

EU Telecoms Reform could lift cloud computing service providers off the ground says Canalys

- Canalys' point of view on EU Telecoms Reform

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For immediate release

Canalys today announced its view that cloud service providers would benefit from the new EU Telecoms Reform, which comes into effect on 25 May. Network operators able to modify their business offerings to include cloud computing and other hosted services stand to gain new revenue streams and market share in a more open pan-European market. These new revenue opportunities, in turn, would provide an incentive for operators to invest in network infrastructure upgrades, urgently needed if the EU is to make its target of having 50% of European households connected to high-speed broadband by 2020.

Supported by the EU's ambitious Digital Agenda, the new telecoms framework gives the European Commission more influence over national charges and service level quality, while ensuring transparency in service provider contract agreements across the EU's 27 member states. The reform supports an open and more neutral Internet, enabling pan-European service providers to sell consistent service offerings across markets.

'A neutral Internet would increase fair access for customers, but also give operators able to capitalize on cloud services a competitive advantage,' said Canalys Analyst Alex Smith. 'To remain competitive in a pan-European telecoms market, these operators must invest in content delivery network platforms, in addition to accelerating the conversion to high-speed broadband.'

The effectiveness of the new reform, however, is jeopardized by ongoing disputes between major operators and over-the-top service providers, with the former arguing that they absorb the costs of high-bandwidth content and services, such as the BBC iPlayer, Skype and YouTube. As the cost of upgrading existing telecoms networks is enormous, certain operators want to charge online content providers for high-quality delivery of video material.

'Operators such as SFR in France and BT in the UK, which are in the midst of cloud service offering roll-outs, could take an early lead in a pan-European market, where they could compete with other local service providers,' said Smith.

Of course, over-the-top service providers, such as Amazon, eBay and Google, would also benefit, as their services would not be blocked by any of the EU member states, unlike in China and other emerging markets, where this kind of protection is absent.

‘It’s an enormous challenge to offer services across national borders, where differences in culture, language and political regulations exist,’ said Smith. ‘A range of pan-European cloud platforms, developed with access, ease of use, efficiency and security in mind, however, would benefit businesses and consumers. If successful, this could be game-changing, both for European service providers and the region as a whole.’

The European Commission launched its Digital Agenda approximately a year ago with the aim of establishing a flourishing digital economy by 2020. Hoping to replicate Silicon Valley-style innovation, the Commission’s first objective is to establish a single digital market from which businesses and consumers will be able to access a variety of Internet-based services. Currently, the fragmented nature of the EU market inhibits local users from taking full advantage of these services.

According to a European Commission report, for example, the US market for music downloads is four times bigger than that of the EU. The discrepancy arises from varying member state policies on digital rights management, licensing and payment transactions. Currently, an online service operating in the EU must resolve these issues on a per-country basis, significantly impeding competitiveness.

Cloud computing service providers also face regulatory hurdles around data protection. Under the current Directive on Data Protection, there is little distinction between individual and corporate data rules, and businesses have to consult legal advice on a per-country basis. The Directive must be followed if processing equipment is located within the European Community, raising questions over cloud platforms, whose physical infrastructures are less than transparent. Virtualization further complicates the issue, with machines not tied to a specific physical server or location.

‘Enforcing data protection through regulation, rather than a directive, is a delicate subject in the EU, as member states are inherently aware of the dangers surrounding data loss,’ said Smith. ‘Most national governments would be opposed to subjecting their data protection regulations to an external governing body, so it is unlikely that the EU will ever have a uniform act for companies to abide by.’

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storage, Ethernet networking, storage networking, application delivery networking, network security, server virtualization, and associated management tools - all in a single tracker.

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