITAL INDUSTRY

4.1. Chances for European leadership in the new digital era

Mr Simon HAMPTON (Director of Technology Policy Advocates) argued that, moving on from the crisis, we are at a pivotal moment in economic history and face grand societal challenges. The digital economy has been identified as vital, but how can that be facilitated? By starting to **think less digital**!

Mr HAMPTON noted that the **Internet of Things is the biggest opportunity ahead**; its impact is still mostly in the future. By contrast, the **sharing economy is happening right now** and clearly illustrates the sort of change that can occur, **turning traditional industries upside down**. The sharing economy has given **rise to new platforms** like Uber, AirBnB, and a host of smaller European players such as Zopa (finance), BlaBlaCar (intercity travel), Chicfy (sharing clothes). An interesting example is BMW that has recognised that the sharing economy is part of a bigger wave of change and is experimenting - through DriveNow - with a version of Mobility-as-a-Service (MaaS). All of these business models are based on matching under-utilised privately held assets with demand and are expected to grow considerably. Germany's Energiewende also falls within this broadly defined notion of matching supply with demand.

The sharing economy affects **all 3 social partners**. Mr HAMPTON showed how the traditional **notion of a firm** - as addressing transaction costs - is **being challenged** by the speed and effectiveness of networks and online platforms. Referring to a recent cover story in *The Economist*, he noted that the **notion of freelancing** now needs to be thought of as a **wave of new micro-entrepreneur**s. How does the **government ensure** they are hearing from these voices and **what is the role for regulators** when consumers are turning to the peer reviews that are built into sharing economy platforms?

A problem is that in Europe such **initiatives are hampered** in their growth by a **thicket of rules and institutions** governing the real economy; that while policy makers are focussing on designing new rules for the digital economy, they **fail to adjust the rules governing the real economy** to the new realities. Indeed all sharing economy platforms have to hack their way through this thicket. This is a problem everywhere in the world (as Uber and AirBnB have shown, it can be equally tough in the US) but if we can **integrate these two worlds faster than others**, we gain a head start and can be a leader. The challenge is to integrate this in the agenda for the **Single Market**.

At the same time, **Europe's social model may prove to be an asset** in the development of the sharing economy; e.g. while the economy is getting less incorporated and the labour market more entrepreneurial, the need for a publicly provided social safety net may increase. In Europe we have such safety nets – but again, it **needs to be reviewed in order to keep up with new realities**.

Mr HAMPTON's main point was that the Internet of Things and the sharing economy need to be thought of in terms of a **policy hybrid**: **the digital single market only solves a small part of the problem; it is the rest of the single market agenda that matters more**.

In order to give the sharing economy and European platforms a boost, Mr HAMPTON pleads for:

- focussing on two Single Markets (digital and real),
- better regulation, and
- social dialogue.

4.2. Why is the European telecom sector under huge pressure?

Prof Dr Marc BOURREAU (Prof at Telecom ParisTech) argued that an important reason for the European telecom sector being under pressure is the development of the so-called **Over-The-Top (or "OTT") services** that are considered a **substitute** for the traditional telecom services and are typically offered for **free** (or at very low prices). Moreover, one could actually argue that OTT services are of higher quality than telecommunications services, due to their additional functionalities (but surely not all end-users share this opinion).

Prof Dr BOURREAU stressed that **OTT services** are also **complementary** to broadband services. Consumers are **willing to pay a higher price** for fixed or mobile Internet access services than in the absence of OTT services. Telecommunications operators could therefore, in principle, **recoup** some of the **revenues lost** from the substitution effect via the subscription fees that they charge for access to their broadband networks. The ability of operators to extract a share of the created value decreases with the intensity of competition in telecommunications markets.

Prof Dr BOURREAU elaborated on **sharing of the joint value** created by OTTs and Telco's. He posed the question whether OTT players and telecommunications operators could in some way "bargain" over "splitting the value"? BOURREAU compared two situations: one with net neutrality, one without net neutrality.

With net neutrality, there will be **no formal bargaining** since there is no direct economic relationship between telecommunications operators and OTT players. The eventual "**split** in the value" (i.e. the net effect of OTTs on telecom revenues) **depends on the market structures** and the **intensity of competition** among OTTs as well as among telecom operators. If the development of OTT services has a **net negative effect on revenues** for telecom operators, they could react by **reducing investments** in network infrastructures. This bears the risk that network investments become inefficiently low.

Without net neutrality, telecom operators can **charge data termination fees** to OTT players to obtain a larger share of the created value. The **larger share** of the created value obtained by telecom operators would then increase their **investment incentives**. But Prof Dr BOURREAU stressed that due to **intense competition** among telecom operators, their **bargaining power quickly vanishes**. Indeed, as OTT's compete with traditional voice, text and video services, the propositions of telecom operators **commoditise** into Internet access and an operator that would not offer to its customers access to OTT services would quickly lose market share.

In sum, a **departure from net neutrality** would help telecommunications operators to obtain a larger share of the value created by OTT services, but it would probably **not be a game changer**.

Prof Dr BOURREAU concluded that the most logical strategy of telecom operators to follow is to merge and **become pan-European in scale** (without national markets consolidating):

- Telecommunications operators could compete more effectively with OTT players by **internalising larger network effects**.
- Consolidation could help operators gain a **stronger position** in the bargaining process **vis-à-vis OTT players**.
- There could be more incentives and opportunities for telecom operators to **vertically integrate in content markets**.

4.3. Challenges for European telecoms operators imposed by the Internet

Richard FEASEY (Director of Fronfraith Ltd) started his presentation by comparing the EU and the US in terms of some key figures. There is one thing the EU and US have in common: there is **strong demand** for telecom/communication services. For the rest, Mr FEASEY sees only differences: 1) **revenues** in the US have gone up, while in the EU they have gone down; 2) **investments** in the EU are steady, while in the US they have increased spectacularly, particularly in wireless; 3) the EU telecom companies are loaded with **debts**, while the US telecom companies are **financially very strong**; and 4) the EU has a tradition of **pay-per-minute**, while the US has a tradition of **free calls**.

The fourth observation explains why OTT services have a much smaller effect on the revenues of US operators compared to the EU operators. But European operators have for some time now initiated the change of their propositions towards flat access fees; **the 'drop in revenues' has reached the bottom and the prospects for the near future are for a return to growth'**.

How can EU operators further increase their performance? Mr FEASEY asked; surely not by charging OTTs. There is **little to gain** as much of the benefits have been passed on to end-users in the form of free services and not to internet companies in the form of profits. **OTT's may prefer to leave a market** rather than share what is left (Mr FEASEY referred to the Google News episode in Spain). Even more so because they know that providing access to their services is practically essential for any operator, so taxing them is difficult. A more promising strategy is to **seek partnerships with OTTs**.

Moreover, **Mergers and Acquisitions** are **not** necessarily the **right solution** as it burdens EU telecom operators with even **more debts** and destroys value, as history has shown. In the early 2000s, European operators had attempted to become global telecoms players, or at least regional players, whilst their American counterparts had not. This left European companies highly leveraged and financially constrained for the next decade (and still).

Mr FEASEY argued that European policy makers have to develop policy towards **closing down old platforms more quickly to enable the new ones to emerge** (here, compared to the US, the EU is falling behind rapidly):

- stop investing in old copper and **redirect the money to fibre,**
- **turn off terrestrial television** and allocate spectrum to mobile.

Finally, Mr FEASEY closed with the remark that net **neutrality rules** that actively prohibit European telecoms operators from charging internet companies would **send all the wrong signals**. While telecom operators are pressured to develop new earning models, European **policy makers should be helping them to adapt** to the challenges of the internet or, at

the very least, **do not inhibit** it. Europe cannot complain about the lack of growth in its telecoms sector if it adopts rules which only make it more difficult for them to adapt.

4.4. Questions and Answers

1) Mr Jerzy BUZEK (MEP) referred to Mr Hampton's speech dealing with better regulation, subsidiarity, social dialogue and the need for the EU to initiative. BUZEK asked, How would policy changes or new approaches have tangible effects on the integration of the digital and real economy? How do you see that?

2) Mr Fabrizio PORRINO (FacilityLive) noted that many companies go to Silicon Valley and asked, What would be the policy advice to keep these companies in Europe, so that the EU can compete with the US without resorting to anti-trust?

Mr Hampton answered both questions with a general answer. He noted that today's OTTs are largely active in communication or in digitisation of the retail sector and have turned a number of other sectors upside down. They have become very big. In the future, as a result of the "Internet of Things", we will see vast changes in other parts of the economy. We see that happening today in the sharing economy, affecting the hotel industry, the taxi industry and a whole variety of personal services. So the right policy to create European Champions does not start with the telecoms sector, it starts with the 'everything else'-sector.

