



MINISTÈRE DÉLÉGUÉ CHARGÉ DES PME, DE L'INNOVATION ET DE L'ÉCONOMIE NUMÉRIQUE

Speech at FT ETNO Summit – 8 October 2013

Vice-President, dear Neelie,
President of the ETNO, dear Luigi Gambardella
President of the Bercé, dear Göran Marby
Business Leaders,
Ladies and Gentlemen,

I would first like to thank the FT and the ETNO for their kind invitation to speak here in Brussels just a few days away from the first European Council to address the digital economy and innovation. I think we can all agree that this Council, the first of its kind, will provide an excellent occasion for Europe to readdress the issue of the digital economy, in connection with growth and jobs.

Such mobilization is all the more critical insofar as the situation is alarming.

This is the first thing I want to share with: the situation today.

While Europeans have massively adopted digital services, Europe is being relegated in the field of the digital economy.

To emphasize this paradox I've used the word "bug" and I will say it again today: there is a bug in the digital industry in Europe.

Over the past decade, we have missed the boat when it comes to the digital economy. Remember, just fifteen years ago, Europe led the way in the telecoms sector, flush with its success in the area of standardisation.

This is how GSM developed in Europe, based around major European players working in close collaboration with European manufacturers in such leading telecoms ecosystems as Lannion, where France Télécom and Alcatel set up R&D centres.

Thanks to the leading position we enjoy with respect to established norms, Europe pulled out ahead in the deployment of both fixed and mobile networks, and to such an extent that entrepreneurs in Silicon Valley were jealous of our infrastructures.

And yet, we were unable to maintain our position on the world stage with the arrival of Web 2.0.

It must be admitted: the last decade has witnessed the weakening of Europe in the technology sector.

The list of casualties is long, but I will just touch on the most recent and most critical events:

- Verizon's market capitalization is now over €200 billion, more than that of Telefonica, Orange and Deutsche Telekom combined.
- The turnover of European telecom operators grew by 8% between 2006 and 2011, whereas that of North American operators grew by 56%. Per capita investments in the US for new telecom infrastructures (fibre, mobile, etc.) were twice as high as they were in Europe.
- In 2000, there were 6 European terminal manufacturers: Nokia (which was number one for ten years), Ericsson, Siemens, Philips, Alcatel & Sagem between them accounted for 55% of the cell phone market. Today, there are no European manufacturers in this sector at all since Microsoft's acquisition of Nokia. In the network industry, Alcatel-Lucent is still in a very tough situation, highlighted by today's announcements of 10,000 job cuts' project.

We must collectively acknowledge – each in our area of responsibility – that our policies are no longer adapted to the digital challenges of a global economy.

In order to build the future, I think we need to be clear – after the fact, of course – about just what it was that limited our actions.

This is my second point: I want to share with you the causes that led us to this situation

Being mindful of not oversimplifying things, I think that it can be said that our digital policy has been focused in two specific areas:

1- Development of R&D

First of all, we placed a great deal of emphasis on R&D. It was essential for Europe to strengthen its position as a leading scientific continent, and I don't deny the essential role that R&D can play in sectors such as nanotechnologies. But we also need a global approach to innovation. Because **R&D isn't enough to help our start-ups to grow and become the world-class digital leaders of tomorrow.** Google and Amazon were not built on calls for projects or scientific programmes! No R&D consortium with a large number of members was ever the basis for a digital giant!

We find ourselves in a paradoxical situation, in which the source of digital's growth is no longer in Europe. In 2012, the ICT markets contributed nothing to European growth, whereas in the US, at 2.5%, these markets were responsible for three-fourths of the country's growth.

R&D is not enough, even if it remains essential. Europe is cruelly short of instruments to finance innovation and business growth: we are truly on the verge of losing out on venture capital in comparison with the US.

Even though our internal markets are roughly the same size, the United States benefited from eight times as much venture capital investment in digital in 2012 – ten billion dollars compared with only one billion Euros in Europe. This situation automatically influences businesses' ability to grow, by allowing investments that are two to three times larger. **Europe is becoming a small confetti on the world map of innovation.**

2- Let me now turn to the regulation of telecom operators

With three separate packages of European regulations in the space of fifteen years, our European framework allowed us to build open networks that grew out of the old national monopolies, and to develop uses that made Europe and extremely attractive market in the digital arena. This is an extremely positive achievement that I want to salute. I also want to pay tribute to the involvement of the European commission and Vice-President Neelie KROES on this topic.

However this superiority in terms of infrastructure, which is critical to the overall competitiveness of the European economy, and not just in the digital domain, was not in itself sufficient to lay a foundation for European digital

firms. **We have to face it: start-ups don't appear through optical fibre ! In the Silicon Valley, until recently, the internet speed connections were very low.**

We all have to share the responsibility of this failure, and my intention is obviously not to blame anybody. But we all have to face the facts:

- We Member states, we were maybe too protective of our prerogatives ; **we now have to set sail to digital Europe together ;**
- The European Commission may have focused too much on the telecom sector that shouldn't remain the priority on a regulation level today ;
- You, the operators, you probably didn't invest enough in new services and innovation. While focusing on keeping your margins, you didn't take enough risks in a changing world.

The result of all of this is that we see the same situation among the major Internet players – a landscape from which we are largely absent. In terms of market capitalization, only 6 European firms appear in the list of the 64 largest Internet firms. The global digital scene in any number of sectors is dominated by the US and, to a lesser extent, emerging Asian players.

