Broadband Stakeholder Group

Interim Report

June 2002

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BSG
Broadband
Stakeholder
Group

26 June 2002

Dear Stakeholder,

Thank you for your continued engagement and support for the BSG. I was very pleased to accept the role of chairman in February and it has been an eventful six months.

Today there are 600,000 broadband service users rising at over 20,000 a week. We have started the broadband service journey later than some other countries but we are now very much on our way. This is a journey akin to the microprocessor journey of the past 25 years with all stakeholders having to play their part in continually developing and enhancing the user experience being offered at affordable prices.

In the attached report we set out our latest thinking and cover actions were are taking. The purpose of the report is to provoke discussion and then action. Please contribute you views and ideas so that we can succeed in accelerating the pace of adoption of Broadband services.

We have set out in the report four critical path action areas: for the successful deployment of broadband services:

1. I have challenged all stakeholders to agree the conditions precedent to the Broadband services journey
2. We have set out the action areas to 'Nurture the market' by creating the conditions to encourage competition and sustain market growth (green & white areas). Stating clearly that the new OFCOM has the pivotal role in creating the right environment. 'OFCOM will be broadband services'
3. We want to identify innovative solutions that encourage the deployment of competitive services where there is potential for commercially sustainable broadband services (Grey areas). We have identified some ideas are seeking further views so that we can make firm recommendations for action in our November report
4. Challenged the government to develop a plan, with the BSG assistance, for areas that the market will not reach (red areas)

We are on our way on the *'Broadband Journey'* with one million broadband service users by the end of the year is in sight. The 'action areas' are clear but all stakeholders must work vigorously to ensure that the objectives are met.

If all stakeholders adopt a *'Killer attitude'* we will succeed.

Thank you again for your support

Keith Todd
Chairman Broadband Stakeholder Group

Broadband Stakeholder Group Interim Report
June 2002

1. Background

The Broadband Stakeholder Group (BSG) was established in April 2001 to advise the government on the development and implementation of a strategy to enable the UK to meet the government's target to have the most extensive and competitive broadband market in the G7 by 2005. The BSG published a report in November 2001 with a set of 15 recommendations to meet this objective. Fourteen of these were accepted and integrated into the government's UK Online Broadband Strategy[1].

Since then the BSG has continued to act as the single focal point for all stakeholders to address both short and long-term issues related to the deployment and take-up of broadband services. Five new working groups have been established focusing on 1) Promotion; 2) Broadband in Education; 3) Content, Applications and Services; 4) the Regulatory Framework; and, 5) Strategy Implementation and Research. These groups are currently pursuing specific work programmes and will publish further analysis and recommendations later in the year.

The BSG has also appointed a new independent Chairman, Mr. Keith Todd, who has continued to build effective relationships with key private and public sector stakeholders, including the DTI and the Office of the e-Envoy and a number of key governmental departments and related industry bodies such as the Office of Government Commerce (OGC), Digital Television Stakeholder Group and the Information Age Partnership. Secretariat support has been provided by Intellect, partly funded by the DTI.

This report has been prepared by the BSG Executive including Keith Todd and the Working Group Chairmen to provide an update to BSG members on the Broadband

[1] The BSG will provide a detailed report back on their implementation later in the year.

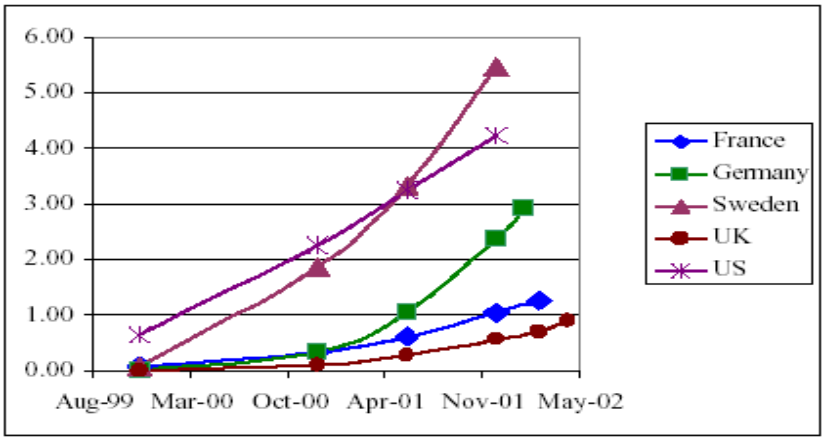
Strategy and the activities of the BSG. This report aims to provoke further contributions in the run up to the second full BSG report to be published in November 2002. The BSG is seeking views from all stakeholders so that it can provide further input to the government on how to accelerate the rollout and take-up of broadband services. This document is being made publicly available.

