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# “Why convergence is a motor of growth and jobs in the knowledge economy”

Ladies and Gentlemen,

I am greatly honoured to introduce the Global Forum today. I am also very pleased to address a key topic: why convergence is important in the economic terms of growth and jobs.

**ICT in the economy**

The information, communication and media industries are driving sectors of our economy. The ICT sector accounts for 5.3% of GDP and for 3.4% of total employment. In the period 2000-2003, the ICT sector contributed to more than 25% of productivity growth. It is a highly innovative sector, responsible for more than a quarter of total effort in European R&D effort and capable of creating growth and jobs. Achieving the Lisbon strategy depends on the take up of ICT across all sectors.

Computers and broadband communications are the brains and the backbone of the knowledge economy. And the take up of ICT continues to grow very fast. The ICT sector consistently outperforms overall economic growth, particularly in the ICT software and services sub sectors. Let us take the example of broadband, as of June this year there are almost 50 million connections in the EU, a three-fold increase in two years and with convergence this will go ahead even further.

I believe that the growth of broadband and the convergence of networks, services and devices that is happening right now are paving the way for a new phase of growth and innovation. This growth will of course depend on investments in infrastructure and equipment but mainly the growth and jobs will come from a very large opportunity for new service markets for content, business services and security - all themes which are being tackled at this conference.

To get this growth, though, we need to fulfil some basic conditions, all of which are at the core of the i2010 strategic framework which the Commission adopted in June.

- Condition 1 - a fast and accessible broadband infrastructure across the whole of Europe
- Condition 2 – a modern and effective intellectual property regime for the ICT & content
- Condition 3 - an innovative and entrepreneurial approach amongst knowledge workers
- Condition 4 - serious commitments by government to modernise public administration

**<u>Condition 1 - Fast and accessible broadband</u>**

If we want convergence we have to have a fast communication backbone that is affordable and available in all parts of the Union. We are far from this position today.

Although the European broadband market is growing at high rates, we are well behind our main international competitors, both in terms of take-up and of speed. Against the 10.5% achieved in the EU15, South Korea has achieved a penetration rate of 25% of population, or more than 70% of households. Japan had 15.4 million broadband subscribers in 2004, and nearly 10% of these were connected via fibre optic with downlink rates of up to 26 Mega bit per second. In the EU, speeds are increasing, but there are few connections with bandwidth above than 3 Mega bit per second.

I am sorry to say that we do not yet have reliable broadband data for the EU10, but we know that even fixed telephone line penetration is below 40% of households in some countries and in some cases subscriber rates are falling. So we are sure that high speed broadband is not available and will not be available in the short term. This amounts to a brake on investment and growth in the regions affected.

This causes me concern. I cannot see how Europe can go into the knowledge economy with the infrastructure of the industrial era still in place in some regions.

It is for this reason that when I start, very soon, to review the regulatory framework for electronic communications I will look again to see if we are doing enough to enhance competition to improve quality, reduce prices and to overcome digital divides.

In particular, this whole system depends upon effective and independent regulation. I am happy to report that I meet regularly with European Regulators' Group and that we have good working relationship. But we still have some way to achieve full independent regulation in all Member States.

As well as being the regulator of electronic communications I am also the content regulator. Which is efficient, because the two sides of the policy on convergence are now in the same hands. On content, I am now coming forward with a review of the audio-visual content. In addition I am working closely together with different industrial interests in order to create better conditions for getting film and content on-line.

Let me also mention that I am also responsible for research on ICT, which is essential for convergence. And in this field Europe is behind in investment in ICT R&D. The figures speak for themselves, in Europe we invest 80€ per head, in the US this is 350€, in Japan they are putting in 400€. The Commission has recently made proposals for increasing this investment in the new Financial Perspectives. As you know this is under debate and I want to make clear that this requires a commitment by Member States, because if we don't advance we will fall back.

**<u>Condition 2 - Modern intellectual property rules</u>**

The emergence of the knowledge economy signifies a transition from the production and sale of artefacts that you can touch and see to a service economy in which Europe will increasingly have to live on its wits, talent and know-how. This is transforming the basis of the economy and I am afraid that Europe is "en retard" in adapting itself to the new reality and in particular to the implications of this transition for the protection of intellectual property.

Let us take the example of online content. I have already mentioned my work on film and content on-line – because this is an economic cornerstone of convergence. We cannot have a strong Content Industry without robust copyright protection and clear rules on liability for online-distribution, EU-wide and beyond. We still do not have a single European market for content. Collecting societies, for example, stick close to national territories in their daily work, and also with regard to online licensing.