We shouldn't keep focusing on this situation. We have to set our sights further, because this time around, the rest of the world won't sit back and wait. The good news is that digital innovation follows short cycles and evolves constantly.

So it's wrong to assume we are powerless to deal with the situation I have described. What we need is a concerted drive to achieve our goal of putting Europe back at the forefront of digital development.

This is the third message I want to deliver here : we must rebound !

There is no point in struggling over innovation cycles we have already lost. **We should be preparing for the next wave of digital innovation – and here I'm thinking of new usages, big data, connected objects and more!**

This is why France has proposals on how to move forward on the full range of digital issues, together with all Member States and the European Commission. Because we are convinced that **Europe is the right level for confronting global competition.**

A meeting in Paris – attended by Ministers from seven EU countries and Commissioner Neelie Kroes – was called to make headway in this area and share our vision for a European digital policy. I also received letters from others European ministers who could not join the meeting but welcomed the initiative to give a new impulse towards a digital Europe.

Digital Europe is a project in the making, and global ambition requires continental scale. Such scale alone is what will give Europe's digital economy players the broad base they need to grow – provided they get relevant tools and support.

This is the forth point I want to share with you : how can we build this Digital Europe together ?

We have to broaden our vision

First, what I have in mind, of course, is a genuine European venture capital sector – serving the continent's start-ups through more robust pan-European funds. Something is clearly wrong when promising European companies with plans to expand have to turn to North America, whether for buyout deals, financing or listing on the Nasdaq. **We have to act decisively to promote the emergence of large pan-European capital venture funds, which will be able to support the growth of innovative companies. The EIB certainly has a role to play to achieve this.**

I also want Europe to support big-data. We are fortunate to be at the dawn of this new digital revolution, and to have the opportunity to quickly develop a strong European digital industry.

This is a topic on which Europe must show that it can regain control : mastery of the big data, its technologies and its business models is essential to build the digital economy that Europe needs for the next decade.

I want to say : “we need a big data initiative for a big Europe !”

There is a set of decisions we have to take today : for example, new regulations on the protection of personal data, currently being discussed, should allow us to establish a suitable European framework for the development of this digital sector.

This is the conclusion of the Justice and Home affaires council that was held at the beginning of the week : we have to harmonize European rules to offer a

better protection for our citizens, while promoting the development of digital economy on our continent.

Last of all, setting fair ground rules that apply to both established Internet powerhouses and Europe's new market entrants must be considered a European priority. At stake is building a level-playing field.

If we want to allow our European companies to grow and compete with today's Internet Giants, if we want to give credibility to our actions for our domestic market, for the digital single market, for venture capital, for of the industrial plans, we must establish fair rules. **Speaking of digital single market, we mustn't be naïve : if non-European companies take advantage from the rules, especially at the tax level, they will keep on dominating the markets we create !**

This is why we put on the table the regulation of Internet giants. We have to face it, **Internet giants today control the Internet. How many European start-ups have been abused by fully obscure unilateral decisions ?** This is what threatens the innovation and growth of our businesses today!

I want here dispel a number of misunderstandings in relation to a proposal that we put forward: **regulation of the giants of the Internet, rather than stifling innovation, is essential to allow it to flourish, especially here in Europe.**

And to those who think that regulating these Internet Giants will lead to regulation of the Internet, I say very clearly today that the digital economy is dominated by 5 to 10 Internet giants, who alone are able to shape the market to their advantage, sections of the economy and the entire Internet. It is critical that we **focus on regulating only those 5 to 10 Internet giants.**

Of course, regulation is not an end in itself, it is a mean. What we wish to guarantee is that Internet keeps being an open space in which innovation is possible. The issue at stake is the freedom of each and every one of us. If we have to regulate the behavior of 5 to 10 internet giants to ensure the freedom of all of us, I think it may be worth it.

To those who claim that regulation would necessarily be bureaucratic and punitive, I can't disagree more. On the contrary, such a regulation will **prevent procedures that today can last up to ten years.** In Europe, is it through

regulation that we have the lowest prices for telecom services in the world? The regulation of platforms therefore would have to be flexible and fast!

Last point: this project is not designed against American players. **The regulation would apply to the 5 – 10 main platforms regardless of their nationality. And what I hope above all is that one day we have to regulate European Internet giants!**

I feel that these new priorities, for innovation, for big data, and the fact that we aim to guarantee an open digital space, are topics of increasing interest for a growing number of Member states. **I see that the lines are moving, new issues emerge, potentially giving birth to a whole new European digital policy. I feel a real momentum around the European Council, with a large number of contributions from the Member States to expand the digital European policy beyond the single Telecom topic.**

In conclusion, I want to thank digital European stakeholders, and especially ETNO, who have moved to adopt a common stance ahead of the European Council meeting. It is my hope that you keep contributing further to the emergence of a genuine European digital policy. As I already said, telecom operators are fully involved in the future digital economy.

The work must continue. Speaking for myself, I will hold tomorrow with my colleague Pierre Moscovici in Paris an international conference on the subject of tax issues in the digital economy. Tax is obviously an important part of the level playing field and I'm very glad that Commissioner Semeta will participate to this conference.

I will also continue to work with my EU counterparts on the digital issues. At the end of the week, I will be travelling to Finland and Estonia to do so.

To restate what I've said, there are no foregone conclusions here. As of tomorrow morning, we will be facing new industry challenges related to big data and connected objects. We must be ready to meet those challenges and to make Europe the leading digital continent.

Thank you for your attention.