2. Broadband State of Play – June 2002

2.1 Take-up

There has been a significant increase in the take up of mass-market[2] broadband services in the last six months. Take-up has increased from 250,000 in November 2001 to 600,000[3] in June 2002. Oftel estimates that 20,000 new broadband customers are currently being connected each week. While current levels of broadband penetration remain lower than other G7 countries, the UK has started to catch up after the late launch of services. On the basis of current growth rates the UK should have more than 1 million broadband lines by the end of the year.

Figure 1. Broadband Take-Up (percentage population) Source Oftel



2.2 Price and Market Share

Much of the growth has been driven by the cable sector with NTL and Telewest doubling their market share between Q1 2001 and Q1 2002, on the basis of strong marketing, lower prices and the launch of new higher bandwidth services. More recently, take-up has been accelerated by the introduction of significant wholesale DSL price reductions by BT and the launch of a new self install products. As a result the retail price of residential DSL services offered by ISPs (including BT Openworld)

[2] Mass-market is defined as broadband services targeted at residential and small businesses (ie, cable modem, ADSL, FWA)
[3] Oftel International benchmarking Study of Internet Access (dial-up and broadband) 12 June 2002

has fallen from £40 to between £22.50 and £30 per month[4]. In its recent benchmark study Oftel concluded that "the UK is as cheap or cheaper for consumer broadband than all countries surveyed except Sweden"[5]. Meanwhile, these new products and price reductions have been accompanied by major marketing campaigns by the major players.

Figure 2. Residential Broadband Prices including Cable Modem Source Oftel

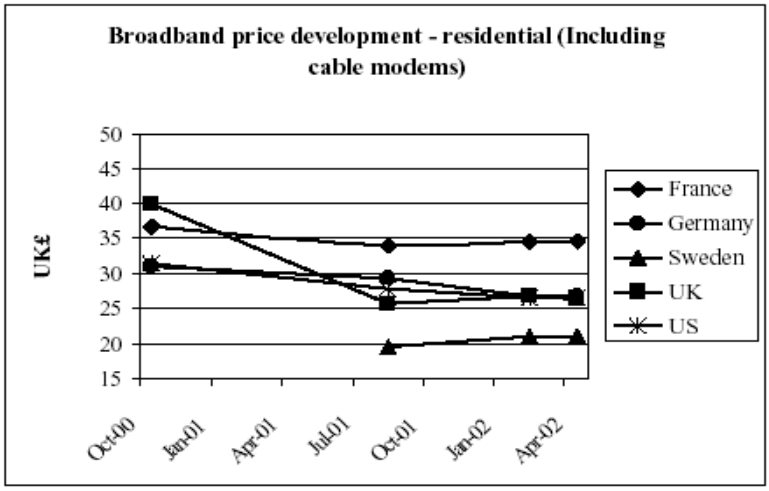
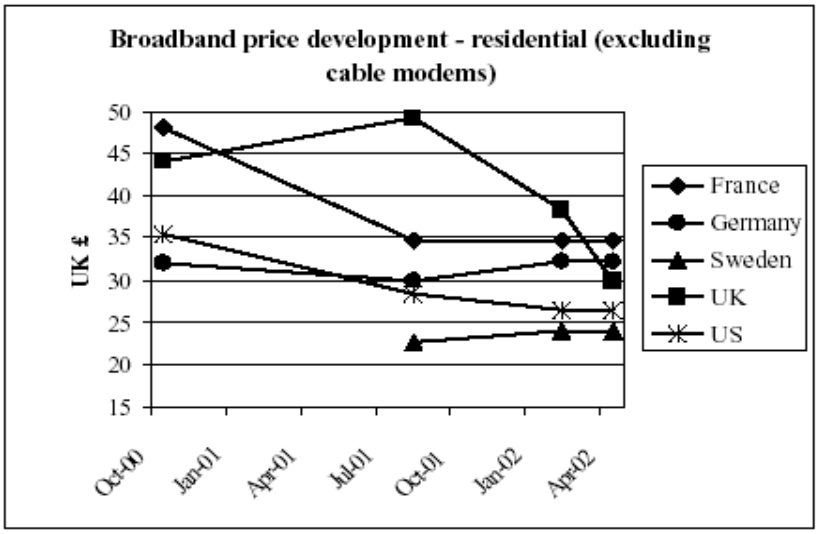


Figure 3. Residential Broadband Prices excluding Cable Modem Source Oftel



[4] Some ISPs are offering services bundled with content at slightly higher prices
[5] Countries surveyed: France, Germany, Sweden, US, UK

2.3 Broadband Coverage

There has been little change in broadband coverage in the last six months. 64% of the UK population now has access to a mass-market broadband solution. However in rural communities this figure is less than 5%. BT has DSL enabled 1115 exchanges[6] and has announced plans to consider upgrading a further 500 at a later date. Satellite services are available ubiquitously although not at equivalent service levels to terrestrial offerings. Significantly higher installation costs mean that satellite services are priced at a premium to terrestrial solutions at present. BT has launched a trial of a cheaper one-way 'higher' bandwidth service targeted at businesses in areas not covered by DSL.

