

3rd Competitiveness Day – UNICE

César Alierta – Chairman & CEO – Telefónica S.A.

“ICT: a strategic sector for Europe's competitiveness”

Brussels, 20th October 2005

Ladies and Gentlemen,

I would like to thank UNICE's President, Mr. Seillière, for his invitation to participate in the third edition of an event that is becoming a key reference for the debate on Europe's competitiveness.

It is indeed a pleasure for me today to address, in this emblematic setting, such a wide and distinguished audience representing European industry and the European institutions and also sharing a common will to “Cross Frontiers” in favour of European competitiveness.

To begin let me say that nowadays it is a proven fact, and generally accepted, that investment in ICT has a major impact on improving productivity and, therefore, on sustainable economic growth in the medium and long term. Two examples illustrate this:

- First, since 1990 a major correlation can be observed between the “Annual Growth in Productivity” curve and the “Annual Growth in ICT investment” curve for all developed economies (USA, EU-15 and Japan). These curves show a 3-year lag between the time the investment is made and the time its beneficial effect as an increase in productivity occurs.
- A second example is the “catalyst effect” that growth in the ICT market in Western Europe has had on the increase in GDP for the area since 2002.

Moreover, the benefits of investment in ICTs and their proper use for the competitiveness of the economy extend to the entire business network of a country. This is because ICTs promote innovation in general: both on the *demand* side, with new ways of consuming, distribution, investment and financing, and changes in international relations; and on the *supply* side, with new ways of producing, working, interaction amongst companies, new products, organizational processes and business models. Therefore, access to new technologies should be facilitated to everyone in society: citizens, companies and Public Administrations.

The European Commission itself has acknowledged the importance of investment in R&D+i and in ICTs to increase our companies' productivity and competitiveness, to create more and better jobs and to improve citizens' quality of life. In short, investment in R&D+i and in ICTs is essential for achieving the new objectives of the Lisbon Agenda. So understanding this fact and a proactive attitude towards ICTs are indispensable.

However it will not be possible to achieve the new Lisbon objectives if Europe does not seriously confront its delay in improving the productivity of its economy compared to

what the most developed economies in the world are achieving. After 50 years of reducing its productivity differential with the USA, Europe has recently been losing ground, falling back to a level of 85% compared to the USA's productivity level. If steps are not taken, performance in economic growth of the EU-15 compared to the USA and Japan will worsen over the next few years: it is forecast that real growth in our GDP until 2010 will be 60% of that in the USA, and also less than in Japan. Moreover, analysing the relevance that the ICT sector had in the economies of the EU-15 and the USA in 2003, we note that the current level of per capita investment in ICT by the EU-15 is still very low compared to that of the USA.

But although accumulation of capital is key for the long-term growth of an economy, what is really essential is the capacity of *technological innovation*. It is a fact that the economies of countries that innovate grow more than the economies of those countries that import the new technological developments, which are designed outside their borders.

Therefore, investment in advanced infrastructures alone to obtain productivity improvements inherent in the proper use of ICTs is not enough. Instead it is essential that the qualifications of the human factor be continuously improved to achieve this. Thus, the following is essential:

- Improve training in the use of ICTs by citizens, in their home environment as well as work environment.
- Increase the level of technical qualification of our experts and researchers, in order to reduce our dependency on other economies in obtaining and properly using technological innovations.
- Strengthen our companies' managers' ability to innovate in their business and to know how to obtain the competitive advantages that technological advances can grant them in their markets.
- Strengthen Public Administrations' role as an example in adopting and using ICTs and in promoting the advent of innovations and their general adoption by the entire economy.

In this environment, as telecommunications operators, we are facing a situation involving profound change. There are various types of changes involved:

- *Technological*: The new technologies allow convergence between industries and, as a result, the advent of new value chains, where various business models apply.
- *Competitive*: Competition in this sector no longer involves a national scope, rather global competitors and other UNREGULATED convergent sectors.
- *Regulatory*: Applying rules intended for non-convergent services and national markets to a very different competitive situation, is generating results that curb investment in innovation and in advanced technological infrastructures.

Within this environment, once again, the telecommunications operators must and want to continue investing and innovating in new generation fixed and mobile networks, higher access speeds (fixed & mobile broadband) and integration platforms for solutions that facilitate ICT access and use by all citizens, companies and Public Administrations.

