Western Europe – 3G Mobile in 2003

a report by

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The year 2002 has certainly been an eventful one for 3G in Western Europe. On the one hand, launch programmes have been delayed and widely anticipated market shake-outs have begun. On the other hand, several networks have been launched on a test basis, a few 3G pioneers remain determined to launch services before the end of 2002 and details of the first 3G handsets for the European market have been released. In short, 2002 has been a range of ups and downs for 3G.

The year 2003 will be no less eventful, especially as it will be the year in which 3G in Western Europe finally turns from vision to reality. While a large number of operators will launch 3G services in 2003, further casualties should be expected in the 3G arena, especially among new entrants. On the regulatory front, consensus that underpins thinking as to how 3G licensees can best be helped is set to be disrupted with the emergence of licence and spectrum trading.

3G – Prepare for Take-off

Only a handful of 3G licensees are still aiming to launch 3G in 2002. Amongst these are Hutchison 3G UK Ltd and Telecom Italia Mobile (TIM) in Italy. The pioneer group saw its numbers dwindle significantly in the second half of 2002 with the removal of Vodafone™ Group and its key subsidiaries, most notably Vodafone UK and Vodafone D2 in Germany. In August 2002, Vodafone Group stated that it would only launch services in 2003, once it had received a plentiful supply of dual-mode handsets. Sonera of Finland also decided to scale back its 3G ambitions, revealing in September 2002 that it would launch UMTS™ services in early 2003, reversing a previous announcement that it would launch 3G in the fourth quarter of 2002.

The caution exercised by Vodafone and Sonera is representative of wider sentiment across the 3G market. Companies are only prepared to launch UMTS once they have significant numbers of fully functional dual-mode handsets, as well as appropriate content services. In view of this, a significant number of 3G launches will only take place in the second semester of 2003. By this time, dual-mode handsets will be available in large numbers to support commercial 3G launches. Any handset and network interoperability issues should also have been resolved by this time.

It should be noted that companies launching 3G in the second half of 2003 will either do so because they are eager to start boosting average revenue per user (ARPU) or because of rollout obligations dictated by regulators, as is the case in Germany and Ireland, for example. In many cases, a combination of the two scenarios will occur, with companies looking to kick-start migration to high-speed data as well as meeting rollout obligations.

More Casualties Ahead

In addition to seeing 3G networks finally being launched on a wide scale, 2003 will be characterised by a number of players dropping out of the market. Casualties will predominantly come from Europe's pool of greenfield 3G licensees. These companies have been particularly badly hit by the delays in the delivery of UMTS infrastructure and handsets. Unlike incumbent operators, they have no existing customer bases or revenue streams to fall back on to keep them going while they await the arrival of the necessary equipment. Furthermore, new entrant licensees that seek to build up a 2G and 2.5G customer base prior to the launch of 3G face an uphill struggle attempting to break into highly competitive and close to saturated markets.

Just how difficult the market can be for new entrants was highlighted in July 2002 when Telefónica Móviles SA decided to suspend all activity of its Austrian, German, Italian and Swiss 3G start-ups, blaming UMTS equipment delivery delays for its decision. The company's German unit, Quam GmbH, also demonstrated the difficulties in building up a customer base prior to the launch of UMTS. Using the network of E-Plus, Quam launched GSM™ and GPRS in November 2001. By the end of June 2002, the company had only managed to acquire 197,000 subscribers, giving it a market share of just 0.4%.

It should not, however, be assumed that all 3G new entrants are susceptible to market shake-outs. For example, Hutchison Whampoa Ltd's 3G units, which include Hutchison 3G in the UK and H3G in Italy, are in a far stronger position to survive than a number of their 3G start-up counterparts. This is because the units have the full backing of Hutchison Whampoa, a highly profitable multinational company that has operations in several industries, not just telecoms. This limited exposure to telecommunications means that the company can leverage profit from other spheres of operation into its 3G units, helping them overcome any difficulties they may experience.

Put succinctly, no market can realistically expect to sustain more than three or four 3G players and, in the case of 3G, players left in the market will benefit from reduced competition.

Regulation

Consensus

That the transition to 3G has not proceeded as smoothly as planned and the realisation that it is foolish to demand that operators launch 3G before it is fully ready prompted a number of regulators in 2002 to ease rollout obligations. As expected, the countries that stipulated launches in 2002 and 2003 have been the most willing to sanction postponements.

In June 2002, for example, the Swiss regulator scrapped the requirement that licensees launch their networks by the end of 2002 with 20% population coverage. Swiss operators now have until the end of 2004 to turn on their next-generation networks, providing 40% population coverage at launch. In February 2002, the Belgian Institute for Postal Services and Communications (IBPT) postponed the launch of 3G services from September 2002 to September 2003 and, at the time of writing, was considering a further postponement until December 2004. Portugal and Spain have also eased tight rollout obligations. Even Germany's Regulatory Authority for Telecommunications and Posts (RegTP), which traditionally has taken a hard line on easing 3G licence conditions, has not completely ruled out altering rollout obligations. In September 2002, its president stated that RegTP would be willing to discuss rollout revisions in response to 'unexpected technical problems'.