Figure 4. Broadband coverage by technology

Broadband Technology	Bandwidth	Monthly rental (£)	Current coverage (households)
ADSL Home 500[7]	500/250	30	60%
FWA	512/256	40	13%
Cable Modem[8]	512/128	25	39%
BT Broadband Satellite	500/150	70[9]	100%
BT One-way Satellite	256[10]		100%
Total Terrestrial Coverage			**64%**

2.4 Competition

Wholesale competition remains mainly limited to the cable companies and BT. 40% of residential households have a choice between DSL and cable technologies. Additionally Tele2's FWA service now covers 13% of households. Further wholesale competition should result from Oftel's Directive on ATM interconnection, which will

[6] source BT
[7] 66% of households are served by an exchange that has been DSL enabled, however only approximately 90 % of these customers live close enough to the exchange to receive DSL
[8] 95% of the Telewest network and 85% (corrected from 56%) of the NTL network has been upgraded to deliver Broadband
[9] With initial installation charge of £899
[10] Return path via flat rate dial up over a standard phone line

enable other licensed operators (OLOs) to offer wholsale DSL products to compete with BT's current wholesale product. To date, Local Loop Unbundling has not had a significant impact on competition at wholesale level with only a few hundred local loops actually being unbundled[11], however the competitive framework has been established and there may be renewed commercial interest in the LLU business model in the future, particularly for niche business markets. Retail competition is significantly more advanced with approximately 200 ISPs reselling BT's wholesale DSL service. BT Openworld has about 60% market share of DSL lines, however this should be considered in the context of BT's overall broadband market share, which shows significant competition from the cable operators.

2.5 Summary of key recent industry developments:

- Introduction of BT Wholesale's Plug&Go self install service
- Price cuts introduced by BT Wholesale on its wholesale DSL products (41% reduction for BT's residential product ADSL service)
- Retail prices of DSL have fallen to between £22.50 and £30 per month
- BT sets target for 1 million DSL users by summer 2003 and 5 million by 2006
- Launch of CentralPlus product by BT Wholesale to stimulate provision of lower cost 'plain vanilla' broadband services
- UK DSL retail prices are now 3rd cheapest in the G7 - lower than Germany and France with the gap between the US and Sweden narrowing
- 50% of broadband connections provided by service providers other than BT
- Margin on DSL services available to ISPs has increased
- Take-up has increased in the last 6 months from 250,000 to 600,000
- More than 20,000 new connections being made each week
- Coverage of mass market broadband has been extended to 64% of households[12]
- BT has enabled 1115 exchanges
- Ubiquitous satellite services are available but priced at a premium to terrestrial services

[11] This situation is replicated across the EU and is not unique to the UK
[12] February 2002

- NTL and Telewest have announced introduction new 1Mbps retail services
- BT announced implementation of a new order registration system to aggregate demand in rural areas
- Oftel directive on ATM Interconnection at 'retail minus' which will enable OLOs to offer wholesale DSL products to compete with BT

3. Background observations

3.1 The Broadband Services Journey

The BSG has described broadband as a journey rather than a static target. Over the coming years, successive generations of broadband technologies (fixed, wireless, mobile, satellite) will enable increasingly ubiquitous access to progressively higher bandwidth (both upstream and downstream). With greater access and use will come new content, applications and services and most importantly new ways of working. The government's target for 2005 is a useful milestone on the journey ahead rather than a final destination.

After a slow start, the UK has started to make real progress. The last six months has seen significant improvements in terms of pricing, products and promotion, which has been reflected in the increased take-up of broadband services. However, the UK has some way to go to catch up with the lead group of broadband economies and the adoption rate will have to accelerate further if the UK is to claim a position of leadership in the G7. Moreover, the contrast in terms of availability of services between rural and urban areas is a cause for serious concern.

Nevertheless 600,000 broadband subscribers is a large enough sample to start understanding more about the demand for broadband and the impact that high bandwidth services have on behaviour. Operators are already starting to report an increase in network traffic that is consistent with data from the US suggesting that broadband users generate five times more traffic than narrowband users. It is also evident that patterns of use are different, with peer-to-peer file-sharing being one of the most important applications driving usage. This suggests that upload speeds will be as important as download speeds to broadband users in the future.