The new investments and innovation required in networks and services entail technological and commercial risks, which in turn require a return proportional to the risks incurred. So regulation should not increase this uncertainty or these risks. In short, we need *definite progress in the deregulation of our sector* so that industry can invest at the speed and volume required. This deregulatory approach, favourable to competition in networks and the development of new infrastructures, has already been adopted in countries such as the United States, Japan and Korea. This increases the risk that the difference between the levels of broadband penetration and the productivity levels of these countries and the EU will also increase.

Adopting this new *deregulatory approach* requires a high level of co-ordination between the various EU Member States, which would be facilitated by a Common European Policy that works using the *Impact Assessment Method*. Using this method would allow the consequences of any decisions involving regulatory intervention in markets to be previously assessed, in order to avoid those decisions which, due to their impact on players, service providers and users can produce *de facto* effects contrary to those desired. Should a better alternative not exist, the option by default would be *not to intervene*.

It is essential that the Public Administrations decisively face the challenge of facilitating the sector's activity by addressing three specific issues:

- *Implement a deregulatory approach*: Do not expand old regulatory models to include convergent sectors. Support users, competition and economic development, not technologies or specific companies. And do not distort competition, as all players must compete on equal terms.
- *Eliminate barriers to investment in networks and services*: Facilitating investments in new technologies, providing a solution for Universal Service as well as for social and regional imbalances, and co-ordinating the various Public Administrations involved in this matter. A transparent dialogue with industry for the sector is a must.
- *Promote companies' and Public Administrations' investment in ICTs*: Encouraging ICT demand and use using all means within their scope, promoting improved education in the use of ICTs and implementing the necessary legal changes to eliminate paper in the Public Sector processes.

Succeeding in these areas would result in substantial benefits for the end users. For *citizens*, it would be feasible to access services and content that improve their quality of life, from any location, at any time and via any platform. For Public Administrations, an improvement in the provision of their services to citizens would be obtained and thus greater degrees of trust between citizens and Public Administrations, not to mention the cost-savings achieved in public spending. For *companies*, it would be possible to increase their productivity, to achieve greater competitiveness in world markets and to create jobs less likely to be *outsourced*.

But also *competition* would be strengthened, owing to greater competition amongst multi-platform infrastructures, strong competition in innovation amongst numerous service providers and a genuine convergence through the reconfiguration of the value chain.

But in order to achieve these benefits, the ICT sector requires appropriate conditions within the scope of the EU internal market. The appropriate conditions must be created in the EU so that the ICT sector companies can take on a pan-European dimension:

- First, it is mandatory to create a genuine *Internal Market*, in which the free movement of goods, services, capital and work is allowed.
- Secondly, greater *harmonisation in deregulation* is needed: Deregulation in Europe must be implemented in an efficient, coherent and non-discriminatory manner under the principle of technological neutrality.
- And thirdly, proper *allocation of budget resources* is required: Allocating a sufficient budget to Research and Development within the Financial Perspectives for 2007-2013 and taking advantage of the potential of the Structural Funds for promoting the development of the Information Society.

It is essential that a genuine *European Common Market for all types of services* be created avoiding the fragmentation of the market created by different local regulations, such as those for markets involving capital or labour, or for environmental, fiscal, industrial or consumer goods matters, which constitute the new tariff barriers of the 21st century.

And we must not forget either the importance of the external dimension of the ICT sector for the competitiveness of European industry at the world level. In a globalised economy, the competitiveness of the European ICT sector involves external expansion, which should be supported:

- *Facilitating access to third markets*: Pursuing with ambition the good results from negotiations in the area of services started at the World Trade Organisation's Doha Round.
- *Protecting European investments*: Striving for deregulation, through the World Trade Organisation and the free trade agreements on a regional scale (for example, Mercosur), which makes investments by European industry viable.
- *Allocating budget resources to support international expansion*: Allocating specific budgets, under the Research and Development Framework Programme, geared towards co-operation with third States that facilitate the expansion of European technology.

In conclusion, development of the Information Society must be considered as a key element in the EU's strategy, both for our own healthy internal economic growth as well as for the competitiveness of our industries at the world level.