The growth of broadband in Britain

Thank you Peter and good morning. It is my task today to set the ball rolling and I'm very conscious that there are many people speaking in the sessions after me, who genuinely do have the job of delivering broadband Britain, whereas I, on the other hand, simply get paid to talk about it. And there is, a world of difference.

You will be hearing from many people, much more expert than me, on the complex and detailed issues related to the future of broadband. So I'd like to kick off by looking at the wider context of the debate, and where better to start than Australia.

As some of you may be aware Australia is in the grip of a close and contentious election campaign, and Australians actually go to the polls on Saturday. It came as something of a surprise to me a few weeks ago to learn that Kevin Rudd, leader of the Labor Party had made building, and I quote "a world-class broadband network for this nation - city and country"[1] one of his top election pledges.

Deeper investigation reveals that both of the leading political parties are striving to out promise each other on their broadband deployment plans, the billions they are going to invest in network deployment and even the relative merits and shortcomings of different technology solutions.

[1] http://search.ft.com/ftArticle?queryText=australian+election+broadband&y=5&aje=true&x=21&id=071014000003&ct=0

And it is an issue that seems to be resonating with voters. The Australian (a national broadsheet) ran an article recently saying that **"**For many voters in regional and rural Australia, broadband could be the election issue that decides who gets their vote."[2]

I don't want to dwell on the Australian situation, there are a myriad of reasons why Australia is completely different to the UK, but I think there are three simple observations that are useful in the context of today's discussion.

The first is simply that broadband matters. It matters to consumers and voters. Across the globe individuals and families have been quick to recognise the value, the sheer utility that broadband brings to all facets of their lives. They can feel disenfranchised and excluded when they believe they have inferior access when compared to others. And as we saw in the UK, five or six years ago, and we're seeing in Australia today, broadband is an issue that people are willing to make a fuss about.

The second is that, like it or not, league tables matter. Much of the debate in Australia was driven by the fact that Australia was lagging in the OECD's broadband rankings and falling far behind some of its pacific rim rivals. You can argue over the statistics (and indeed the political parties are doing so as we speak), but perception, even if it is wrong, can quickly become political reality.

[2] http://www.australianit.news.com.au/story/0,24897,22729316-15306,00.html

The third lesson that I'd draw from Australia is that an election campaign is probably not the best place to be debating the merits of different broadband technologies or indeed investment plans. These are issues that are best addressed away from the headlights of party politics.

Anyway, back to the UK.

The BSG generated quite a lot of media coverage when it published a report called Pipe Dreams back in April that looked at prospects for next generation broadband deployment. And I think it is fair to say that some of subtlety of our arguments got a little lost in the headlines.

Unlike a US report published yesterday, we didn't argue that the net would grind to a halt in two year's time if we didn't invest in next generation broadband now. But we did suggest that investments were starting to be made elsewhere in the world in a new generation of technologies, capable of delivering faster, more robust, more symmetrical broadband and that the various conditions that were enabling those investments internationally were, in large part, absent in the UK. The prospects, we concluded, for early investment in next generation access in the UK were not good, for entirely rational and understandable reasons.

So, does this matter? Well, in our view there is little cause for panic. The UK market is currently functioning well. On the basis of a relatively recent regulatory settlement, take-up continues to grow and there is lots of evidence of competition and innovation in the market, indeed it is easy to forget just how dynamic the market has been over the last two years, with big new entrants like Sky and Carphone coming into the market, and O2 looking poised to make a significant impression. As yet there are few clear signs that lack of bandwidth is a problem.

But, I'd argue that there are certainly weak signals of issues ahead. Customer satisfaction with broadband speeds is still relatively high, but declining. New bandwidth intensive mass-market services, such as the BBC's iPlayer are just weeks away from launch. The media itself is becoming massively more interactive and participatory and the range of applications and services being developed ever more diverse. But most importantly I'd argue that the industry itself has generated an expectation that it will deliver more. That there will be ever-greater bandwidth. Keith Todd, the BSG's first chairman, back in the early days of broadband described it as a journey. And largely, I think he was right.

So, how worried should we be? Well the answer probably follows the goldilocks principle. Not so worried that we make rash choices. But worried enough that we start to do some hard collective thinking about the transition to next generation broadband.

And largely, I think that is what we are doing. In September, the BSG set out a work programme that seeks to take the debate forward across the industry. And since then Ofcom has published its NGA consultation (about which, we'll here much more later in the session) and Stephen Timms has signalled the government's growing interest in the issues by calling a broadband summit that will bring together key public and private sector players next week.

All important steps forward. But what are the key issues that need to be addressed? Well, I'd argue that they fall into four categories.

- The first is around the big policy issues. We need a better, more compelling way to explain and quantify the incremental economic and social value of next generation broadband and we need an effective and realistic means to benchmark the UK market against its international competitors. Neither task is easy, for in both cases, there is a lack of useful and accurate data. But we need a better evidence base for making policy decisions. The BSG, with support from BERR and the Ofcom Consumer panel, is about to commission some economic research that should be completed by Quarter 2 next year. Meanwhile, Ofcom is reviewing how it gathers data on international comparisons, something that might be worth touching on later.

- The second issue is around the value chain itself. The economics of broadband are changing. Costs and revenues are shifting and there are real questions about whether traditional all you can eat pricing models make sense in a world where different consumers can generate very different costs. These debates can quickly become polarised around concepts of net neutrality, and other loaded terminology. But I think there is scope for a deeper dialogue across the industry about some of the consequences of change, and I'd be interested to hear views on this in the course of today's discussion.

- The third issue is the regulatory framework itself, which I'm certain we will be discussing in detail. The challenge of moving from a regulatory framework designed to open up competitive access to a copper based local access infrastructure paid for the by the tax payer and inherited by BT, to one designed to enable investment in a whole new infrastructure, whilst maintaining all of the benefits of competition should not be underestimated. Ofcom has taken a useful step forward I believe, in setting out the core regulatory principles at the heart of that new framework. But the key question is how those principles should be balanced against each other. The next step, I'd suggest would be to look at the potential scenarios that might trigger investment and look at how those principles could be calibrated in each case.

  One additional comment worth making is that much has been made of the importance of functional separation in the UK, but the really important principle enabling competition in today's market is equivalence. Something that shouldn't be overlooked.

- Not least, but perhaps appropriately last is the question of public sector intervention. Few would disagree that for next generation broadband services to eventually become pervasive across the UK, some form of public intervention will be necessary. But there are real important questions to be asked about why, where, when and how those interventions are made. Again, and with financial support from SEEDA, the BSG will undertake some further work to look at the various models that could be used to enable appropriate and timely support for network deployment in the most hard to reach parts of the UK.

To conclude, next generation broadband clearly isn't yet the high profile political issue that it is in Australia. And that that is a good thing. But I'd argue that it is in all our interests to deal with these issues before they rise too far up the political agenda.