The journey will involve technology suppliers, service providers, content producers, and all users, be they consumers, businesses or government itself and should be at the heart of all stakeholders' agendas including the government. So far the potential importance of broadband services has not been fully recognised, leaving

opportunities for sceptics to resist taking hard decisions. There are many issues to be addressed and although there is no silver bullet, government as a user has a key role to play.

Most stakeholders believe that there is an overwhelming economic and social case for the deployment of broadband although there is a lack of definitive research to support this case. Most players and commentators accept that because this is a nascent market it will take time for robust economic arguments to be developed. However, the lack of visibility on the demand curve for broadband is tending to inhibit the business case for both industry and government. The BSG is therefore working with stakeholders, including the Office of the e-Envoy to develop a convincing economic and social model to demonstrate the demand for and benefits of broadband services.

The government has the single biggest impact on the Broadband market through its immense buying power and will be the single biggest beneficiary as a result. Government should be ambitious about the potential of broadband to facilitate change and re-engineer public services (and not simply view broadband as another tool for the delivery of services). As many large commercial organisations have discovered, the effective implementation of broadband stimulates change and process re-engineering and has a catalytic impact on the quality of services.

3.2 Broadband Coverage

Greater clarity is required about the specific geographical availability of Broadband. There is a surprising lack of detailed information about the exact geographical reach of current broadband services in the UK. Without detailed maps it is difficult to illustrate the nature of the problem, the potential impact of possible solutions and the extent of the areas that are likely to remain un-served. Maps will also allow broadband suppliers to identify gaps in the market.

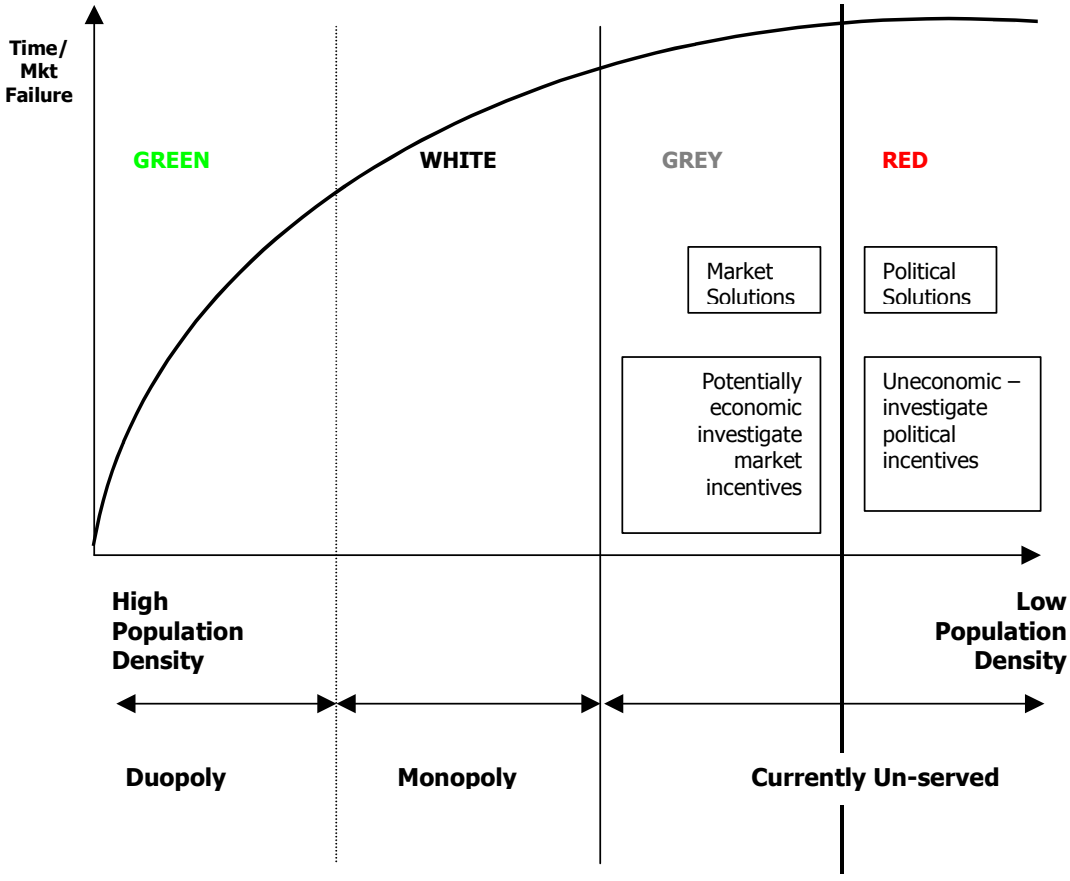
The government, with the assistance of the BSG has been working to build on existing data to develop and make available a detailed map of broadband availability

in the UK. As an illustration, the map will colour code broadband availability across the UK as follows:

Figure 5. Colour coding availability

Area	Coverage Status
Green	Competitive market for affordable mass-market broadband services
White	At least one provider affordable mass-market broadband services
Grey	No services currently available but potential for the deployment of commercially sustainable broadband services
Red	With little expectation that the market will provide affordable broadband services for the consumer market

Figure 6. Broadband availability (illustrative)



3.3 Conditions Precedent

The BSG Chairman has proposed all stakeholders accept the following 'conditions precedent' that need to be in place to secure a vibrant broadband market:

- That we align behind the BSG's dynamic definition of broadband services
- That all stakeholders accept there is an compelling economic and social case for the deployment and adoption of broadband based services
- That we recognise that broadband is a transformational journey
- That we recognise the need to create an investment friendly environment to compete on a global scale for scarce capital resources
- That the broadband journey will be market driven but that government will need to proactively intervene where the market will not deliver either permanently or in the time scales required by the political agenda.
- That broadband strategy should remain technology neutral but it is the technology suppliers' responsibility to innovate and achieve competitively priced offerings to stimulate and satisfy market demand.

3.4 Four critical path drivers for creating a vibrant Broadband services market:

1) That stakeholders agree the 'conditions precedent' that need to be in place to facilitate the achievement of a vibrant broadband market.

2) That action is needed to create the conditions to encourage competition and accelerate take-up and market growth where broadband is available

3) That innovative solutions are found for encouraging deployment of competitive services where there is potential for the provision of commercially sustainable broadband

4) That a strategy is developed for deployment to the areas that the market will not reach (the red areas)

4. Accelerating take-up where Broadband services are available

The current capital market conditions for the ICT and media sectors mean that significant further infrastructure investment will not take place for some time, and certainly not until there has been a substantial increase in take-up where Broadband is available**.** Increasing take-up is key to unlocking a momentum for the broadband journey. In order to create the conditions to sustain market growth where broadband services are available industry needs to focus actively on driving the three key marketing drivers of price, product offering and promotion.

4.1 Price

There was much discussion last year about the price point at which broadband services become really attractive to consumers and SMEs. Whilst the BSG cannot, of course, seek to engineer any collective action on price we can maintain an expectation that end-user pricing for a range of broadband technologies should be set at such a level as to encourage take-up within a competitive climate. Clearly the market is already moving. Recent price announcements from BT and a range of ISPs have transformed the retail pricing of ADSL services. These changes are expected to have a significant impact on demand over the coming months.

4.2 Product

It is imperative that consumers and businesses (particularly SME's) are offered a range of service choices at different price points and that they have a means to understand the differences. This is not just in their interest but also the service suppliers to ensure that the market expectations are kept in line with reality.

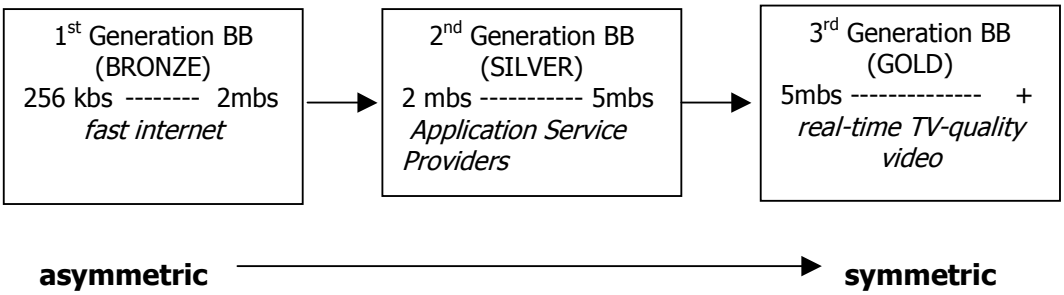
a) Bandwidth

The majority of consumers remain unclear about what broadband service really means and the long-running debate over the technical definition within the industry has not made the situation any clearer. The November 2001 BSG report recognized that a static definition is not appropriate and the industry must clearly

articulate the broadband journey to consumers so that they have a clear understanding about what they can expect from the various broadband services on offer. This could be done by describing the services in terms of generations (as is the case in mobile telephony) or by segmentation between standard and premium products (such as bronze, silver and gold).