- It starts with the Services Directive allowing a new company to enter a 500 million person market and to turn it upside down. Rather then running over to the other side of the Atlantic to start a business in a market of (only) 350 million people. You must be better off with 500 million than with 350 million!
- But includes other parts of the traditional policy agenda as well. Labour regulation is important; we need to make sure that people can fail, because many people will fail.

The Digital Single Market is more about being the Single Market than about being a digital market; the digital economy is more about the economy than it is about digital.

3) Mr Jerzy BUZEK (MEP) asked Prof Dr BOURREAU about his view on the idea posed by Mr FEASEY on partnering and other forms of cooperation between telecom operators and digital platforms.

Prof Dr BOURREAU replied that there are strong complementarities between these telecoms and OTTs. Room for partnerships exist. On the other hand, there is a problem of bargaining power, which is why we see few partnerships with large OTT players at this point.

4) Mr Jerzy BUZEK (MEP) asked Prof Dr BOURREAU, while referring to his remark about commoditisation leading to increased competition, whether this means that there will be lower prices and revenues or whether instead it could also lead to higher revenues for market players.

Prof Dr BOURREAU replied that lower revenues and prices are not necessarily bad news for society. The fact that lower revenues are harmful to investment may indeed be a downside – but much depends on the magnitude of competition.

5) Mrs Kaja KALLAS (MEP) asked Prof Dr BOURREAU about the consequences for consumers if telecom operators were to consolidate. Consolidation could lead to worse service provision and higher prices (see US). Consolidation could lead to neglecting the geographically outer parts of Europe and lead to lower investments.

Prof Dr BOURREAU replied that his remarks on consolidation were restrictive. It was about benefits and costs for the telecoms, it could help them to gain better bargaining positions. Costs exist indeed too: it may not be the ideal solution. But what is important to understand is that I am talking about Pan-European consolidation, which does not necessarily change the market structure at the local level. It is about tying networks together, not about consolidating national markets. Competitiveness will hardly be changed, there will simply be larger economies of scale to better compete with OTT players.

6) Mr Chris SHERWOOD (Allegro Group) asked Prof Dr BOURREAU why revenues from termination rates incentivise investments. Would revenues from termination rates not incentivise having more customers rather than investments in infrastructure?

Prof Dr BOURREAU replied that firms will have higher revenues (maybe limited), but these revenues can be used for new investments.

7) Mr Chris SHERWOOD (Allegro Group) asked Prof Dr BOURREAU, In which area is it more important to invest: in infrastructure or in services that OTTs provide?

Prof Dr BOURREAU replied that there is no clear answer; investments in both sectors are complementary. Better services require better infrastructure etc. Better networks themselves lead to better opportunities in the services sector. Hence, these investment options are complements as opposed to substitutes.

8) Mr Tony SHORTHALL (Tellage) wanted to focus on interconnection. Referring to Dr DE BIJL's speech, he pointed out that the network effects are quite considerable and that we do see winner takes-all outcomes. Indeed, if we had complete absence of interconnection (in, for example, the telecom sector) we would again have a series of absolute monopolies in different markets. Is there a role for some form of interconnection between the OTT players so as to facilitate entry?

Prof Dr BOURREAU replied that no strong rules should be imposed until we see the real need for it (underlined by anticompetitive behaviour).

Mr FEASEY agreed with Prof Dr BOURREAU. It is a potential remedy if there is a competition problem; it should not be a regulatory requirement. Interoperability in and by itself is not necessarily bad or good (Apple's platform is closed, yet receives the highest consumer ratings).

9) Mr Jerzy BUZEK (MEP) asked Mr FEASY, How can we (as policy makers) give more incentives to telecom operators to stop investing in copper and start investing in fibre?

Mr FEASEY replied that the transition from copper to fibre is much more important to talk about in Brussels than issues like net neutrality. Fundamentally, we need to think about the structure of the industry. There are no incentives to invest in fibre with the current vertically integrated market of telecoms operators. A serious debate on the structure of the operators is necessary. Such a debate is also necessary about state aid as there is a great deal of public money required to achieve the change to fibre.

10) Mrs Róża Gräfin von THUN UND HOHENSTEIN (MEP) indicated that the digital economy faces many challenges, such as net neutrality, spectrum managements, etc. She asked what should have priority, what to do to convince the Member States of these new challenges.

Mr FEASEY recognised a serious problem in how to align objectives of EP and EU institutions with those of the Member States. About 20 years ago, there was a clear unified vision shared among national and EU policy makers that competition was the core issue to strive for. Today there are different views on that, and there is much less consensus on what should be the core issue. There is much ambiguity as to whether we should prioritise competition over investments. Without a unifying policy objective, progress is going to be very difficult. It is all about exploitation of the technology and utilisation of that; let this be a starting point for getting a consensus on where we want to go and how we get there.

5. WILL INTERNET MONOPOLIES RULE OUR ECONOMY IN THE 21TH CENTURY?

Mr Miloslav RANSDORF (MEP) chaired the workshop from this point on and gave the floor to Prof Andrea RENDA.

5.1. The Internet's centripetal forces and their impact on traditional markets

Prof Andrea RENDA (Luiss Guido Carli University and research associate at CEPS) opened his presentation with the question **'what Internet monopolies?'** He stressed that the Internet has been a constant dynamic cycle of winners and losers, where **today's winners are tomorrow's losers**. So what we have are a few **monopolies without dominance**. The impact is, however, large and inevitably mixed in terms of winners and losers, costs going down and entry barriers going down in some markets and raised in others.

An important question that many have asked is: **Where does it stop?** The digital platforms are emerging all around us and everything becomes 'smart': cars, homes, refrigerators, watches, even toothbrushes and kettles.

Prof Dr RENDA posed the question, "As we move into the Internet of Things, **should we worry** about large dominant platforms **leveraging their market power** into other industries?" **Yes!** Prof Dr RENDA argued. For once they have very **deep pockets** and find it easier than any other industry to constantly reinvest profits (e.g. Amazon reinvests all profits); moreover, they **control data, the "new oil"** of our economy. Finally, Prof Dr RENDA argued that these companies **have to constantly expand** into other sectors **to maintain their competitive edge**. The leveraging of market power does not necessarily translate into mergers and acquisitions. In some "heavy industries" the future will see more **partnerships and joint ventures than takeovers** (e.g. BMW/Baidu, Toyota/IBM, Daimler/Infosys, Ford/Microsoft).

Prof Dr RENDA posed the question, "While digital giants expand or leverage their market power throughout the Internet of Things, does this **leverage eventually stop innovation in other sectors**?" **NO!** Prof Dr RENDA argued. It will not stop innovation. Some sectors are actually being **saved by technology** (e.g. the automotive sector now back on a growth track thanks to all partnerships with IT giants), others are being **entirely reshuffled** (in the future, supermarkets might entirely be replaced by intelligent shelves, at home). What is most important is that the app economy **will bring innovation**, through dominant platforms, to many new markets, from eHealth to Industry 4.0.

As for policy recommendations, Prof Dr RENDA urged policy makers to **embrace the challenges imposed by digitisation**. If Europe does not, others will and we run the **risk of degrading** Europe's **competitiveness across the board**, as opposed to capitalizing on our know-how (e.g. car industry). The risk of becoming "**technology have-nots**" is considerable. To prevent this from happening, Prof Dr RENDA argued in favour of:

- **industry consolidation** to ensure equal footing in partnering with existing giants (e.g. in e-health),
- **sharpened antitrust and unfair competition rules** to avoid that "giants" capture all value added (e.g. in future mobile platforms).

5.2. Questions and Answers

1) **Mr David WOOD (Anti-trust lawyer) stated that antitrust in Europe has a history of dominant undertakings using illegal means trying to entrench their domination for a bit longer. His first question is, Would you agree that the welfare that is lost because of that is probably lost forever? Secondly, Would you agree that innovation would be different to what it would have been, if those illegal means had never been used? How do we distinguish between edgy innovation and market foreclosure?**

2) **Mr Nicolai VAN GORP (Ecorys Netherlands) referred to Prof Dr RENDA's point about sharpened antitrust policy enforcement and to Dr DE BIJL's point that our traditional tools (like the definition of relevant market and of dominance) need to be reviewed. VAN GORP asked, Do we have to wait until we have defined these new tools? What can we do right now?**

Prof Dr RENDA answered both questions simultaneously. Antitrust in his opinion, is in deep trouble. The fact that we have had so many competition cases against large internet companies does not necessarily mean that these companies abuse their market power. In Prof Dr RENDA's opinion, over the last 2 decades on both sides of the Atlantic, competition law has had enormous problems getting to grips with the changing economics and market dynamics. We have not solved this problem. In the EU we did not have an opinion of the ECJ on any of these cases, there were no appeals in the Microsoft case, we focus too much on market tests for Google, etc. Traditional market definitions and dominance are still applied to the internet world. In Prof Dr RENDA´s opinion, this has not been sufficiently debated in Europe (although I will try to stimulate this debate in the coming months). However, this is indeed one of the key issues we need to address outside of academia.

