



Bundesnetzagentur

Speaking note

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CHECK AGAINST DELIVERY

Bonn, 27 October 2015, 9.30am

Conference on "Classic telecommunication network operators and the role of OTT providers"

My dear Dr Crane, State Secretary Machnig, Mr Chisholm, Mr Barthel,

Ladies and gentlemen from the industry, science and research regulatory communities and friendly governmental bodies!

I am delighted to welcome you to this 140-year-old waterworks to our conference on a topic that is the subject of much discussion at the moment, that of the uneasy relationship between telecommunications network operators and OTT – or over-the-top – service providers.

From a regulatory perspective we currently find ourselves on neutral ground by the way, as water does not form part of the regulatory remit of the Bundesnetzagentur.

This room we are in served as the plenary hall for the German parliament from 1986 until 1992.

It was in this room that Chancellor Kohl dismissed the last Federal Minister of Posts and Telecommunications before full liberalisation.

This is also where parliament passed the historical decisions on German Reunification and the decision on the capital city that was so important for Bonn.

Today I'm certain we won't be able to pass any historical resolutions.

But in view of the noticeable major changes in the telecommunications sector and in many other areas, I'm hoping for a lively discussion, which will perhaps pave the way for important decisions.

The use of the internet is certainly one of the greatest economic and societal changes to have occurred in the past decades and it will also shape the future.

Both dimensions are clearly depicted in the book "The Second Machine Age", which has just received the German Business Book Award.

At present we are discovering how many areas and sectors of our economy will be connected via the internet's communications infrastructure.

In his highly regarded book on the zero-marginal-cost society, Jeremy Rifkin highlights a key point in this connection, which is that all the main changes to the economic system throughout history have three things in common:

- new means of communication to organise the economy,
- new forms of energy to drive the economy and
- new types of transport and logistics.

These drivers are also shaping the current changes brought about by digitisation and connectivity and by the internet.

- Nowadays we take it for granted that we can communicate *any time and anywhere*. The use of the internet and digitisation make possible transparency and availability to an extent never before realised.
- We expect *intelligent* networks to play a role in helping us accomplish the *Energiewende*.
- In the field of logistics, RFID chips have existed for a fairly long time, allowing us to track the exact route parcels take. Even more far-reaching is the current discussion on fully-networked, self-driving cars.

In all of the areas I have mentioned, the Bundesnetzagentur is playing an active part, for example in setting the rules and in standardising bodies.

My dear Mr Machnig, as you can see, the digital agency discussed in Berlin already exists in Bonn.

The development of more and more powerful microchips makes it possible to process enormous amounts of data. This has created the preconditions for the internet to penetrate every aspect of our life.

The variety of new services is also possible because they can be offered independent of any data transport, that is, they can be offered **Over-The-Top**. This means that both competition and growth can be encouraged at the same time.

Existing business models will be changed by this, new ones will be created.

Some tried and tested products will be pushed out of the market.

And infrastructure providers see problems in covering their capital costs through earnings.

In this respect, the internet appears to be that which a good 100 years ago Joseph Schumpeter described as "a dynamic process of *creative destruction*".

The consequences of these disruptive processes, according to Schumpeter, are visible.

- At the level of companies, but also in regional and state competition, there is the question of who will find themselves on the winning side and who on the losing side. Consolidation and takeover activities in the telecommunications sector are clearly mirroring this tussle.
- At the same time, the question of a level playing field – that is to say, equal opportunities in terms of competition between different players – has been broached. Some are even demanding a targeted industrial policy in favour of European telecommunications companies.

Ladies and gentlemen, who would have thought, just a few years ago, that there would be an intersection between "taxi" and "internet"?

But this is precisely what the *Uber* company has brought about.

Who will be the winner in all of this – the traditional taxi business with its rules and regulations or *Uber*?

What is the right level playing field here?

Let's take the music industry as another example. Occasionally you might have the impression that because of digitisation the music industry is already singing a collective swan song.

In actual fact, sales of physical sound carriers are falling.

Yet the willingness to pay of those listening to music has apparently been underestimated, as new business models have evolved to market music.

In fact today, a considerable contribution to sales is being made primarily by payments for music streaming.

Overall, for the first time after a period of major losses, the German music industry was able to slightly increase its sales once more in 2014.

Again, this raises the question: who will be the winner and who will be the loser as a result of developments?

And how will the players act: will they work *against each other* or *with each other*?

From the artistes' point of view, digitisation also offers them an opportunity to market themselves via the internet.

All this goes to show that the internet and digitisation do not necessarily mean "less sales revenues".

Additional lines of business may even open up.

Nevertheless, there are changes and shifts the whole length of the value-added chain.

New players are now appearing on the field – a field that up to now didn't exist.

And the "old" players have to take up new positions.

For example, the automotive industry: Digitisation is already knocking at the door very loudly.

All car manufacturers are dealing with the question of networked and automated driving.

The fact that large German automotive manufacturers have purchased the map service called "Here" from Nokia is an indication that they are entering the field of self-driving vehicles.

In contrast, there are those who expect or fear that competitors who have so far not been in the marketplace will start building cars in the future.

It is not unrealistic to expect that in ten years Google and Apple will dominate the automotive sector because they control the operating systems.