It is also desirable to be able to understand the technical distinctions between the **download and upload** speeds of the services with a simple nomenclature i.e. bb512/250 representing the download and upload speeds. It would facilitate the technology comparisons in terms of service performance as well as price. Industry stakeholders should seek to define the way forward for use in the UK.

Figure 7. Broadband generations



b) Quality of service

Having defined these generations of broadband services we also need to ensure that consumers receive an acceptable and reliable quality of service. Consumers will quickly become frustrated if they find their service levels deteriorating due to very high contention levels. Industry should therefore consider possible self-regulatory solutions for measuring and ensuring minimum quality of service levels.

c) Security

Having an always-on broadband connection to the internet makes users more vulnerable to viruses and other security threats. Consumers need to be clearly

informed about the precautions they should take to avoid these threats. Security guidelines for consumers should be developed and disseminated similar to the web security guidelines for SME's developed by the Alliance for Electronic Business (AEB).

d) Content, Applications and Services.

Although we are starting to see more broadband content on the web and interactive TV platforms, this remains limited, and most 'early adopters' continue to subscribe to Broadband primarily to "do the same things faster". This situation needs to change if we are to see continued significant growth in take-up. Two primary barriers have been highlighted by the content development sector: payment systems and rights management.

The lack of a widely adopted standard micro-payment system for content continues to hamper the development of a broadband content business model for providers without a traditional billing relationship with the consumer. Consumers appear reluctant to commit to monthly subscriptions for predicted levels of consumption, and prefer to have greater discretionary control over their spending through transparent pay-as-you-go systems (this has been one of the reasons for the success of SMS messaging). Recently BT has announced the launch of a micro-payments service. This is a significant first step in moving this issue off the starting block. It is not clear what co-ordinated action can be taken to address this issue. However the BSG Content working group along with the Digital Content Forum is considering what additional action could be taken on behalf of the BSG.

Concern about the protection of Intellectual Property Rights and the lack of an agreed solution to the Digital Rights Management (DRM) issue is a serious bottleneck to the provision of new compelling consumer focused broadband content. A solution is urgently required that enables all players in the broadband value chain to see an opportunity to make a return on their investment. This is brought into sharp focus by similar broadband services being delivered from both

internet and TV based platforms derived from the same original content. Failure to find such a solution will limit the range and quality of services made available to users and could interrupt the rate of broadband adoption. We must move forward on practical international solutions. This will require active participation from the UK industry and government at EU and international level to move this forward.

Government will have a significant impact on the UK broadband content market over the next few years as it is likely to be one of the principle market drivers at this nascent stage of the market. Government needs to understand its responsibility in terms of market making. As a purchaser, the government has considerable potential to distort the content development market if it relies too heavily on the traditional public service content providers to deliver on policy commitments. Careful consideration should be given to the role of public service broadcasters to ensure that they play a catalytic role in developing the market for broadband content.

4.3 Promotion

While there has been some progress in the promotion of the Broadband offerings recently, there is still much to be done in relation to awareness raising and marketing activity The BSG can contribute to these promotion activities by helping to build public awareness of the key message that 'broadband is happening'. In particular, we need to raise awareness of the relevance of broadband to people's lives, work, education, businesses etc. In practical terms this can be achieved through the collection and dissemination of user case studies, which capture real life experience of the benefits and advantages of broadband. Business/ SME user case studies will be developed in cooperation with UKonline for business. There do appear to be a large number of case studies but currently no one place to go to read about them.

4.4 Regulation

Regulation can play a pivotal role in either stimulating or suppressing investment. The Communications Bill provides a significant opportunity to reshape the regulatory framework and to establish the UK as one of the most attractive environments for investment in broadband infrastructure, content, applications and services.

The proposed Communications Bill and the creation of OFCOM will have a significant impact on the Government's broadband objectives. OFCOM's work will be all about broadband services and OFCOM must facilitate the success of the broadband services journey. Convergence depends upon bandwidth, and as the 'converged' regulator OFCOM will play a central role in regulating the broadband services market.

In overall terms, the BSG supports the regulatory approach set out in the draft Bill, which avoids being too prescriptive and gives OFCOM and the Secretary of State the flexibility to regulate a fast moving market as they see appropriate. However, much will depend on how OFCOM's duties are prioritised and how it interprets its powers. OFCOM should allow the market to operate as effectively as possible to provide the increasing range of bandwidth and services being demanded.