Competition rules have to be changed. It is impossible to have cases going on for four years (incl. three rounds of market tests), as the market has changed in the meantime. There is always an incentive to infringe and then pay. Indeed, getting the first-mover advantage in the market does not compare to a one billion euros fine. Regardless of how just or fair this is. One way in which we could sharpen the anti-trust rules in this field, but this has to be debated, is to strengthen the legal certainty ex-ante, and to use more technology to regulate technology. How could we do this? Prof Dr RENDA indicated at one case. Imagine one company that comes out with a proposal on how to handle competition rules through a code of conduct. This could be then certified by a competition authority, ex ante. This is something we have never ventured into in competition law, but it has been done before in data protection for example. Will we see a tendency towards ex-ante approval of competition conduct? I do not think it should be taboo to discuss. The world has changed too much; we need to do something serious about it if we do not want to kill the whole system in Europe.

3) **A participant from Deloitte Consulting referred to Prof Dr RENDA's claim that data is the 'new oil' and whoever controls it has market power. She asked whether that is something that the competition authorities should be looking more closely at? If data really does lead to market power, what can actually be done about it?**

4) **Mr James WATERWORTH (CCIA) made a comment on the question about data and the analogy of data and oil, not agreeing with this analogy. Oil is something that can be used once, whereas data can be used multiple times and at high speed and towards so many places. Data is something that is held by multiple parties simultaneously. He argued that we need to be very cautious to place this in the same category that creates natural monopolies.**

Prof Dr RENDA answered both questions simultaneously. Economically speaking, data is not like oil. But people who refer to this expression mean that in the past countries had a competitive edge due to natural resources; today the companies that have the data have a competitive edge that they can leverage into a number of markets where data can help the customisation or refinement of the preferences and needs of the end-user. We come from a situation where the heavy industries (oil and steel) were the ones with the economies of scale. We are now entering a period where these economies of scales might not be that relevant anymore (e.g. 3D printing, which allows you to produce something with very low initial costs and very low sunk costs). The economies of scale are now migrating to the IT industry, but we don't know yet what this means for the balance of power of the IT industry vis-à-vis other industries; we will probably witness this in the coming years should take this into account before we target (and label?) one company as a natural monopoly.

5) **Mr Simon HAMPTON (Technology Policy Advocates) asked, in the context of the Internet of Things, if the idea of 'language is a problem' due to the fragmentation of Europe, would disappear, since we will probably ensure that these machines all speak the same language. He asked whether that will solve all market segmentation problems in Europe and what other segmentations are out there that we need to worry about.**

Prof Dr RENDA replied by stating that in 2020 there will be 50 billion connected devices, most of which will be talking to each other; hopefully in the same language, but perhaps not immediately. In this field, what emerges is a network of objects that generates an unprecedented amount of data that relate to each other in a way that makes our lives much more efficient, but also more dependent on infrastructure. Much of the data is stored in the cloud, but we do not even know how safe the cloud is. To what extent is Europe ready for this challenge? No at all! We have not reflected enough on security issues or on standards [i.e. the language] governing the communication between these machines. It is important for Europe to start reflecting on these issues and to work towards harmonisation in these fields (instead of fragmentation) in order to have a say in the development of the IoT.

6) **Mr Miloslav RANSDORF (MEP) asked whether internet can be seen as a tool for the expansion of our creativity, or whether we have too much noise in internet.**

Prof Dr RENDA stated that creativity does not necessarily belong to the internet, but internet has expanded the range of possibilities. It does not replace it, it merely enhances the (affordable) options for creative people. We should start to worry when people try to limit this and turn the internet into something like a 5000 channel TV, as the end-users are then no longer empowered to change things, they have become couch-potatoes.

7) Mr Miloslav RANSDORF (MEP) asked, In addition to policies that we have been working on in the context of the Digital Agenda and the work of DG Research and Innovation and the Framework Research Programmes, what concrete additional measures could be suggested to embrace the digital revolution and innovation even more than it already is?

According to Prof Dr RENDA we have to look at how innovation-friendly our non-innovation policies are. If the Services Directive, for example, is not entrepreneurial or innovation-friendly; if competition law, public procurement, Internal Market rules are not innovation friendly enough, we are not getting very far. Horizon 2020 tries to capitalise on Europe's research activities and bring that research to the market, through bridging the research and innovation component. But there is still a large amount of money being thrown at individual projects in Horizon 2020, whereas some of these projects are highly complementary. The most important effort by EP is try to merge these initiatives and try to scale them up into a joint effort of academics, industry and the different political entities at all levels.

6. HOW TO STRENGTHEN EUROPE'S COMPETITIVENESS

6.1. Views from the European Commission

Anthony WHELAN (Director at DG Connect, European Commission) stressed the importance of the **digital economy** for overall economic performance as it **transforms entire business sectors**, with major impacts on how products are made, how people work and how society functions in general. Mr WHELAN noted that **Europe has great potential** to gain from digitalisation; with a market of 500 million consumers, a highly skilled workforce and a strong and diverse industrial base. However, in the digital economy, **markets punish those who arrive too late** and Mr WHELAN stressed that **Europe is lagging behind**. This becomes clear from the figures on Europe's ICT uptake, explaining most of the difference in GDP growth between the EU and the US. Also at a more micro level there is evidence of Europe falling behind (only 14% of SMEs use the Internet to sell online), and only 12% of consumers buying online shop across borders.

Mr WHELAN explained that the Commission's approach is aimed at **enabling EU companies to scale-up** and derive the maximum benefits from an **integrated marketplace**. As such, the Commission is committed to increasing productivity and ensuring economic competitiveness through the completion of the **Digital Single Market**; This means a single market where:

- consumers can easily **shop on-line without borders**, have **access** to digital **services** (whether public or private) **irrespective of where they originate** from in the EU, carry their legally acquired content, enjoy connected objects or apps and feel they can have the same **trust** in websites or online services from their own MS as from another MS knowing that their **private data is highly protected**;
- businesses do not to find it more burdensome to set up, market and **provide their goods and services across borders** than within their Member State and are able to **compete on a level playing** field in the online environment on the basis of a clear legal framework.

In 2015, the Commission will present its **Digital Single Market strategy** and prepare corresponding measures based on a clear assessment of the most urgent obstacles to be removed. Challenges to be addressed are, *inter-alia*:

- **Reducing regulatory fragmentation** in a number of areas such as internet security, data protection, and liability rules; **harmonising these rules** should facilitate European companies and SMEs to compete on a level playing field regardless of where their server is based.
- **Taking away territorial restrictions** such as geo-blocking, which prevents cross border access to content and services;
- **Promoting interoperability** in areas such as cloud computing, electronic payments and Internet of Things;
- **Reviewing competition policy instruments** and assessing whether and to what extent there is a need for (additional) efficient instruments to ensure a thriving digital sector and start-up scene in Europe.
- **Fostering a Telecom Single Market** that performs well in terms of broadband coverage, take-up, quality (speeds), prices and choice;

- Making sure that the European labour force is able to **satisfy the growing demand for ICT skills**.

The most **immediate** and concrete **actions** can be expected in the area of **copyrights**, following a broad public consultation that was closed in March 2014 and a number of legal and economic studies that were undertaken. Actions in this area have now been confirmed in the 2015 Commission work programme. Our aim is to modernise copyright law that creates more **opportunities for the users** of content and at the same time offers maximum **protection to copyright holders** and makes sure that copyrights remain a driver for creativity, diversity and investments; the Commission believes these **objectives are fully compatible**.

Mr WHELAN stressed that **all efforts** to complete the Digital Single Market need to be **coordinated at the highest political level**; and that success depends on clear political leadership since opposition from **vested interests will be strong**. At the same time **subsidiarity is key** and at each step it is essential to think whether action at regional, national or EU level is required. If the Commission, the EP, the Council and Member States get the work done, it may create up to €250 billion[2] in additional growth, hundreds of thousands of new jobs, and a vibrant knowledge-based and innovative society.

6.2. Questions and Answers

1) Mr Frederick DE BACKER (Telefonica) wanted Mr WHELAN's view on the need for new concepts for competition law. He referred to earlier statements by other speakers about this.

