

**Status Report  
EURIM Competitiveness Theme  
Broadband Sub-Group**

THE EUROPEAN  
INFORMATION  
SOCIETY GROUP

**EURIM**



October 2001

On 24 September the Broadband Stakeholder Group was told the UK was 10th and falling further behind. The minister gave the Group six weeks to pull its recommendations into a strategy to achieve 2005 targets. This report is intended to cause you to read the Stakeholder report and respond with support and suggestions for rapid, targeted and effective action.

The report is at: [www.e-envoy.gov.uk/ecommerce/broadband/bbsgprep\\_menu.htm](http://www.e-envoy.gov.uk/ecommerce/broadband/bbsgprep_menu.htm) and comments should be e-mailed to: [broadband@e-envoy.gov.uk](mailto:broadband@e-envoy.gov.uk).

**1) Summary**

In January the EURIM group identified the need for a "Broadband for All" campaign if the HMG targets for 2005 were to be achieved. The Broadband Stakeholders Group subsequently convened by Patricia Hewitt contained all the main suppliers of communications equipment and services plus the regional development agencies and the relevant arms of government as a user.

The Group reported to Douglas Alexander on September 24<sup>th</sup> that the UK ranked at best 10th (some tables put us as low as 14th) in International comparisons and would drop off the bottom by 2005 without rapid and effective action to remove regulatory and planning barriers, overcome the fragmentation of public procurement and stimulate both demand and supply with fiscal and other incentives.

The Group made 37 recommendations. But even if all were implemented the UK would still only reach 7th by 2005, well behind the leaders. The Minister gave the Group till the end of October to pull its recommendations into a coherent strategy to do better.

Given the changed economic climate the case for actions requiring new money must be supported by evidence of the cost of inaction (economic or social) and the benefits of action (savings in the cost of achieving HMG objectives, growth in employment, tax revenues etc.)

The report is at: [www.e-envoy.gov.uk/ecommerce/broadband/bbsgprep\\_menu.htm](http://www.e-envoy.gov.uk/ecommerce/broadband/bbsgprep_menu.htm) together with the current recommendations and comments should be e-mailed to [broadband@e-envoy.gov.uk](mailto:broadband@e-envoy.gov.uk)

**2) The game has changed**

2.2) The High Tech recession is gathering pace. Many of the industry representatives at the first meeting of the E-Envoy's Broadband Stakeholder Group were no longer in post by the second meeting on 25th September.

2.2) Market developments and announcements since the events in New York on September 11th confirm the likely scale of the global recession. In the short term, the insurance community will have to realise tens of billions of cash during a deepening recession. The climate for risk investment from capital markets appears unlikely to recover for some years.

2.3) In the light of such developments and the consequent impact on public finances, HM Treasury has announced a freeze on new expenditure this Autumn and may view fiscal incentives in the same way. Its priorities are for the better targeting of existing budgets and for regulatory changes to achieve modernising government and social inclusion objectives.

2.4) Meanwhile there are signs of major change in the attitudes of leading financial services players towards teleworking, teleconferencing and the distribution of functions across decentralised operations. These may lead to rapid change in their communications needs and possible sharp rises in demand for what can be delivered now (sometimes within weeks or days).

2.5) In parallel there are emergency reviews of the ability of the UK communications infrastructure to handle the consequences of attacks on commercial and industrial centres on a different scale to those of the IRA and of a different nature to those covered during the Y2K infrastructure reviews. These include reviewing the availability and security of multiple links from existing centres to increasingly decentralised recovery and back-up facilities. This could provide the trigger for radical new partnership approaches to organising and alone funding the necessary infrastructure investment.

### **3) A review of regulatory priorities is overdue and urgent**

3.1) Local Loop Unbundling has yet to deliver sustainable competition, lower prices or improved service availability anywhere in the world. Whether the failure is of concept or of implementation, most OECD and EU nations have, at best, a broadband oligopoly dominated by the incumbent plus one cable company per area. The DSL competitors are struggling (being "restructured" or in Chapter 11 or equivalent). The alternative infrastructures (e.g. broadband wireless, 3G, Satellite and digital broadcasting) are not yet established.

3.2) Moves by regulators to control innovations by leading players or by market entrants with no track record, while they evaluate the implications, have delayed investment and increased the risk that it may need to be written-off before it has achieved payback, let alone given a return commensurate with the risk. This is particularly so for DSL technologies which are viewed by some investors as interim technologies which need to give payback before they are overtaken by a mix of fibre and radio to high value households, let alone business locations (of all sizes).

3.3) Those who wish UK players to match pace of (for example) the ADSL roll-out of other EU nations such as Germany need to consider how the differences in regulatory and planning approach and implementation and in public sector funding and procurement also impact the attitudes of investors. Is it reasonable for those with custody of our savings and pension funds to fund accelerated roll-out during a recession without level regulatory and fiscal playing fields?