In terms of the broadband objectives, it will be vital that OFCOM promotes competition in all parts of the supply chain and has a duty to encourage investment in infrastructure and to promote innovation in content and services as per Article 8 of the European Framework Directive which requires NRAs to "encourage efficient investment in infrastructure and promote innovation" [13]. The BSG believes that this provision should given equal weight with OFCOM's other general duties and should therefore be made explicit in Part 1 Section 3 of the Bill.

There have been suggestions that a specific objective for broadband should be written into the bill. However, given that definitions and understanding of broadband

[13] Framework Directive Article 8 2(c) OJ L 108 24.4.2002

services will change over time as the market and technology develops any explicit reference would risk being technology specific.

To ensure that regulatory proposals do not unduly undermine the investment climate or distort the market, OFCOM will require an economic regulatory capability that can assess potential impacts of regulation throughout the supply chain. The main intent should be to minimise unintended consequences that could undermine the future success of broadband.

It is understood, from the policy narrative, that a clause will be included to provide an obligation to carry out regulatory impact assessments; the BSG strongly supports this commitment, particularly if the assessment can address how the proposal could impact on broadband. Another option would be to make OFCOM account to Parliament for how its actions are assisting the achievement of broadband objectives.

Although the government has clearly stated that it does not intend to extend content regulation to the internet, the draft bill does not preclude such intervention in the future. The definition of licensable content, the broad remit of the content board, and the powers of the Secretary of State to modify these provisions all leave plenty of scope for the extension of content regulation beyond broadcasting to any other form of electronic communications network in the future. This must be addressed to to ensure that the text of the bill matches the intent of the government's policy.

In terms of the use of Competition Act powers, OFCOM must be required to act quickly and firmly against any anti-competitive behaviour. There is also a need for greater need for clarity on how concurrent competition powers will be applied.

In terms of appeals, it would appear that these are currently possible only against decisions under Part 2 (Networks and Services) and Part 3 (Spectrum). No specific provision is made for appeals against decisions under other parts of the Bill, such as those covering broadcasting.

5. Extending Broadband Coverage

Broadband coverage remains a key concern - 36% of households are still beyond the reach of affordable mass-market broadband services While coverage has improved over the last six months, there is still a major gap today with other key competitors such as Germany.

The high cost and low volume of investment capital available to the communications sector, resulting from structural (and regulatory) constraints in both the ICT and the banking sectors and uncertainty about the nature of demand remain significant barriers to further infrastructure investment and the more extensive provision of current and future generations of broadband. As a consequence areas of low population density where the business case remains very weak are unlikely to have access to affordable broadband services for some time, increasing the risk of a new digital divide.

As mentioned above there is a need to identify market driven solutions for the 'grey' areas where there is potential for the deployment of commercially sustainable broadband services and government driven solutions for the 'red' areas where there is little expectation that the market will provide affordable mass-market broadband services some form of public intervention.

5.1 Innovative solutions to address grey areas

Given the current financial climate, there is unlikely to be significant further infrastructure investment until there has been a substantial increase in take-up of broadband services where they are available. Issues related nurturing the market (set out above in part 4) are therefore key to unlocking a momentum for the broadband journey.

However, there are a number of innovative, competition neutral solutions to reducing the investment burden faced by operators have been proposed, including, infrastructure sharing, civil infrastructure utility operators, supply side fiscal

incentives and public sector aggregation. All of these solutions are being examined in more detail. It is possible that a combination of these initiatives could provide an effective solution. We can also learn from Scottish Enterprise's ATLAS programme designed to create a broadband infrastructure for business in the central belt of Scotland.

5.2 Exploiting the potential of wireless technologies

Broadband Fixed Wireless Access, 3G, Wireless LAN and future generations of satellite services will play a key role in extending the reach of broadband services. So far these technologies have not had a significant impact and work is required to understand the technology, regulatory and commercial barriers to the wider deployment of these services.

It is imperative that we make progress and put forward definitive proposals on how to remove the obstacles to the successful provision of wireless services. The BSG will establish a wireless sub-group to develop recommendations on wireless solutions for inclusion in the next full BSG report in November.

5.3 Public Sector Aggregation

Public sector aggregation can play a key role in encouraging the deployment of Broadband services, since in marginal areas the public sector is (by far) the largest potential source of early demand and the power of Government as an "exemplar" demonstrating to local SMEs that broadband is real and useful is frequently overlooked.

While there may be problems for central government in terms of directly mandating aggregation, the importance of seeking local aggregation (between health, education, libraries, law enforcement and so on) in terms of best practice and also the National Audit Office's published concerns on value for money, must be taken fully into account.