Mr WHELAN stated that he is a practitioner of competition principals, identifying market positions and market dominance, because the telecom regulation itself is based on those principles. Mr WHELAN said that he cannot speak for Prof Dr MOTTA about the perceived problem in the area of the digital economy as an intellectual shortcoming of the tools available to us. He argued that an undertaking has durable power because its customers do not have a proper competitor to switch to; this question remains the same. What changes is the weighing of the facts. The EC has to adapt to that. We have to determine, for example, whether SMS and instant messaging are in the same market; this is a pending case, but it is the same question that arose in the Facebook/WhatsApp merger case. Another example is the Microsoft case. The market position did not change much during the competition law process (tablets and smart phones were still ahead of us). But today we may answer questions differently under current circumstances. Predictions for durability are always hard to makey (e.g. what will happen to Facebook in 5 years). We may not know whether there is a disruption in a market, but the proneness to this disruption (and at an accelerated pace) is somewhat greater in the digital economy.

2) Mr Simon HAMPTON (Technology Policy Advocates) asked, To what extent is the Commissioner responsible for Internal Market involved in the Digital Single Market? And to what extent are other areas (sectorial regulations) a factor in this discussion? Or is this predominantly a discussion on the creation of the Digital Single Market within DG Connect?

[2] Figure mentioned by President Juncker.

Mr WHELAN stated that the group of Commissioners working in this project team is a relatively wide one. It includes DG GROW, DG Comp, etc. The meeting is deliberately designed to encompass many segments.

3) Mr Miloslav RANSDORF (MEP) asked Mr WHELAN, What would be the impact of TTIP on the IT sector in Europe?

Mr WHELAN admitted that he does not deal with this topic on a daily basis; that it may be fair to say that the opportunity that it represents for Europe to compete on a level playing field with their US competitors on the US market is very considerable. This is not specific to ICT, but it is relevant nevertheless. Provided we adhere to our mandate in this respect, there is a huge opportunity according to the EC, especially as the US market is relatively closed at this moment (compared to the EU).

4) Dr Paul DE BIJL (Radicand Economics) referred to Mr WHELAN's claim that the productivity gap between the EU and the US comes from the difference in ICT take-up in the economy as a whole (especially in the non-ICT sectors, which only use ICT but do not produce it). Dr DE BIJL noted that different managerial practices may be the reason for this difference between the US and the EU. He referred to Mr HAMPTON's speech and noted that if we want to increase the ICT take-up in the economy as a whole, this is perhaps not for DG Connect specifically, but for economic policy in general. Dr DE BIJL noted that this should not be ICT policy, but should be tackled from a broader angle.

Mr WHELAN confirmed Dr DE BIJL's view that this should be 'mainstreamed'. But he argued that it is still important to have a 'cheerleader'/'evangelists' of organisations to make it happen. And within the EC, that includes not just DG Connect, but DG ECFIN as well. Competition itself may drive towards more efficient use of resources. Hence, much of the insight is not ICT specific, but it is useful to see where most of the gaps are, and to see whether there are also ICT specific things that can be done in order to enhance the transition towards more ICT take-up. If we want EU enterprises to, for example, take up opportunities of the 'cloud', we do not want to see 28 different 'cloud-policies', but rather coordination.

5) Mr Giovanni AMENDOLA (Telecom Italia) asked whether the EC will present its views on the Digital Single Market regarding dominance issues related to the OTT services.

Mr WHELAN stated that he is careful to say that the EC would consider whether there were sufficient and necessary means to address potential dominance of new OTT/intermediates. He could not say much more at this point of time. The question is one that has to be considered. The European Council conclusions (October 2013) called upon the Commission to consider various non-traditional problems ("digital life"). This could be one of them. It is a challenge to determine the durability of market power. If cases take 10 years, we may not gain much if we were to swap 10 years of ex-post work for 10 years of ex-ante work. The effect would be the same. He could not share any Commission´s thinking in this regard.

7. CONCLUDING REMARKS

The chair Mr Miloslav RANSDORF (MEP) thanked the participants and concluded the workshop. He informed the audience that the presentations would be available on the website of the Committee on Industry, Research and Energy (ITRE), and that a summary report would be available in a few weeks on the European Parliament's Internet website.

The Chair confirmed the intention to work closely together with the Commission and expressed gratitude to all speakers and Policy Department A for organizing the workshop.

ANNEX 1: PROGRAMME

WORKSHOP

Cross-competition among information (digital) platforms

Should we avoid global information monopolies?

and what place for European platforms?

Tuesday, 20 January 2015, from 15:00 - 18:30
European Parliament, Brussels, Altiero Spinelli, Room 3G2

Organised by the Policy Department A for the ITRE committee

Opening

15:00 - 15:15
Welcome speech by Jerzy BUZEK,
MEP, Chairman of the ITRE committee

The key challenges for competition and innovation in digital markets

15:15-15:25
Do Internet monopolies inhibit innovation?
Paul DE BIJL, professor Regulatory Economics at the WHU Otto Beisheim School of Management (Düsseldorf, Germany).

15:25-15:35
....or do digital business models foster innovation?
Pal BELENYESI, professor at John Cabot University (Rome, Italy)

15:35-15:50
Discussion

Keynote

15:50-16:05
Competition issues in the digitalised economy
Prof Massimo MOTTA, Chief economist, European Commission, DG Competition
What are the chances for a strong European digital industry?

What are the chances for a strong European digital industry?

16:05-16:20
Chances for European leadership in the new digital era
Simon HAMPTON, Director at Technology Policy Advocates

16:20-16:30
Why is the European telecom sector under huge pressure?
Marc BOURREAU, Professor of Economics at Telecom ParisTech, (Paris, France)

16:30-16:40
How can European telecom operators become Europe's digital market leaders?
Richard FEASEY, Director of Fronfraith Ltd

16:40-17:15
Discussion

What is the role of Internet monopolies in the 21th century economy?

17:15-17:30
Are Internet monopolies inevitably the rulers of the future economy and with what consequences?
Andrea RENDA, Senior Researcher, CEPS

17:30-18:00
Discussion

How to strengthen Europe's competitiveness

18:00-18:15-Views from the European Commission
Anthony WHELAN, Director DG CONNECT

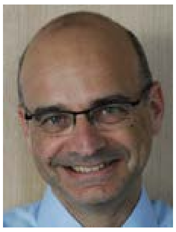
18:15-18:30
Discussion

Closing remarks by the chair

ANNEX 2: SHORT BIOGRAPHIES OF EXPERTS

Dr Paul DE BIJL is an independent consultant and visiting professor Regulatory Economics at the WHU Otto Beisheim School of Management (Düsseldorf, Germany). He is also a non-governmental advisor (NGA) to the Dutch competition authority ACM. Paul's expertise is in competition and regulation policy with a strong focus on telecommunications and digital markets. http://www.radicandeconomics.com/en/about-us

Dr Pál BELÉNYESI is a regulatory expert researching and teaching at the John Cabot University in Rome. Prior to that he worked for the Hungarian telecom regulator, he was a member of the cabinet of the European Regulators Group's President, and he was part of DG Comp's core investigative team in the Intel antitrust case. https://www.linkedin.com/pub/pal-belenyesi/5/238/869



Prof Dr Massimo MOTTA is the Chief Competition Economist at DG Competition. He is ICREA Research Prof at Universitat Pompeu Fabra and Research Prof of the Barcelona Graduate School of Economics. His work has been published in the leading international economic journals. His book on Competition Policy: Theory and Practice (Cambridge University Press, 2004) is the standard international reference on the economics of antitrust, and is used by teachers, scholars, and practitioners. http://ec.europa.eu/dgs/competition/economist/role_en.html

Simon HAMPTON has over 20 years experience representing industry leaders from across the Internet and media value chain (Google, Time Warner, AOL, and Belgacom). He has also worked in the European Commission and the British government. Simon combines deep regulatory knowledge with a sharp understanding of business models and the evolving role of technology-using consumers in the creation of new value through the so-called 'sharing economy'. https://digitalusers.wordpress.com/

Prof Dr Marc BOURREAU is Prof of Economics at Telecom ParisTech. He is also a research associate at the laboratory of industrial economics (LEI) of the Center for Research in Economics and Statistics (CREST). His main research interests are economic and policy issues relating to broadcasting, telecommunications and the Internet. http://ses.telecom-paristech.fr/bourreau/

Richard FEASEY witnessed the rise of the internet from inside the telecoms industry over the past 20 years, 12 of those as Public Policy Director at Vodafone. Richard has been at the centre of debates inside Europe's telecoms industry about how to respond to the threats and opportunities posed by firms such as Microsoft, Google and Facebook. Today Richard is an independent consultant and has written and lectured extensively on relations between the internet and telecoms sectors. He advises both internet and telecoms companies on these issues.
https://www.linkedin.com/pub/richard-feasey/1/904/a67

Prof Dr Andrea RENDA is professor at The European University Institute in Florence and at Luiss Guido Carli University in Rome. He is also a Senior Research Fellow at the CEPS and an ongoing consultant for the European Commission, the European Parliament and the World Bank. For the European Commission, he is currently leading studies in the field of financial services and administrative burdens, and participating in studies on electronic communications, spectrum policy, and social impact assessment.
https://www.linkedin.com/pub/andrea-renda/7/27/aa1

Anthony WHELAN is a barrister. He has been a lecturer in public law at Trinity College Dublin, followed by a number of years as legal secretary in the chambers of an Advocate General at the European Court of Justice. He was subsequently a member of the Legal Service of the European Commission. He was head of the cabinet (private office) of EU Commissioner Neelie Kroes when she was commissioner for competition, and later when she became commissioner for the Digital Agenda. Now Anthony Whelan is the Director for Electronic Communications Networks & Services.

