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Europe's Internet from a Post-Dubai Perspective

Blog Editor



We have recently published [a commentary](#) from **Jonathan Liebenau** after his participation at "Beyond Dubai: a new global agenda for the Internet", held on March 8th, 2013, at the Ministry of Foreign Affairs of Rome. [Read here his keynote speech.](#)

Watch the [Video of Jonathan Liebenau in Rome](#)

Recent controversies about the governance of the internet are based upon fundamental differences of opinion as to whether or not it is healthy and sustainable for the near future. Many would wish to apply the maxim: "if it ain't broke; don't fix it," as former FCC Chairman and current US Ambassador to the European Union, William Kennard, said. Similarly, FCC Commissioner Robert McDowell wrote earlier this year that the multi-stakeholder governance practices that have worked so far to ensure an extensive, vibrant internet ought to be allowed to continue to provide whatever is needed. Those U.S. dominated multi-stakeholder bodies such as the Internet Corporation for Assigned Names and Numbers [ICANN] and the Internet Society have indeed been effective up to now in stimulating innovation, creating new markets and presiding over the growth of many of the features that we associate with the success that the internet has become. It has also created a system that tends to work against authoritarian and repressive forces that would like to have greater ease in censoring or restricting communication, or build national intra-nets separate from the rest of the internet, as is the case in China and Iran. There is good reason to fear that this congenial state of affairs is not sustainable, and the picture looks rather different from outside of the United States. After the ITU Conference in Dubai last December, it has become clear that the global dimension of the internet has somehow affected the overall strategic policy approach to the world wide web. The Dubai Conference, regardless of the outcome of the ITU Treaty revision, has made it clear that there are divergences on how the internet industry should evolve in the future.

The European internet and telecommunication sector in particular [has been challenged](#) on their business structure and future viability by many factors that can be summarized in four major areas. First, a significant shift in revenue stream sources driven by the expansion of the internet, and especially mobile applications. Second, the increase in EU and national service expectations (e.g. Digital Agenda for Europe 2020 and national broadband plans) requires significant investments that affect shareholders dividends. Third is the major change in users and patterns of digital services and products. Fourth, the formation and evolution of interrelated digital platforms for services. So far, these areas have each been addressed separately by different participants with the consequence of a high level of fragmentation between business strategies and approaches from political economy to governing the internet and the telecoms sector.

The network operators will deal with these challenges by assessing two features: the strategic problems of the current business layout, and what the sector needs to define, provision and achieve to continue being competitive. Many European incumbent companies are facing expenses to upgrade their networks on an unprecedented scale since the privatization and liberalization moves initiated from 1998. Up to that time infrastructure policy as well as investment was publicly led. This time there is impetus for public policy initiatives to meet EU and national goals for widespread high bandwidth access, but the expectation is that the investment will be at least 90% privately funded, a message that has been strengthened by Commissioner Kroes after the cut in broadband funds in the negotiations for the EU multiannual financial framework 2014-2020.

In the European context, the goals of service defined in the statutory formation of telecom companies as well as in the regulatory framework (for example, service to rural areas, quality of service requirements, universal service obligations, etc.), presents a serious difficulty when coming to define policy based on the economics of this industry. These, in turn, have generated a variety of national regulatory regimes that have differential effects upon different elements of the overall network. Some of these regimes have created regulatory options that preserve elements of self-regulation, some are intended to provide general guidelines for parts of the industry, and others are intended to correct for specific instances of market failure, as with certain price setting constraints. The risk associated with not providing a sustainable platform for the development of the future European internet industry will not only mean in real terms the end of the current prevailing business model, but could seriously affect GDP growth and the labour market through job losses. It will also affect the European technology innovation cycles to which telecom operators contribute significantly with their research and development budgets. Their relative ineffectualness is not likely to be changed by cajoling but rather by a better recognition that they are elements of the internet economy themselves with critical roles in IP traffic management.

Europe is disadvantaged in relation to the rest of the world in terms of innovation, despite having made some progress in rolling out infrastructure. This has diminished the ability of European firms, both those managing the networks and those

offering services over those networks for European consumers (although not for customers in countries where they operate as OTTs themselves in Latin America and Africa). These disadvantages have to be addressed through evidence-based policy making both through regulation and other policy instruments and through better informed business strategy. There is need for better understanding of the roles and practices of the many emerging agents such as the content delivery networks and the internet exchanges and their business relations with those who operate the networks. This will be all the more important as high bandwidth-using content, especially TV over the internet, continues to grow dramatically.

While it may be the case that the network operates without apparent breaks currently, the system shows evidence of structural cracks, especially when compared with the goals defined in the European Digital Agenda. When cautionary voices were raised about the structural flaws in the financial system they were frequently told that the system is not broken, so it doesn't need fixing. We cannot allow analogous imbalances and structural flaws to persist in the internet to breaking point.

If in the past network operators could afford to cope with [the changing internet](#) around them, this is no longer the case. They need to react quickly to the transition to a different kind of digital market for products and services that will work structurally, managerially, organizationally, and in terms of how the whole system is governed. These changes cannot be built upon the legacy of a single, simple, national monopoly when the internet is structured as a network of networks. Some of those networks compete, some have interconnections delimited by business criteria, and much of the future economic activity takes place according to new commercial practices based on modular rather than layered models of enterprise.

We need to see a new kind of relationship between the public interests in a vibrant communications network and the ways businesses behave on the internet. Europe has to move away from efforts artificially to stimulate competition through outmoded models of access and pricing and move to mechanisms that take into account the emerging business models based on digital platforms. Furthermore, due to specific regional characteristics of network industries, achieving a larger scale at the national level is key to the industry. In this context, market structures artificially pursued by sector-specific regulation and competition law within the 27 national boundaries should be avoided. New regulatory practices are unlikely to solve these business model problems. We believe that allowing operators to achieve a larger scale at the national level is key to the development of broadband infrastructures across Europe and to the creation of a real Digital Single Market.

Only then can we expect to see European digital economy firms competing in the same realm as the leading firms from abroad.

Note: this speech was originally published in [Key4biz.it](#) on 18 March 2013. See also [here](#) for a selection of articles related to the debate post Dubai.

This article gives the views of the author and not the position of the London School of Economics.

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About the author

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Dr Jonathan Liebenau is a Reader in Technology Management, LSE. He Specializes in fundamental concepts of information, and the problems and prospects of ICT in economic development. Previously worked in academic administration, technology policy, and the economic history of science-based industry, all positions in which he has emphasised the use of information in organizations. He is the author or editor of a dozen books and over 70 other major publications. He has provided consultancy services to leading companies and strategic government agencies, including Dell, BT, IBM, Microsoft, TCS, Nortel, EDS, Lloyd Thompson, and in the UK Government, the Office of Science and Innovation, the Department of Trade and Industry and the Home Office.

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