Industrial Strategy and Telecom Sector

Meeting with F. Chirico

Telefónica S.A.
September 23, 2021
The updated European industrial strategy aims to reinforce the resilience of the EU Single Market and Europe's open strategic autonomy.

10th. March 2020
EU New industrial strategy

11th. March 2020
WHO declares COVID19 as pandemic

5th. May 2021
Updated EU Industrial Strategy

- “A new Industrial Strategy for Europe”, a plan for how EU Industry could lead the digital and green transitions
- Fundamentals of industry underlined:
  - Innovation, competition and a strong and well-functioning single market
  - …while strengthening global competitiveness through open markets and a level playing field

Lessons drawn from the crisis

- Economic vulnerability: EU economy -6.3%; SME especially impacted; uneven industrial impact (e.g. 9M2020: “Tourism” -25% turnover; “Digital” +5%)
- Unstoppable acceleration of digitalization, relevance of connectivity and Telecom operators
- Severe supply chain disruptions and interdependence of global value chains
- Relevance of a globally integrated and well-functioning Single Market (unilateral introduction of restrictions to the free movement of goods & people)
- Need to speed the transition towards a more digital, resilient and cleaner industrial and economic model

However, no reference on the need to align industrial policy with competition policy and sectoral regulation
The COVID crisis has highlighted the key dimension of connectivity infrastructure, and European Telecom operators have shown to be reliable partners.

- Focusing on keeping networks (F&M) secure, reliable and working, including traffic management measures and protecting and repairing networks whenever necessary.
- Prioritising Public services in terms of support, maintenance and service (especially healthcare, army, public forces and similar).
- Preserving trust and security: Interventions against misinformation (e.g. 5G) and cyberattacks.
- Free or unlimited services and entertainment packages to customers.
- Supporting businesses in their use of remote working tools (e.g. cloud, videoconference); payments flexibility; or aid in the form of discounts.
- Closely collaborating with public authorities, including the European Commission: supporting health monitoring; securing emergency and critical communications (e.g. Hospitals); exploring the use of network data for use by public sector in tracking the movement/contacts during outbreaks.
- Supporting distance learning and e-learning (e.g. connecting vulnerable groups).
- Raising funds to provide health protection material.
- Safeguarding employees: travel bans; home office; additional hygiene measures; suspended unnecessary installations and interventions, etc.
The telecom sector is boosting innovation and EU open strategic autonomy with key technologies to underpin digital sovereignty and data services.

Open RAN & Open interfaces

The EU needs to promote and boost European Open RAN and open interfaces in the supply chain to safeguard competition, security, diversity, flexibility, ecosystem innovation and network resilience.

Open RAN means the disaggregation of so far bundled hardware from software with open and interoperable interfaces.

Open & interoperable interfaces, also among traditional vendors.

European Alliance on Industrial Data and Telco Edge-Cloud / GAIA-X / Data services

The EU needs to boost a sovereign data infrastructure.

- Instrument to channel initiatives, investments and funding for the future cloud and data services for public and private sectors.
- Cloud federation to define standards and implement data hubs and open services to share industrial data based on agreed common policies.

Edge Computing framework and reference platforms for real time services and services virtualization in 5G (eGate –IPCEI-)

European Alliance on Industrial Data, Cloud and Edge Cloud

Data services

GAIA-X

Telco Edge-cloud
The new regulatory initiatives, DMA and DSA, should help to stimulate diversity, choice and trust in the pursue for strategic autonomy.
Europe has underlined the relevance of the digital transition with ambitious targets in the EU's "Digital Compass" for the Digital Decade 2030, but...

**Key Public Services**
- 100% online

**E-Health**
- 100% of citizens having access to medical records

**Digital Identity (eID)**
- 80% citizens using digital ID

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**Skills**
- ICT specialists: 20 mill. + gender convergence
- Basic Digital Skills: Min. 80% population

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**Government Digitalisation of Public Services**

**Business Digital Transformation**

**Connectivity**
- Gigabit for everyone, 5G everywhere

**Cutting edge semiconductors**
- 2x EU share in global production

**Data: Edge & cloud**
- 10,000 climate neutral highly secure edge nodes

**Computing**
- first computer with quantum acceleration

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**Tech uptake**
- 75% of EU companies using Cloud/AI/Big Data

**Innovators**
- x2 number of unicorns in EU; grow scale ups & finance

**Late adopters**
- >90% SMEs reach at least a basic level of digital intensity

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Europe needs strong companies to drive the digitization process and achieve the Digital Compass objectives.