ANNEX 3: PRESENTATIONS

Presentation by Dr Paul DE BIJL

Do Internet Monopolies

Inhibit Competition and Innovation?

PAUL DE BIJL

Radicand Economics (Netherlands)

Lexonomics (Belgium/Netherlands)

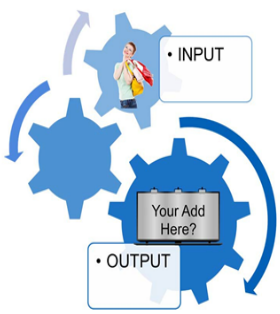
WHU Otto Beisheim School of Management (Germany)

1

Internet Business models

Retail | Service/information | Communication | Hybrid

Consumers = input



Internet strategies

Winner-takes-all

Impact on innovation?

has been acquiring more than one company per week since 2010

Complements

or

Preemption

Leveraging vs

Dominance invites

4

Observations

1. Conventional competition enforcement is probably not sufficiently effective in digital markets — hence competition policy should tread carefully
2. Nevertheless, too little enforcement in digital markets may harm consumers
3. Dominant positions harm innovation as well as encourage entry by newcomers — but change may come slow
4. Competition enforcement should give priority to dynamics of competition and entry possibilities for newcomers — while protecting consumers where necessary (e.g. privacy)

5

Presentation by Dr Pál BELÉNYESI

Do digital business models foster innovation?

Pál Belényesi

JCU – Rome, Italy

European Parliament

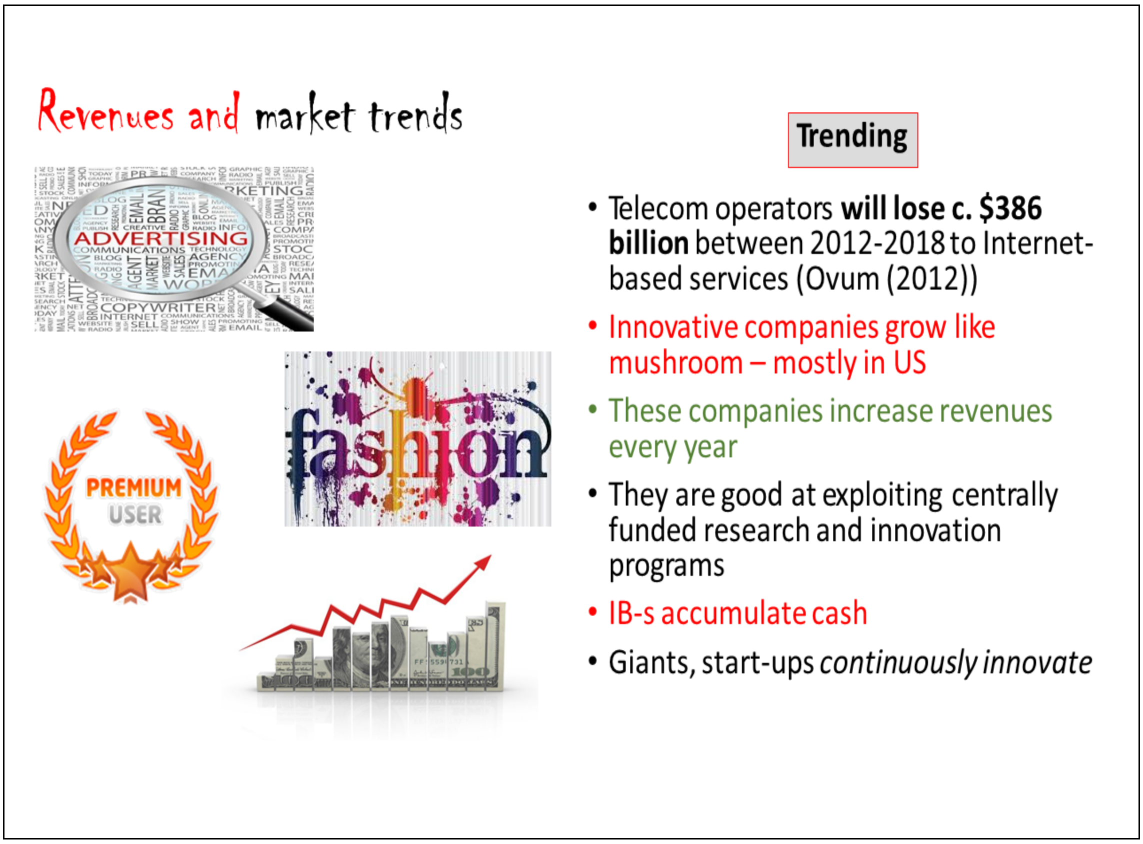
20.01.2015

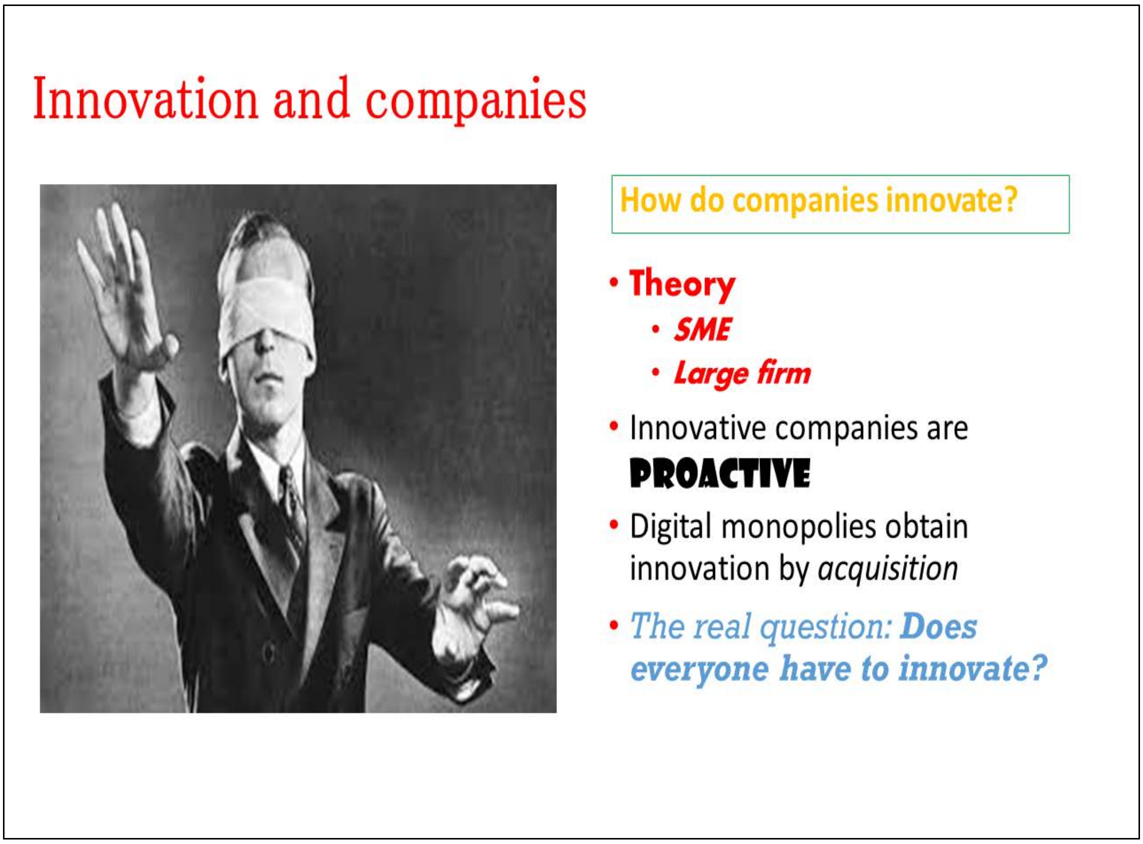
WHICH COMPANIES? WHAT BUSINESS MODEL?

