

The Draghi report: The Good, the Bad and the Ugly

The Draghi report underlines the need for a strong European telecom sector. The report is right in arguing that the sector needs avenues towards better profitability in order to achieve this. However, its proposal on cross-border mergers misses the mark



Mario Draghi, former President of the European Central Bank, unveils his report on Europe's competitiveness to Ursula von der Leyen, President of the European Commission.

Financial situation of telecoms necessitates change

The Draghi report specifically addresses the challenges of the telecom industry. Although we do not expect large policy changes to take effect in 2025, it is possible that the investment climate for telecom operators improves in the longer term as a result of the report. Over the past few decades, European telecom companies have seen their creditworthiness deteriorate. This was due to increased competition and a patchwork of strict national and supranational regulations that focused on lowering consumer prices. As we are no longer in a low interest rate environment, expect more focus among telecoms to improve their finances. [Recently](#) we have seen severe financial stress at Altice France, and Telecom Italia being broken up due to financial considerations.

The four most important recommendations in the Draghi report

Against this backdrop, the Draghi report argues that EU telecoms do not have the financial

resources to keep up with the investments made by their Asian and American counterparts. In order to resolve this problem, Draghi makes five key recommendations for the future of European telecoms. First, the report argues that consolidation of the telecom sector needs to be encouraged. Second, it proposes to shift the focus of competition enforcement (i) away from consumer prices and put increasing focus on innovation, and (ii) towards incorporating security and resilience criteria into competition assessments. Third, it proposes so-called 'ex-post regulation' which enables the regulator to intervene only when necessary. Fourth, it proposes state aid for projects of common European interest.

In our view, the Draghi report contains both good and bad proposals for the telecom sector, but it also reveals an ugly truth about the current situation of many European telcos.

The Good: Need for better profitability and a level playing field with tech

The Draghi report is spot on when it argues for improving the financial position of telecoms. Whereas the relentless focus on consumer prices was warranted a couple of decades ago, today future network investments require better profitability. One of the ways this could be achieved through regulation is by creating a more level playing field with technology companies. Telecom companies are required to uphold strict privacy standards and have limited capabilities regarding customer data usage. This stands in stark contrast to online call and messaging services offered by technology companies. Orange France, for example, [recently](#) received a fine for marketing via customer emails. Regulators need to find a way to treat both sectors the same way while preferably enhancing the protection of privacy. Moreover, Draghi's proposed ex-post regulation could be a way in which some of the regulatory pressure is removed from the sector. Eventually all of this could be good news for the creditworthiness of telecoms and their capacity to invest in networks and new products.

The Bad: Cross-border mergers

While the Draghi report makes a strong case for improving the telecom sector's financial health, its proposal on cross-border mergers is not as convincing. The argument that mergers will create stronger European telecom players sounds good in theory, as larger companies benefit from economies of scale. They have more means to invest in R&D and have procurement benefits. But in practice, benefits have not always been delivered, as the recent break-up of Vodafone shows. Even if consolidation happens, the benefits remain questionable. As history shows, to manage their operations in many countries, multinational telecom operators must establish a strong local presence. This facilitates local marketing efforts but reduces economies of scale. Also, scale economies are often achieved through other means, such as outsourcing (with the drawback of making the company dependent on the outsourcing partner). Will cross-border mergers promote the technological innovation Europe needs? In its current state, this part of the report fails to answer that question and does not offer a comprehensive solution to the current 5G investment gap with Asian countries.

The Ugly: Financial Pressure and Managing Digital Infrastructure

The Draghi report reveals a deeper, underlying issue within the European Telecom sector. Europe's struggle to manage its own digital infrastructure. At a time when Europe's digital networks require

substantial investment, the focus on improving telecom profitability is crucial. However, efforts to increase efficiency and lower cost bases have led to increased outside hiring of equipment and technical services. The continent's inability to compete in global software markets exacerbates the problem. The wide availability of local knowledge on telecom networks should be a key policy target, building on European successes such as Ericsson and Nokia.

Conclusion

Draghi's call for consolidation is rooted in the belief that larger telecom players will have the financial muscle to accelerate investments and improve technological sovereignty. While achieving economies of scale is beneficial for the financial position of telecoms, it is far from a silver bullet. Europe must do more to strengthen its position in digital innovation, software development, and network management. Although consolidation alone will not resolve the competitive disadvantage that European telecom companies face, European telecoms should rally behind the Draghi report to push for welcome changes in telecom regulation.

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