Chapter 1 – Framework

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Framework: Electronic communications in the European Union (EU)

This chapter presents the evolution of the electronic communications sector in the EU, identifying the main aspects of its recent evolution as well as the factors explaining it.

According to the European Commission[1], electronic communications services are the main segment in the Communications and Information Technology (ICT)'s sector, standing for 45 per cent of its overall revenues.

In 2006, the electronic communications sector generated a 289 billion Euros profit and grew some 2.3 per cent. This growth is bellow that registered the previous year (in 2005, the sector's revenues had increased between 3.8 per cent and 4.7 per cent).

Currently, the mobile sector revenues stand for about 45 per cent of total revenues, having largely overcome fixed vocal telephony services' revenues (30 per cent). Broadband already stands for about 20 per cent of sector's revenues. Cable television distribution services complete the list of the main services provided (5 per cent).

Although voice services make up the largest part of electronic communications services' revenues, the trend is the increase in the weight of data services, due to the ongoing technological transformations, and to the current stage of the traditional services' life cycle.

This trend is already clear regarding investment. Investment on the sector increased about 5 pre cent and was mainly driven y the high demand of broadband data services, which fostered investment in the technological update

[1] European Commission, European Communications Regulation and Markets 2006 (12th Report)

of the offers (e.g.: the transition to broadband networks based on fibre optics, the increasing access speeds, and the creation of new generation networks). The development of offers over unbundled lines also contributed to the increase of investment in some markets.

This trend was also registered at the commercial level, with the development and package offer of voice, video and data services - multiple play offers. We following present the main aspects of the evolution of fixed, mobile and broadband services in the EU, during 2006[1].

Fixed voice telephony

Concerning fixed voice telephony, 2006 witnessed a fall in revenues of this the service. Revenues decreased between 4.5 and 5.1 per cent, thus reinforcing the trend registered in previous years. Nevertheless, fixed voice telephony is still the fixed operators' main revenue source, namely incumbent operators.

The evolution of fixed voice telephony in the EU has been mainly influenced by the phenomenon called fixed-by-mobile replacement, the growing competition between the service's operators, and also the development of innovative ways of providing the service, such as the voice over Internet Protocol (VoIP).

Regarding competition, it is largely based on indirect access. However, some countries register a decrease in the demand of these regulated offers as operators invest on their own infrastructure or migrate to regulated offers that make it possible to provide services with more attractive profit margins.

Given this segment's decreasing revenues, operators launched multiple play offers, in some cases promoting migration from broadband and speeding up convergence between services. About 19 per cent of European households already consume package offers, the double play offer made up of voice and

Internet being the most popular package. 2006 also registered a slowing down of the downward trend on service prices and even their stagnation.

Mobile services

Revenues generated by mobile services in the EU increased about 4.6 per cent, a figure below that of the previous years. At the same time, mobile voice traffic is overcoming fixed voice traffic in most EU countries.

On the other hand, MTS penetration in the EU overcame for the first time the 100 per cent figure. In 2006, MST penetration reached 103.2 accesses per 100 inhabitants, 8.2 per cent more that in 2005.

These clear signs of the service's maturity are accompanied by an increase in competition and a decrease in the service's prices – prices decreased 13.9 per cent in 2006.

In this stage of the traditional mobile services' life cycle, operators have been promoting data services, namely those based on 3rd generation (3G) mobile technologies. It is estimated that between 10 and 15 per cent of EU's mobile subscribers already have a 3G device. Broadband Internet access or Mobile TV are examples of higher value added services launched by mobile operators.

Broadband

Broadband revenues increased between 7.8 and 8.5 per cent in 2006.

In terms of accesses, broadband increased around 38 per cent. Average broadband penetration in the EU got close to 16 accesses per 100 inhabitants.

Some EU countries – Holland, Denmark and Finland, for example – are worldwide leaders in this field.

The new package offers, lower price offers, and the increase of transmissions speeds – which make it possible for to access contents consuming higher bandwidth – also contributed to this evolution.

Competition is also growing. In 2006, for the first time, the sum of the alternative operators' the market shares took over the historical operators' access shares. The regulated offers should be the main responsible for this evolution, while at the same time making it possible for operators to reach higher levels in the so-called '*investment ladder*'.