5.4 The Civil Infrastructure Utility Model

A major barrier to the deployment of Broadband networks is the cost of civil infrastructure – ducts, poles, sites and masts. Some operators estimate that more than 60% of their investment costs for local access networks is incurred by digging trenches and installing ducts. Infrastructure sharing has the potential to reduce the need for captial. The Regulatory Working Group is looking at this issue.

Partnerships could be facilitated and encouraged between local government and the private sector for the creation of primary infrastructure in areas where there is no commercial incentive to deploy Broadband. Such partnerships would help to spread the investment burden between local authorities and commercial operators, reducing the up front civil infrastructure costs for operators to levels that would allow them to make a reasonable return on investment.

Oftel / Ofcom would need to ensure that the role of the local authorities is restricted simply to providing primary infrastructure to service providers and not extended to providing telecommunications services. Local Authorities can raise capital more cheaply than telecom operators for the deployment of primary infrastructure (which could be rated as real estate investment).

This model would create a platform to allow multi-operator, multi-technology competition in the local networks. This would result in a three-tier model involving:

i) Civil Infrastructure Utility - Funds and owns the primary infrastructure
ii) Concession Manager - Manages the infrastructure
iii) Operators - Lease capacity to provide competitive services

Civil infrastructure utilities operating in combination with aggregated public sector demand could provide an effective means of stimulating the supply of one or more competitive broadband services in many of the 'grey areas'. It is felt that this type of initiative, which could be implemented through the RDA structure, merits further consideration. The BSG will explore these ideas in more detail with central and local

government to assess their costs and benefits and potential impact on extending broadband coverage .

6 Government driven solutions for extending coverage to red areas

Competitive supply markets are unlikely to deliver a fully universal broadband network by themselves. Instead they will deliver a patchwork of niche markets that is likely to disadvantage rural areas, low-density areas and areas of deprivation where income per household is low - in other words, many of the areas most in need of development and social support. For these red areas where it is clear that the market is not functioning in the time frame required, Government must decide whether to intervene to meet its broader political objectives.

For significant parts of the country such as rural areas or very small urban centres, the business case for deploying fixed line broadband infrastructure will be too weak to justify private sector investment. If government believes that it is in the national interest to ensure that these areas are able to access equivalent services to those available in more urban areas (and at equivalent cost) it will need to set out a strategy for doing so, backed up with the necessary financial resources. This is a matter of public policy, rather than an industry issue.

Several of the RDA broadband pilot projects, funded by the DTI, are focused on rural deployment. A number of innovative solutions are being explored using satellite, Fixed Wireless Access and Wireless LAN technologies. Many of these projects also require a degree of public and private sector demand aggregation. Different solutions will be appropriate for different population densities and the development of organic locally initiated projects should be encouraged. It is also essential that we leverage the ideas and best practice resulting from this £30 million investment in RDA pilot projects.

7 Working Group Activities

The BSG executive will continue to work with other stakeholders through the five working parties that have been established. The current work program is listed below. More detailed information on the Working group activities is listed in Annex 1.

7.1 Issues being addressed in the BSG Working Groups in 2002

Promotion

i) Articulation of key messages
ii) Identification of speaking opportunities
iii) Development of user case studies – to be used for promotion
iv) Development of a broadband service primer (issues incl coverage maps, QoS measurement/ standards etc)

Content

i) Harnessing the catalysing potential of government content procurement
ii) Addressing the role of public service broadband content
iii) Identify and addressing skills needs in the content development sector
iv) Promoting the use of tax credits for content development
v) Raising awareness of the need for a DRM solution
vi) Micro-payments

Education and Health

i) Broadband in education workshop
ii) Broadband in Education short report on current public sector initiatives
iii) Consider whether a parallel activity with health would be beneficial

The Regulatory Framework

i) Infrastructure sharing to reduce the need for capital

ii) Exploring the potential for primary infrastructure utility operators

iii) Addressing broadband interconnect and interoperability

iv) Addressing the role of regulation in the Broadband future

Strategy Implementation and Research

i) Ensuring effective implementation of Public Sector Aggregation

ii) Follow-up of government Broadband Action Plan

iii) Developing an Economic model

iv) Mapping of current and potential broadband availability

8 Next steps

Comments are invited on this report and can be posted on the BSG member web site or sent by e-mail to the BSG secretariat (robert.millar@intellectuk.org). The BSG will also host a networking event for BSG members (details to be announced shortly), which will provide an open forum for further debate.

The BSG will continue to engage with all key government departments, including the DTI, OeE and the PIU. A joint BSG DTI Broadband Conference will be take place towards the end of the year and the BSG will also host fringe meetings at the main Political Party Conferences.

The second full BSG report will be published towards the end November, which will provide an updated analysis state of play and a detailed update on the implementation of the UK's broadband strategy.