- Markets are global – not local
- Technology is putting the

Service – often FREE

- Digital productivity is the key
- *There are no entry or exit barriers on the new markets*


Revenues and market trends
ADVERTISING
PREMIUM
USER
fashion
Trending
• Telecom operators **will lose c. $386 billion** between 2012-2018 to Internet-based services (Ovum (2012))
• Innovative companies grow like mushroom – mostly in US
• These companies increase revenues every year
• They are good at exploiting centrally funded research and innovation programs
• IB-s accumulate cash
• Giants, start-ups *continuously innovate*


Innovation and companies
How do companies innovate?
• **Theory**
• ***SME***
• ***Large firm***
• Innovative companies are **PROACTIVE**
• Digital monopolies obtain innovation by *acquisition*
• *The real question:* ***Does everyone have to innovate?***

What are the particularities of digital innovation in Europe?

US-approach

- US agencies drive innovation (Apple, DARPANET, touchscreen)
- **Digital productivity policy**
- Proactive approach
- **Innovation hubs**
- Financial incentives (tax, basic support)

EU Companies and consumers

- Language barriers
- HIGH LEVEL OF DIGITAL ILLITERACY
- **Slow reaction to change (Hyves (NL), iWiW (HU))**

What role for EU agencies?

Presentation by Prof Dr Massimo MOTTA

European Commission

Competition issues and industrial policy in the digital economy

Massimo Motta
Barcelona Graduate School of Economics
Chief Economist, DG Competition

European Parliament, 20 January 2015

Competition

European Commission

Disclaimer

The views expressed in this presentation are **personal**, and do not necessarily represent those of DG Competition or of the European Commission…

2

Competition

The broader picture: competition and growth

Competition (liberalisation, market integration) contributes to productivity, innovations, and investments (and thus growth).

1) It induces firms to invest and be more efficient, to stay ahead of rivals.

2) It selects bad from good firms: absent competition, any firm would survive. But if firms compete, the efficient ones will survive, and the inefficient ones will exit.

For this mechanism to work we need <u>free entry and exit</u> in the market.

Policy should eliminate obstacles to entry of new firms, but also refrain from protecting unsuccessful firms (e.g., Rescue & Restructuring aid).

3

Competition

Competition and investments: examples

AT&T/T-Mobile (US) - After merger plans were abandoned, T-Mobile heavily invested (network modernisation, 4G LTE deployment, new spectrum). Competition reacted with lower prices and innovative services.

Google Fiber – After Google invested in Austin, and said it will roll out gigabit fiber in 34 other towns across the US, AT&T has matched that — and more — by planning to invest in 100 cities and towns.

Broadband in the UK (*Nardotto, Valletti, Verboven*):
(1) Broadband speed) increases when there is *intra*-platform competition (between MNOs and firms using Local Loop Unbundling); (2) investments (both broadband penetration and speed) increase when there is *inter*-platform competition (between MNOs and alternative technology: cable).

In the EU, alternative operators have led investments in NGAs: incumbents have 42% of all connections, but only 22% of NGA connections

4

Competition

Competition enforcement

- **Agreements** – Bad, if they fix prices or outputs; good (under certain conditions) if they achieve efficiency gains
  e.g., Network-Sharing Agreements; Standard-Setting Organisations
- **Abuse of dominance** – No problem, if firms are dominant because of investments; bad, if they abuse it by preventing rivals from challenging it
  e.g., Microsoft, Standard-Essential Patents (Samsung; Motorola)
- **Merger control** – Good, if they create synergies/efficiencies; bad, if they allow firms to increase prices
  e.g., Telecom mergers: case-by-case
- **State Aid** – Good, if aid delivers what the market would not; bad, if it distorts competition/trade and/or wastes public money (aid limited to the minimum)
  ex1: R&D&I, risk finance to small-medium firms
  ex2: broadband investment: if necessary (experience of SWE and DEN), only in certain areas; demand-driven approach may be more successful; it should not favour dominant firms over new entrants.

5

Competition

Is competition policy sufficient?

1. No, good rules/regulation is also necessary, for instance:
   1. In mobile telephony, the regulatory patchwork in EU is co-responsible for the absence of a single market
   2. IPR laws (e.g. copyright) should facilitate EU offering of services and goods, rather than at MS level
   3. Privacy is not a competition issue
2. It should be complemented by other policies facilitating entry and exit:
   - Labor policies (less restriction to hiring and firing)
   - Social policies (to smooth transition for workers; training; solidarity)
   - Efficient credit markets (fundamental for new/small firms)
   - Innovation policies (IPR regime, education and knowledge policies)
   - Bankruptcy laws (no consequences/stigma for unsuccessful managers)

Industrial policy? No, if it means that governments (or the EC, or the EP) decide which industries/firms/projects to support, and throw money at them. Yes, if it means to create an environment where ideas/innovations can emerge and compete fairly so that good ones will grow and bad ones will not.

6

Competition

Presentation by Simon HAMPTON

The need for European leadership

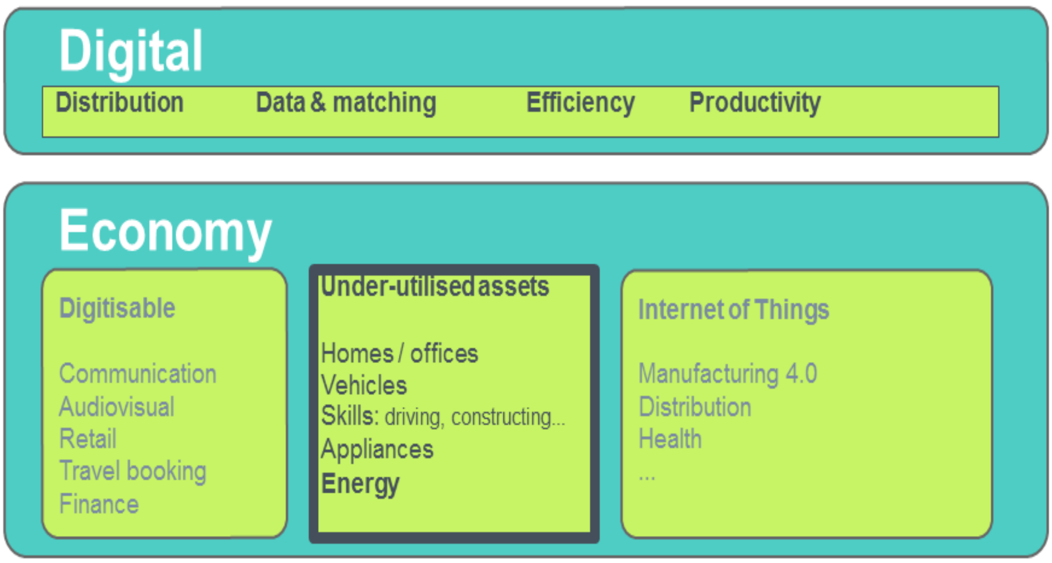
Opportunity

- Pivotal moment in economic history
- Grand societal challenges

Ambition

- Turn 'austerity' reforms into long term structural gains

Less 'digital', more 'economy'



Rethinking social dialog

Firms
The Internet eliminates the 'transaction costs' that led to companies. New ways of providing services disrupt the old.

Workers
Sharing economy '*micro-entrepreneurs*', are '*freelancers*' that need correct integration with social security.

Government
What are the needs of this new economy, and how to integrate in social dialog? Role of regulators in age of peer reviews.

Sharing economy: "policy hybrid"

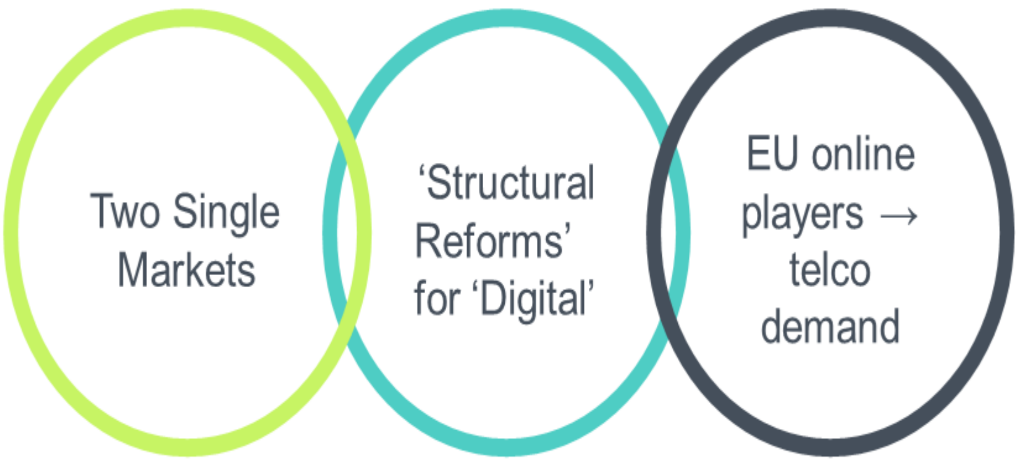
Digital

- e-Commerce Directive
- Data protection
- Security
- Copyright
- Open Internet
- e-Payments

'Real world'

- Services Directive
- Regulated professions
- Health & safety
- e-Government
  - Creating a business
  - Tax: micro-firms
  - Background checks

Delivering the digital opportunity




Thanks!
Any questions?
Simon Hampton
@simonh1000

Presentation by Prof Dr Marc BOURREAU

Why is the European telecom sector under huge pressure?