Mercedes, VW and BMW would then perhaps only be "Nokia-like" hardware producers.

Does this mean it will be an "either-or" scenario? Or will automotive companies and internet companies cooperate with one another?

For each other or against each other – this question also typifies the relationship between classic telecommunication services and OTT services.

The OTT services spectrum is very broad: it comprises social networks, search engines, streaming, e-commerce, internet telephony and messenger services.

What identifies all these as OTT services?

They are provided on the internet that is open to everyone.

The network and the service are separate.

If we take the services offered by classic telecommunications companies as a reference point, two distinct categories of OTT services can be seen:

Firstly, all the OTT services that complement the communication services of telecommunications providers.

This category includes social networks, content and search engines, amongst others.

Secondly, the OTT services that can be considered a substitute for traditional telephony and communication services, such as text messaging services.

These OTT services include speech applications and messenger services.

In part, consumers are replacing standard telecommunications services with OTT services.

For example, consider the decline in text messages and the forward march of WhatsApp.

In such cases it is not always clear whether the OTT services are pure substitutes or whether they offer functions that go beyond classic telecommunication services, such as *video*-telephony.

In the telecommunications sector we take it for granted that we can telephone with *any* user – or can send them a text message or email.

This is what distinguishes *any-to-any* communication and what was desired at the time of liberalisation.

It is different, however, for certain OTT services.

With a messenger service, in the normal case I cannot reach anyone who is using another network's service.

Because there is no interoperability.

Network effects, as they are known, lead to consumers using the OTT service that allows them to reach as many of their contacts as possible.

As you know, last year Facebook purchased WhatsApp for \$19bn.

Do network effects ultimately result in only the really big providers of such OTT services surviving?

Do we have to enforce interoperability here – or would we be going too far?

I am curious to know how this will be viewed here today.

OTT services can also have an influence on the sales revenues of telecommunications companies.

Classic telecommunications providers may suffer a decline in revenue to the same extent to which OTT services are used instead of classic telecommunication services.

That is one side of the coin.

However, OTT services may also lead to positive revenue effects. This applies, for instance, if consumers buy faster broadband connections or a larger data volume for their smart phones.

In this sense they complement each other and drive each other forward.

There is not always a clear answer as to which aspect will prevail.

This brings us to the key questions for our conference, namely how the telecommunications network operators position themselves in competition with the OTT service providers and which rules of play need to apply.

We may learn more from the network operators today about *how* they intend to position themselves.

The conflict of interests seen between OTT services and the services offered by the telecommunications companies does, however, raise the following question: What shape should the regulatory framework take?

Should we build on the *existing* framework or should we start *from scratch*?

The call from the telecommunications network operators is for a level playing field which, they say, they do not have at the moment.

Whilst their own services are subject to strict sector-specific regulation, competing OTT services are not, which according to them means that the conditions for competition are not fair.

In its Digital Single Market Strategy the European Commission announced that it would also look at the role of OTT services in connection with the forthcoming revision of the legislative framework.

The Commission will place the focus in its telecommunications review on those OTT services that compete with classic telecommunication services.

This, to me, makes sense – since the question of a level playing field applies in the first instance to these OTT services.

It is important that we discuss the issues *objectively*.

It is, however, also important that we clearly identify the issues at stake: Do we mean market regulation in the traditional sense of regulating access and prices?

Or is it more to do with aspects like data protection, data security, transparency and consumer protection?

Do we mean *more* obligations for OTT service providers?

Or *fewer* obligations for classic telecommunication service providers?

Whatever the answer may be, one thing must be clear: every company has a right to a reliable and consistent legal framework that will provide a stable basis for long-term investment decisions.

Ideally regulation will make up for the absence of competition or will pave the way for competition.

Competition is not an end in itself. We look to competition as it is the best way to achieve innovation, investment and consumer-friendly prices.

Ladies and gentlemen, the German federal government is actively engaged in the process of digitisation with its "*Digital Agenda*".

The IT summits provide the opportunity for dialogue between the federal government and industry, science, social partners and other societal groups with the aim of structuring the various areas of activity under the Digital Agenda.

It is therefore my particular pleasure to be able to welcome State Secretary Matthias Machnig as the representative of the Federal Ministry for Economic Affairs and Energy.

I would also like to extend a special welcome to our second keynote speaker, Alex Chisholm.

The subject of our workshop today concerns both specific regulatory issues and general competition issues.

And – as current head of the UK's competition authority and former head of the Irish regulatory body – Alex Chisholm is familiar with both these perspectives.

I am also delighted to be able to welcome three panels of top-class representatives from industry, science and the international field who will be providing a valuable contribution to our discussion each from their own angles.

I hope that this 19th century building provides inspiration in this internet age of ours to find solutions for a viable regulatory framework with fair competitive conditions for the 21st century.

This framework will have an effect on the communications, energy, transport and logistics sectors.

Its effect will, however, also reach deep down into society.

Which brings us back to Rifkin and to the Bundesnetzagentur with its widely varied and often intertwining activities.

On this note, ladies and gentlemen, I look forward to many interesting discussions and hopefully one or two bright answers.

And now I would like to hand over to Melinda Crane.

Thank you very much.