Economic Brief

E-communications investment in the EU

The renewed Lisbon Agenda for Europe seeks to stimulate innovation, creativity and entrepreneurship in the ICT and media sectors. In this respect, e-communications play a key role because they have become increasingly instrumental to economic growth, innovation and creativity.

The EU regulatory framework for e-communications was adopted by the European Parliament and the Council in 2002, and became applicable from 2003. It has three primary objectives: (1) Promoting competition; (2) Developing the single market; and (3) Promoting citizens' rights.

The European Commission's DG Information Society commissioned London Economics to estimate the level of e-communications investment in the EU and to examine its main drivers as part of a contribution to the Commission's 2006 review of the e-communications framework.[1]

The aim of the study was to analyse the level of investment in tangible fixed assets in the e-communications sector and to provide breakdowns by Member State and for four sub-sectors: fixed telephony, mobile telephony, cable and broadcasting. This task was complicated because of an absence of sufficient officially published data.[2]

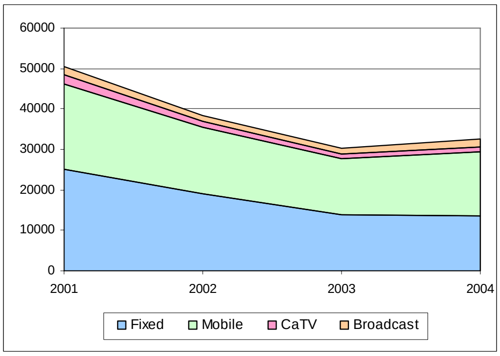
In this respect, this study is innovative because it includes investment data collected from company annual reports and surveyed companies for the 25 Member States. London Economics also surveyed firms across five Member States for views on the drivers of investment, on the impact of the regulatory framework on investment, and on potential changes to the regulatory framework in order to stimulate investment.

E-communications investment has been falling in the EU

London Economics' estimate of investment in tangible fixed assets in e-communications across the EU25 is €32bn for 2004. More than 90% of the total investment was in fixed and mobile telephony.

EU total investments were lower in 2004 than in 2001, having fallen until 2003 and then picked up slightly in 2004. Interestingly, a similar pattern is observed in each of the four sub-sectors reviewed: fixed telephony, mobile telephony, cable and broadcasting (Figure 1).

Figure 1: EU25 investment by sub-sector



Note: €m, current prices.
Source: Company Annual Reports and LE calculations.

New entrants invest more than incumbents in revenue terms

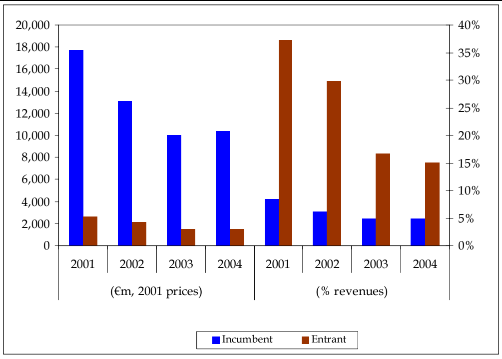
In absolute terms, investments by fixed telephony incumbents were eight times higher than those by new entrants in 2004, reflecting their larger size.

However, when expressed as a percentage of revenues, it becomes apparent that new-entrant operators have been investing three to four times more than incumbents over the period (Figure 2).

Telecoms investment is varied across countries

Levels of investment in fixed and mobile telecommunications vary considerably across Member States. Interestingly, New Member States have higher investment figures for fixed and mobile sub-sectors when expressed as a percentage of GDP (Figure 3). The high investment figures for Latvia (1.3% of GDP for mobile) and the Slovak Republic are especially remarkable.

Figure 2: Fixed telephony investment by incumbent and new entrant operators*



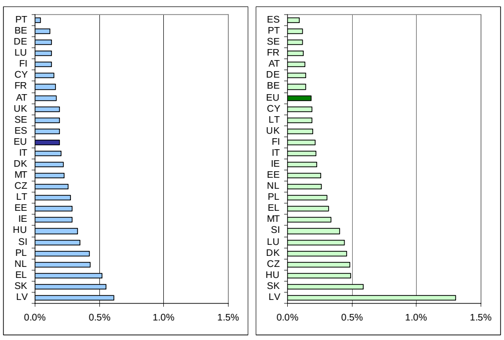
Note: * Includes Germany, Spain, France, Italy, Hungary, the Netherlands, Poland and the United Kingdom.
Source: Company Annual Reports, Amadeus, and LE calculations.

Many of the EU15 Member States show very low investment in the fixed sub-sector, and to a lesser extent in the mobile sub-sector. This is particularly relevant for Portugal, France, Austria, Germany and Belgium.

Although New Member States have investment figures above the EU average for the mobile industry, many EU15 countries have also been investing heavily in this new technology, and in some instances more so than the New Member States.

Figure 3: Fixed and mobile telephony investment 2001-2004 (% of GDP)

Fixed **Mobile**



Source: Company Annual Reports and LE calculations, **2001 prices**

The observed pattern for fixed and mobile sub-sectors could be indicative that firms see New Member States as countries with new market opportunities, particularly in the mobile sub-sector, where technological progress has allowed mobile operators to leapfrog traditional fixed telephony providers and gain market share.

How the regulatory framework is perceived

London Economics' study suggests that regulatory uncertainty is one important aspect of regulation that affects investment decisions, although not the most important.

Identified factors that can contribute to more regulatory certainty include:

- Clear legislation
- Timely implementation of legislation
- Guidance on interpretation of requirements
- Harmonisation between Member States
- Clear communication from the regulator
- Adequate appeal processes
- Adequate regulator's enforcement powers

Many companies have suggested specific improvements to the regulatory framework and its implementation in order to improve the investment climate. Nevertheless, many also expressed the view that the current framework was a welcome and significant improvement on the previous regulatory framework. Some also argued that the development of competition meant that there was now no further need for regulation in some or all markets.

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[1] "An Assessment of the Regulatory Framework for Electronic Communications: Growth and Investment in the EU e-Communications Sector". EC DG-InfSo. June 2006.

[2] Eurostat publishes telecoms investment data but these include intangibles except spectrum licences. Published OECD data also include both tangible and intangible assets (except spectrum licence fees). ITU data refer to the expenditure associated with acquiring the ownership of telecommunication equipment infrastructure but exclude radio spectrum licences.