Marc Bourreau

Telecom ParisTech

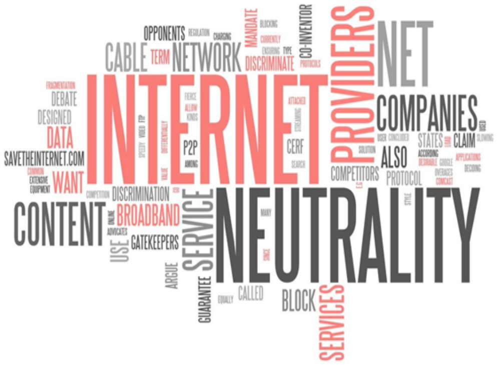
The impact of OTT on telcos

- Substitution

- Complementarity

Value sharing

- Current situation: net neutrality
- What if… we don't have net neutrality?



Concluding remarks

- Consolidation could help telecom operators reap a larger share of revenues:
  - Larger network effects
  - Pan-European services that compete more effectively with OTT services
  - Stronger position in the bargaining process
  - Larger economies of scale if vertical integration in content markets

Presentation by Richard FEASEY

Challenges for European telecoms operators imposed by the Internet

Comparing EU and US

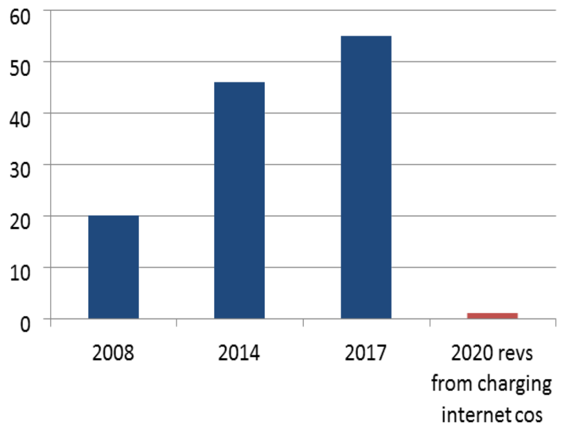
Richard Feasey

Strong demand	Strong demand
Revenues down 10%	Revenues up 35%
Investment FLAT	Mobile investment up 70%
Indebted industry/weak economy	Stronger industry/economy
Prepay tradition	Free calls tradition

Impact of internet

How you pay for telecoms has already changed....

% European Telecoms Revenues earned from flat or access fees



Source of data: AT Kearney 'A Future Policy Framework for Growth'

What can be done?

Further accelerate the rate of change in telecoms

US plans to end copper networks by 2020

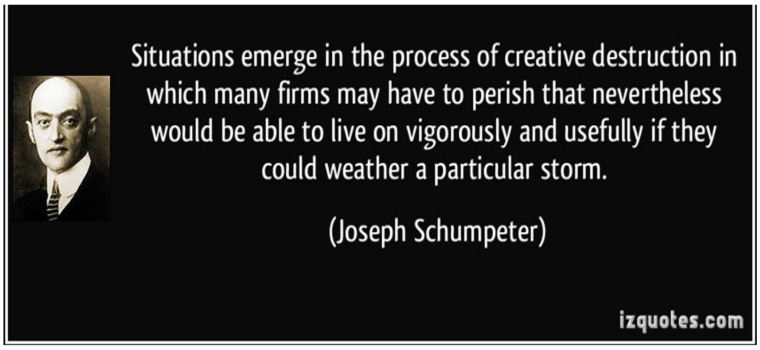
Europe could take 90 years at current rates

US could see end of Terrestrial TV before 2020

Europe sees no change until at least 2030

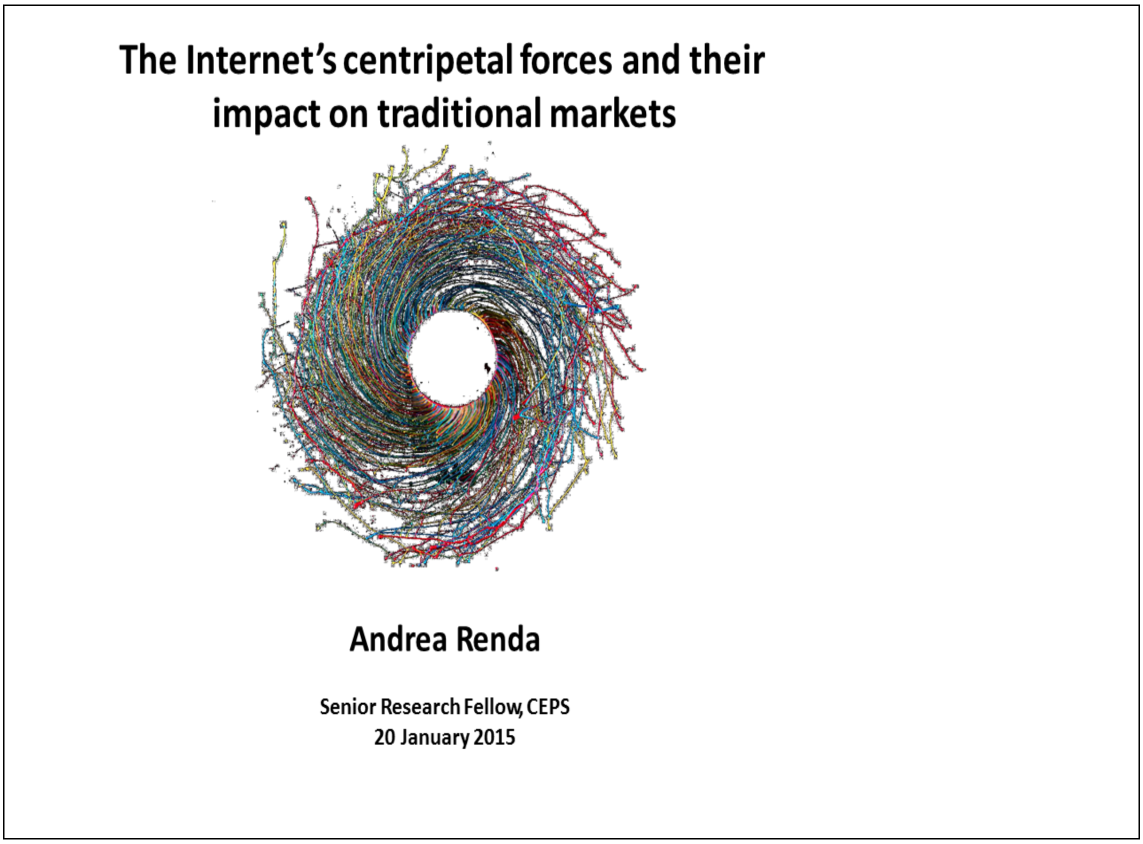
What more can be done?