### **4) We need a twin track approach, short term and long term**

3.1) The failure to date of regulatory attempts to promote effective Local Loop Unbundling appears to leave only a choice between:

\* rapid regulatory rationalisation (as recommended by the Better Regulation Task Force) plus equally rapid rationalisation of public sector procurement (as recommended by the Broadband Stakeholders Group) to encourage competitive investment in infrastructure to enable the 2005 targets to be met  
and

\* allowing current regulation and fragmented public sector procurement to delay and discourage investment in the absence of compelling evidence of short-term private sector demand - and thus ensure failure to create the infrastructure necessary to enable the 2005 targets to be met.

3.2) There is a need for immediate action to cut the cost of finance and reduce supply side risk (including regulatory) so as to re-start new investment in existing technologies, including ADSL, Wireless and Cable, to meet the HMG objectives for 2005: whether for e-commerce or for modernising government and social inclusion. Without such action there is a very real risk that industry players will be forced to cut back even further on their current investment plans (whether for infrastructure or content), making the achievement of those targets impossible without greatly increased government spend.

3.3) There is also a need for longer term action to also bring forward investment in the fibre networks, including to the curb if not necessarily the home, that will almost certainly be prevalent in the world's leading e-commerce economies from about 2005 onwards.

3.4) Such a twin track approach entails making it attractive to providers to promote, install and exploit interim technologies, even while they are already planning to replace them for high value customers as soon as can be organised and funded. That can only be achieved by combining rapid payback (c.f. the 16 months said to be being achieved by Korea Telecom) with customer loyalty.

### **5) The main obstacles to be removed**

5.1) The cost of both connectivity and of infrastructure investment need to be greatly reduced to be internationally competitive and to unlock already identified price elasticities of demand. Preliminary assessments by the Economists Advisory Group indicate that tax relief on the cost of internet devices

and services for personal use is likely to be fiscally neutral and may even generate payback within the year. Well targeted tax credits and capital cost allowances may have similarly disproportionate effect in cutting the cost of capital for network build but the fiscal climate means that the evidence for this needs to be both irrefutable and presented at the top.

5.2) The cost and timescale for broadband roll-out can be greatly reduced if network operators are not only enabled but encouraged to share the physical infrastructure (poles, masts, ducts, wayleaves etc). Here the first step is to replace any regulatory obstacles by incentives which encourage both sharing and additional investment.

5.3) The next step is to reduce the regulatory and planning obstacles to the construction of new infrastructure and network. The Broadband Stakeholders group identified a range of regulatory and planning issues which need urgent attention to enable the rapid deployment of ADSL and Wireless technologies . There is also a need for credible and effective public awareness programmes on the safety and benefits and a need to support the work of FEI and IEE in this area.

5.4) The cost of finance can be greatly reduced by enabling the aggregation of public sector demand into "bankable" capacity contracts (c.f. Treasury's own 35 year facilities contract). This will entail carrots as well as sticks with priority for follow through on the lessons from the Treasury Invest to Save Programme to ensure that such approaches are mainstream within the public sector and not merely separately funded add-ons.

5.5) The deep-seated obstacles to overcoming the fragmentation of public sector demand are such that many imaginative proposals may be needed to ensure changes of approach. Those identified by the Stakeholder Group include bringing programmes together at the local level in "broadplaces" and the use of regional development, health and education infrastructure and content partnerships with "soft" loans and voucher schemes and tax breaks to encourage take up by small firms and individuals.

5.6) Discussion within the Stakeholder Group was bedevilled by lack of attributable information on private sector demand. Part of the planned follow up will be to research this but there is an immediate need for inputs from major users and those with relevant market research. Over recent months it has become apparent that many studies have been undertaken over recent years, some publicly funded. The need is for the owners to be actively enabled and encouraged to make their material available to those in the E-Envoy's office responsible for collating submissions for the Autumn spending round.

## **6) What is the Big Idea?**

6.1) Unless deregulation and the restructuring of public procurement are not only progressed with speed and vigour but also achieve results far better than envisaged by those reporting to the Broadband Stakeholders Group, the actions above do no more than lift the UK from 11th to 7th, well behind the leaders.

6.2) We are left with the need for at least one BIG and CREDIBLE idea to capture the imagination and provide the catalyst for action to lift us up back among the leaders.

## **7) Your Actions - read the Stakeholder Report and respond to [broadband@e-envoy.gov.uk](mailto:broadband@e-envoy.gov.uk)**

Also contact [kate.norman@eurim.org](mailto:kate.norman@eurim.org) to register for the EURIM Broadband Group. This Group is currently focussed on providing targeted inputs to and support for the Stakeholders Group, including from users and content providers.