This is not helping growth. To be competitive, Europe's content industry needs the scale of an EU-wide market, we will not boost Europe's digital economy without tackling the fragmentation both of its telecommunications and of its content markets.

In this area and in others, we need a Europe wide approach to reduce costs and raise transparency. We need to find ways to make sure that European IPR systems, whether they be patents, copyrights or trademarks, are forces for innovation and change and not deterrents to investors and entrepreneurs.

**<u>Condition 3- Knowledge workers become entrepreneurs</u>**

I believe that the majority of growth and jobs that we will get from convergence will come from smart and motivated entrepreneurs who seize the business opportunities of convergence.

The previous round of job creation from the internet took place mainly in the USA. My question is how can we make sure that Europe gets this time its fair share of the new opportunities from convergence? These will be from strong growth in on-line content, games, personalised and peer-to-peer services, new business support services and rising security demands. We need the people to push this demand.

For example, forecasts for online content revenues foresee a three-fold increase by 2008. Sound business systems are also a key source of growth in areas such as systems software, service oriented architectures, meeting new regulatory compliance requirements(e.g accounting standards), the continuing trend towards outsourcing of

ICT systems and the take-up by SMEs that is generating new demands for service support.

With this growth, it is not surprising that IT services and software are growing at around 5% per year well above the average for the sector, but we are only scratching the surface of what is possible. In some Member States where services are actively encouraged we such much higher rates of 10 or 11%.

But overall Europe is relatively weak in software and – once again - many of our services markets are fragmented into 25 or more different regimes. That is a problem.

But, I do not think that the problem is that we lack talented or qualified software and services people in Europe. Rather the reverse, key inventions such as the World Wide Web, the MPEG3 audio compression technology and Linux are all European creations.

What seems to be the problem is that we are under utilising – to a scandalous degree – our research results and our brainpower. For example, we have a massive problem today of people – especially young people – that are over qualified for the jobs that are on offer- In Europe as a whole 45% of university graduates, aged up to 35, are unable to find jobs at an appropriate level. Many of them are already qualified or have the potential to be business and information technology leaders. We simply seem to fail to provide a fertile environment for them to get meaningful work experiences. We also lack the incentives for them to become the entrepreneurs that will create jobs for themselves and others tomorrow and in the future.

It is already a major achievement that the e-commerce directive establishes a single market framework for on-line trading. This is an enormous opportunity which I would like to see better exploited. We have to put much greater emphasis on getting economic gains our inventiveness than we do today by encouraging young and optimistic people into these new areas of growth and promise.

## Condition 4- Administrations that drive change

Public services represent a very large part of the European economy and I firmly believe that administrations have a role as a motor of growth.

For example, public e-procurement is "big money", EU governments spend over 1500 B€ per year. The efficiency of this spending is crucial to the economic performance of Europe as a whole.

Let us take another example – the health sector. Health represents 8% of EU GDP it employs 15 million people (nearly 10% of the total EU workforce). This is also the sector that is at the sharp end of the ageing of the European population in the coming decades. There are estimates that we are facing annual increases of health costs of 5% or higher. Health is an area in which ICTs can give both higher performance and lower costs( a recent survey in Denmark indicated full electronic hospital referrals could cut costs by 25%). Yet, 2004 data from the Commission's e-Business Watch found that health is the least connected of nine sectors they examined lagging behind event textiles, retail and transport. This is an enormous untapped opportunity.

I could give many more examples and it should be noted that government ICT projects that are not well conceived can waste billions of euros. But the Commission is working hard to enhance the positive impact of ICT, for instance by raising flexibility of cross-border workers by making health care more accessible. The Commission is doing this in close cooperation between Member States and other stakeholders such as the private sector and citizens groups.

Tackled appropriately the opportunities are there both for greater efficiency and for new high bandwidth services to emerge from using ICT as a trigger of modernisation in the public sector. This is the only way that Europe can go ahead with both the double commitment to competition that underpins our European social model.

## Conclusion

I am very pleased therefore that the meeting will address the lessons and challenges of convergence, because this is really one of the key economic potentials of the coming years.

I have outlined what I see as some of the conditions for economic growth from the coming wave of convergence. We need the right infrastructures, intellectual property regimes, we need to unleash a creative and innovative entrepreneurial force and, especially as policy makers, we have a duty to lead through a pro-active public sector.

These are tall orders, but they are not impossible. They are all things that are in our hands to achieve. It will be our responsibility if we fail to act – we have nothing to lose and so much to gain. So let’s do it!