



European Commission's Public Consultation on Digital Divide Forum Report (15.07.2005)

Response by BT

BT's key points are:

- BT has made significant investments and initiated innovative actions, including with public authorities, to close the digital divide. As a result, broadband coverage is now available to 99.6% of the UK households and businesses.
- