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A “Triple Play” for Europe

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Ladies and Gentlemen,

You have asked me to introduce, with my speech, today's debate with business leaders of the Internet economy on "Europe's Catch-Up". But before we start talking about the need for us Europeans to catch up, let me first look at the reasons why we have to catch up. In such a wealthy town like Munich one tends to take for granted that the economic success of our societies has always been, and still is, the result of strategic decisions, innovation and hard work.

The need for a mentality change

The first reform that we Europeans need to catch-up is a reform of our mentality. Too often I see pessimism and fear dominate political talks in Europe. Pessimism about the possibility of keeping our wealth. Fear of globalisation. Fear even of our neighbours. In France, the fear of the famous "Polish plumber" has even led to a rejection of the new European Constitutional Treaty, which would have made Europe stronger with regard to the challenges of globalisation – and this even though there are not more than 120 plumbers of Polish nationality in the whole of France.

Ladies and Gentlemen,

Have we forgotten what European integration is all about? Have we forgotten all the jobs created by opening up Central and Eastern European markets for products from Western European countries? And have we really already forgotten that just two decades ago, we would have wholeheartedly welcomed every Eastern European coming westward with expertise or a tool box instead with a machine gun? The disclosure of the archives of the Warsaw Pact in these days should remind us how much confrontation was a reality in Europe when it was still divided by the Cold War, and how grateful we therefore should be for today's peaceful unification of the European family.

Let me give you a further example for the urgently needed mentality change in Europe. In Austria, I am hearing every day the outcry of politicians against a ruling of the European Court of Justice from last year. This judgement said that German students have to be admitted to Austrian universities in the same way as Austrian nationals. "There are more Germans at the University of Graz than there are Austrians in the whole of Germany", some politicians in Austria are lamenting. But what is really at stake? Is this story not first of all a proof of the high quality of the University of Graz? Has not also the PISA study proven the high standard of the Austrian education system, compared with the German one? So could not the problem be solved by requiring tests before enrolment? But then we have to accept that we need to give real autonomy to universities and this not only in speeches!

This is the kind of problem we face in Europe everywhere: we too often do not have the courage to ask the relevant questions.

Ladies and Gentlemen,

I firmly believe that therefore a reform of mentality in Europe is the first and most important pre-condition for catching-up with our competitors. I have just come back from China, and I recommend to all those who fear competition from our European partners to look closely at this country. There, the average growth rate only of the industry sector which I know best, the industry specialised in Information and Communication Technologies (ICT) is forecasted to exceed 20% in the next five years. Europe cannot afford any longer to be paralysed by our fear of the "Polish plumber" and the "German student".

It is certainly not enough if politicians say poetic words about Europe only in their Sunday speeches, and then resort to nationalism and populism in their weekly

decisions. We Europeans must understand once and for all that only together, and by combining our efforts, we will be able to ensure the continuation of our European success story in a globalised world. And that we must more often than in the past have the courage to do something together what we cannot do any longer on our own.

Re-discovering Europe's strength

To make this mentality change possible, we Europeans must first of all re-discover our strength. Just look at the ICT and media sector, for which I am responsible in the European Commission. Here, we have a sector of the economy that is still doing well, and we should not forget to say this loudly. If there is an area where Europe has the potential to catch up, and where often Europe already is the point of reference for other parts of the world, it is the ICT and media sector.

The ICT sector alone accounts for 5.3% of Europe's GDP and for 3.4% of total employment. In the period 2000-2003, the ICT sector contributed to more than 25% of Europe's productivity growth. It is also a highly innovative sector, responsible for more than a quarter of total effort in European R&D effort and capable of creating growth and jobs.

Let me give you some concrete examples for the strength of Europe's ICT and media industries:

- On the infrastructure side, **broadband take-up** is progressing fast in Europe. There are today more than 50 million broadband connections in the EU, an increase of nearly 60% in the last 12 months. Nordic countries top the list of best performers, with Denmark, Finland and Sweden achieving a penetration rate of about 20% of population, which means about 40% of households. This is twice the European average, it is above the US average and it is also not far from the South Korean rate. It does not come as a surprise that the "Europeans of the North" also come in top positions in international competitiveness rankings. In the World Economic Forum's Country Ranking 2005-2006, Finland comes first, followed by the US, Sweden, Denmark and Taiwan.

- On the **content side**, Europe's strong cultural heritage provides a sound basis for a strong European content industry, which has today a share of 29% of the world market, which is worth \$ 130 billion, even though still made up to a considerable extent by the strength of Europe's printed media.

- If we compare the **turnover of companies in the ICT and media sector worldwide**, five European **telecom companies** make it easily into the Top Ten (Deutsche Telekom, France Telekom, Telecom Italia, British Telecom and Telefónica). The list of the ten strongest companies producing **ICT hardware** is even led by a European company (Nokia) and includes four further European companies. The Top Ten of **media content companies** includes at least three European companies (Vivendi Universal, Bertelsmann and ARD).

For me, all this clearly is not a reason for pessimism or frustration, but a good basis for Europe catching up.

Three challenges for Europe's ICT and media industry

Of course, we also have to be honest about the challenges which Europe's ICT and media sector needs to face to keep and expand its position. There is no time for complacency in a rapidly evolving world. For me, three challenges appear to be particularly important for the competitiveness of Europe's Information Society.

- First, **innovation is not sufficiently rewarded in Europe**. We have great European researchers and innovators – but rarely, European innovations are also exploited economically in Europe. While key inventions such as the World Wide Web, the MPEG 3 audio compression technology or Linux were invented in Europe, industrial applications resulting from these inventions are more and more developed elsewhere. Too often, innovation and industrial exploitation seem not to go hand in hand in Europe, while this is self-evident in the US. And too often still, public research and development spending is not used efficiently in Europe, but is misdirected through bureaucratic procedures and red tape.
- A second challenge of Europe's Information Society is **the lack of speed in our networked economy**. Consumers will only become really interested in eCommerce, Voice over IP or TV over IP if using the Internet becomes a truly seamless experience. If the message "Please wait until download completed" does no longer appear on our mobile or screens. If being online is always a real time experience. This requires speed in our networks. It is true that speeds are increasing in Europe, but there are still few connections with bandwidth above than 3 Megabit per second. Contrast this with Japan: there, already more than 10% of the 15.4 million broadband subscribers are connected via fibre optic with downlink rates of up to 26 Megabit per second. Here, indeed, we have to catch up as regards the results, not necessarily as regards the method.
- A third challenge is **Content**. I remember the origin of the Internet economy when Thomas Middelhoff, who will speak after me, always stressed that "Content is king" if the Internet economy is to unfold. We all have made our experiences since then, as has the "New Economy" itself, but this key phrase is today more true than ever before. Let's be realistic: Even though technological development will allow to have high-speed networks reaching most of Europe in a couple of years, no consumer will be interested just in the "pipes" if they do not offer attractive content, such as films, sport, games, or innovative services. With regard to content, Europe however has a huge structural competitive disadvantage: Even though we all know that there cannot be a strong content industry without robust protection of intellectual property rights (IPR), we have in Europe not one, but still 25 different regimes of IPR protection. It is true that we have made some progress with EU-harmonisation of copyright rules in the past years and made first steps towards harmonised copyright protection in Europe. However, this still has not allowed the creation of a single European market for content. The main obstacle for this is that IPR, and in particular copyright, continues to be closely linked to national territories inside the EU. That content is licensed still at national level, and not for the entire EU. That collecting societies stick close to national territories in their daily work, and that they also do so with regard to online licensing. It is certainly not a lack of creativity that makes Europe's content industry weak. But how can we expect the European Information Society to unfold if content still cannot fully profit in Europe from a similar large market without obstacles as in the US?

The “Triple Play” Europe Needs

Ladies and Gentlemen,

I do not believe that it is the task of politicians to develop business models. In particular in the ICT and media sector, I strongly believe in innovative entrepreneurs to strengthen Europe’s competitiveness and enrich Europe’s Information Society with their products and services. I believe that it is your role as entrepreneurs to develop an economy in which European consumers will be able to profit from innovative services, fast networks and rich content, and from the famous Triple Play of TV, Voice and Internet that we all will certainly be able to access in our households and offices in the near future.

The role of politicians, including European politicians, in this respect is nevertheless important. We can create the right framework that will rather promote than prevent Europe’s Information Society to flourish. We can facilitate progress, instead of blocking it. We can in particular be in the lead with starting the mentality change which I was referring to in the beginning of my remarks.

It is in this sense that I call for **a political Triple Play for Europe** to allow Europe’s digital economy to catch up with its competitors. This political Triple Play must consist in my view of three elements: **Innovation, Investment and Integration**

First, **Innovation**. Of course, it is not for policy makers to replace private sector innovations in the digital economy. Even though some politicians still feel tempted, it is not policy-makers that do ground-breaking fundamental research. It is not policy makers who will build a European search engine to compete with Google. Those who still believe in the recipes of 19th century industrial policy interventionism must only look into the public purse, whether at national or at European level, to see that the financing of innovative projects cannot and should not be driven 100% by the public sector any longer. What the public sector can do instead is use the European taxpayers’ money wisely by giving at the right moment the right signals and the right incentives. With our EU research programmes, we should in my view promote **a new culture of innovation** where innovation does not rely primarily on public money; where long-term financing by public authorities is replaced by venture capital, and thus promotes and does not stifle innovation; where red-tape in European and national research programmes is cut, so to make them more accessible to the small, innovative start-ups, and not only to established conglomerates or research institutions which are able to hire 20 lawyers to fill in all required forms. This week, the European Commission will evaluate the reform programmes of all 25 national governments, and I will take a particularly close look to see whether they promote this new culture of innovation in the field of ICT.

The second element of the Triple-Play Europe needs is **Investment**, and this concerns in particular the infrastructure of the digital economy. To equip Europe’s digital economy with high-speed networks will without any doubt require substantial private sector investment. Here, Europe has a unique responsibility to make sure that the regulatory framework encourages, and does not discourage, such investment by as many investors as possible. For me, it is clear that those who invest in new networks must be able to also reap a reasonable return on investment. However, that can, in my view, not mean that regulators exempt those who build such networks from the rules which guarantee effective competition. I believe in innovative business models, but not in so-called “natural monopolies” in a dynamic sector such as the ICT and media sector. I welcome that here in Germany, there are now several players interested in investing in new high-speed networks, and I call on the German telecom regulator to ensure that the relevant access obligations under EU rules are fully complied with. Otherwise, the German consumer will have to pay the price in a couple of years, lose interest and then turn

his back to the so promising world of the digital economy. To find the right balance between investment and competition will certainly keep us busy for the rest of the year when we review the EU telecom rules. I hope that in particular the German government will participate actively in this debate at EU level and not give in to the pressure to find unilaterally a solution at national level which could only yield benefits at national level in the short term, but would create fundamental problems, both at national level and EU-wide, in the long run. It is essential to remember that electronic communications markets are becoming more and more European. More and more companies from one EU Member State are starting to invest in other EU countries. The EU Commission has always supported this process as it promotes both investment and competition. It is absolutely crucial that we all understand that this is a European process, and that the European Commission cannot tolerate fragmented national approaches which may favour only the former national incumbents and could thereby block competition and the development of a true European market for electronic communications.

Finally, as third element for Europe's political Triple Play, I see a clear need for further **Integration**. With this, I mean the need for further integrating markets in Europe. For the digital economy, we need in particular to make substantial progress towards a European market for services, including electronic services. In my field of responsibility, I have already proposed in last December to further strengthen the European market for audiovisual media services with a modernised "Television without Frontiers" Directive. The new Directive aims to liberalise advertising rules in Europe and therefore takes into account the importance of advertising as economic foundation of free-to-air media content. At the same time, the modernised Directive aims to create an internal market framework for new audiovisual on-demand services, thus allowing, for example, a video-on-demand provider in Britain to deliver his services to all 25 EU Member States on the basis of UK law only, and without the need to respect at the same time 24 other legal regimes. To make sure that online media services can fully reap the benefits of a market encompassing all 25 EU Member States, we will finally need to reflect further on moving to a European regime of IPRs. If Europe's content industry really wants to be able to compete with other continents, and if it really wants to become a driver of growth in jobs for the digital economy, we have in particular to start calling into question the territoriality of copyright protection in Europe. And move to a true level-playing-field for content, encompassing the territory of all 25 EU-Member States as a single content space.

Ladies and Gentlemen,

I know that many of what I just said will sound like heresy to some experts and many politicians. The political "Triple Play" which I propose for Europe's digital economy, and part of which is already on the way to be put in practice at EU level, of course means also breaking with a number of past traditions and common practice.

But in my view, some heresy is inherent in the mentality change that I have called for in the beginning of my remarks. We need more courage and more action than reaction if Europe really wants to catch-up in the ICT field. And it is in this spirit that I am now looking forward to an interesting, may be also controversial discussion with you.

Thank you very much for your attention.