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*Source: The Pigiai Decade | European Commission*
The European Digital Ambition

... the ambition for the Next Digital Decade is not aligned with EU policy, with a current regulatory & competition policy not allowing operators contribution

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<tr>
<th>Digital Agenda</th>
<th>TARGET 2020</th>
<th>Average EU</th>
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<tbody>
<tr>
<td>Broadband coverage at 30 Mbps or more for <strong>100% of EU citizens</strong></td>
<td></td>
<td>87.2%</td>
</tr>
<tr>
<td>50% of European HH should have subscriptions above 100 Mbps</td>
<td></td>
<td>32.9%</td>
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<th>Gigabit Society</th>
<th>TARGET 2025</th>
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<tr>
<td>All European HH will have access to 100 Mbps, upgradable to Gigabit speed</td>
<td>42.5%</td>
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<tr>
<td>All urban areas and all major terrestrial transport paths to have uninterrupted 5G coverage</td>
<td>N/A*</td>
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<table>
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<th>Digital Compass</th>
<th>TARGET 2030</th>
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<tr>
<td>Gigabit network coverage for all EU households</td>
<td>N/A</td>
</tr>
<tr>
<td>5G in all populated areas of the EU</td>
<td>13.8%</td>
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We welcome the ambition to foster digital leadership and citizenship based on fundamental rights and values, and to step up the delivery of resilient infrastructures, digital skills and competences, digitalisation of all businesses and digital transformation of public administrations.

However, what is the point on piling up new targets if we are falling systematically to meet the previous ones?

The vision for European leadership in digital connectivity should be aligned with competition policy and the regulatory practice for the telecoms sector to get us there.

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**Telefónica**
Source: European Commission Digital Scoreboard, June 2020

* As of November 2019, 25% of European cities with a population of more than 400,000 had some form of early-stage 5G network in operation. Accelerating the 5G transition in Europe.
THE EUROPEAN DIGITAL AMBITION

Europe is witnessing a growing global disadvantage in key strategic sectors, like the European telecom sector, critical for future growth...

Revenue market growth in US vs market erosion in the EU
Revenues, Year 2011=100 (Total: fixed and mobile)

Value creation in the US vs. value destruction in the EU
Variation in €Bn - Market cap in telecom markets, 2010-2020

Europe needs new policies for a stronger and more resilient telecom sector
THE EUROPEAN DIGITAL AMBITION

... embedded in a challenging regulatory framework for investments

- **Investment capability** shrunk by falling returns on capital employed (impact on future network readiness)

- **A regulation focused** on reducing prices and driving to high fragmentation of the European domestic markets

- **Increased taxation** and spectrum fees/costs draining resources needed for investments

**ROCE (Return on capital employed)**, 2020

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<th>US Telcos</th>
<th>European Telcos</th>
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<td>14%</td>
<td>6%</td>
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- **Unsustainable market structures** have led to the destruction of the value of the European telecommunications sector (e.g. revenues and market cap), weakening its competitiveness, endangering the sustainability of future investments

- Estimated additional **€150 Bn** to upgrade fixed infrastructure to gigabit speeds and **€150 billion** to build full infrastructure to enable a comprehensive 5G vision

- **Annual license fees** paid by telecoms operators in the EU, Norway and Switzerland from 2000 to 2017, exceed **€150 Bn**

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There is a new investment cycle that needs a shift away from just caring about “short term prices” and “operators per market” to rather focus on “long-term sustainability” of Telecoms.

Despite consolidation attempts, the global number of four-player markets has been almost unchanged.

- **2011**: 4 MNOs in 11 markets, 3 MNOs in 18 markets
- **2018**: 4 MNOs in 10 markets, 3 MNOs in 19 markets

Four-to-three mergers faced regulatory challenges, with those cleared facing stringent remedies, or assisting the emergence of new operators.

**Approved mergers with remedies**
- AT/2012
- IT/2014
- DE/2014
- NO/2015
- IT/2016

**Rejected mergers (*)**
- UK/2016
- DK/2015

**Emergence of new operators supported by regulation**
- FR/2010
- SL
- NO
- NL
- IT

(*): TeliaSonera-Telenor merger was withdrawn in the light of the proposed remedies.