Rollout alterations are not required in every European market. Several countries, including Italy and the UK, have, relatively, relaxed rollout obligations and thus there exists no need to alter licence requirements.

Rough consensus on the acceptability of easing strict network rollout requirements, as well as support for 3G infrastructure sharing as a means of easing the financial burden on 3G operators, is set to continue in 2003. There will be exceptions, as demonstrated by the uncompromising attitude towards rollout delays by Sweden's regulator. On the whole, Europe's regulatory authorities have proven that they are willing to adopt a flexible approach to postponing 3G rollouts.

Division

This consensus on how best to assist Europe's 3G players is set to be disrupted in 2003 by the divisive issue of spectrum and licence trading. Spectrum trading will allow beleaguered 3G licensees to raise much-needed revenue by selling blocks of their 3G spectrum to larger rivals. Licence trading, on the other hand, will allow a 3G licensee to exit a market altogether or, alternatively, merge with a 3G rival and then sell the spare licence to a new entrant.

Although the European Commission (EC) ruled in June 2002 that, as of July 2003, 3G operators can trade spectrum as well as licences that are yet to be awarded, the final decision to allow these measures rests with each Member State. The EC cannot force Member States to adopt its resolutions; however, several countries, such as France and Italy, are in favour of spectrum and licence trading. In April 2002, Italy outlined plans for a relaxation of bandwidth trading amongst its five 3G licence holders.

France is particularly keen for the EC to go one step further and allow the sale of licences that companies already own. Its calls for a harmonised European approach on the subject are driven largely by the indebtedness of France Télécom (FT), in which it holds a 55% stake. An EC decision in favour of retroactive licence trading would give FT scope for offloading any foreign 3G licences that it regards as non-core. It could then leverage the cash from the sale to bring down its enormous debt, which, in mid 2002, stood at €70 billion.

On the other side of the debate is the German regulator, RegTP, which has flatly rejected calls for spectrum and licence trading, declaring that both are forbidden by law. In April 2002, RegTP also announced that it had no intention of allowing smaller 3G licensees to keep all of their UMTS licences should they merge. RegTP's tough stance is likely to have been influenced by Vodafone D2's threat of legal action against any decisions that favour weaker market players. In March 2002, the company said that it would challenge in court any ruling that allowed 3G licence holders that merged to retain both licences and the frequency allocated to the licences, as this would mean the combined entity would have twice the spectrum as other players.

Although RegTP has been the most vocal in its opposition to spectrum and licence trading, there is a high possibility it will be joined by other regulators that have as yet not disclosed where they stand on the issue. Like RegTP, these regulators will most likely seek to maintain the status quo, not least because they wish to avoid becoming entangled in legal challenges to their decisions from powerful incumbents. Like Vodafone D2, these incumbents are likely to fiercely resist any measure that they view as helping weaker players or, indeed, any measure that allows weaker players to exit the market and stronger players to enter.

Conclusion

Although 2003 will finally see 3G introduced across Europe on a large scale, the jury is still out as to whether it will be adopted on a mass scale. Western European 3G licensees can maximise their chances of success by learning from the experience of high-speed data pioneers in Asia. Here, CDMA2000 1X operators such as KDDI Corporation of Japan have shown that when the right set of factors – namely a varied set of applications and services, terminals compatible with legacy 2G networks and lengthy handset battery life – are brought together, mobile data can really take off and have a positive impact on ARPU.

Operators will also seek to avoid the mistakes they made with WAP in that they will not confuse subscribers with technology acronyms but will instead concentrate on explaining the services available and how these services can make life easier.

Neither the lessons from Asia nor regulator-sanctioned network rollout delays will be enough to save some of Western Europe's weaker 3G licensees. Delays in the delivery of 3G infrastructure and the knock-on effect on the launch of service offerings have left these companies bleeding cash, which, for the most part, their debt-ridden parents are no longer willing to pay. Whether these players make it past 2003 will depend largely on the introduction of spectrum and licence sharing. Europe's likely polarisation on this issue means that survival will be dependent on the specific attitude of the regulator in the country in which the licensee operates.

The year 2003 will undoubtedly be a crucial year for Western European 3G. Next-generation services will be launched, a wide range of handsets will be unveiled and the continent's weakest licensees will continue to leave the market, leaving the strongest, most robust players. In short, the components of the 3G equation are coming together steadily. Whether the equation will equal success remains to be seen. ■