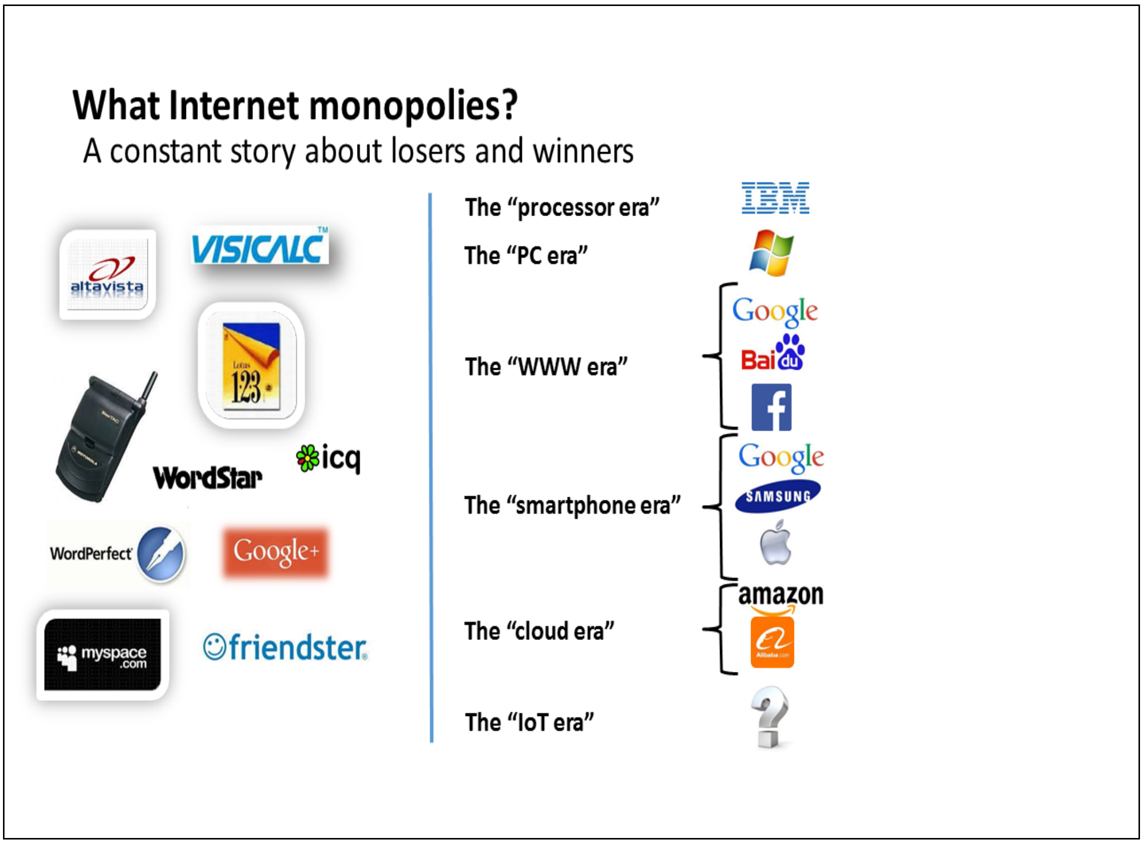
Internet storm is unstoppable (and positive for Europe as a whole)



At a minimum, EU policy should **not hinder** the ability of telecom operators to weather the storm.

Presentation by Prof Dr Andrea RENDA

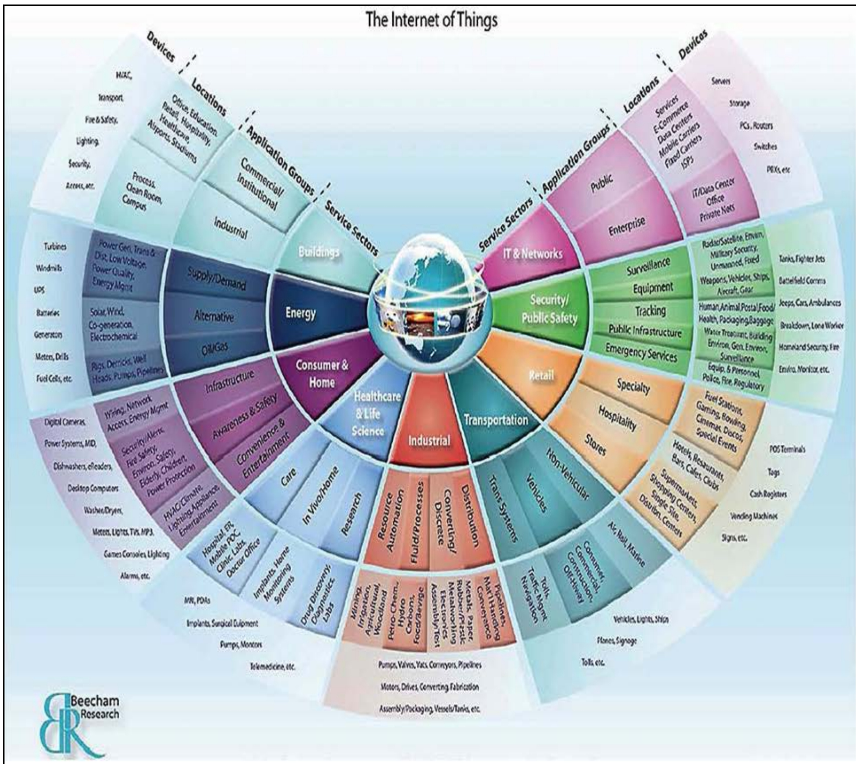


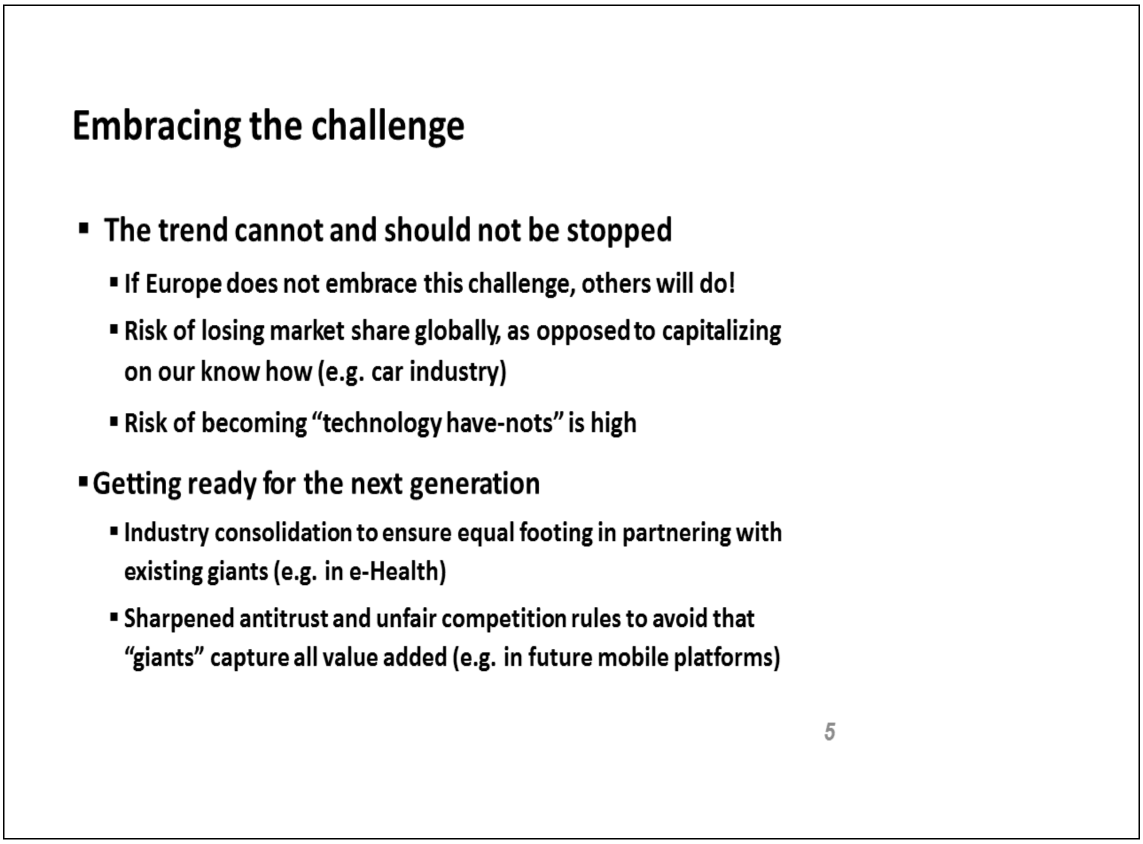


Can they leverage market power into other industries?

- **Yes they can..**
  - ***Profitability of certain IT sectors makes it easier to reinvest profits (e.g. Amazon reinvests all profits)***
  - ***Data as the "new oil": many services markets will be dominated by Internet giants in the future***
  - ***In some "heavy industries" the future will see more partnerships and joint ventures than takeovers (e.g. BMW/Baidu, Toyota/IBM, Daimler/Infosys, Ford/Microsoft)***
- **... and they must!**
  - ***Ex. Google constantly expanding into other sectors to keep its competitive edge***

3




Embracing the challenge
▪ The trend cannot and should not be stopped
▪ If Europe does not embrace this challenge, others will do!
▪ Risk of losing market share globally, as opposed to capitalizing on our know how (e.g. car industry)
▪ Risk of becoming “technology have-nots” is high
▪ Getting ready for the next generation
▪ Industry consolidation to ensure equal footing in partnering with existing giants (e.g. in e-Health)
▪ Sharpened antitrust and unfair competition rules to avoid that “giants” capture all value added (e.g. in future mobile platforms)
5

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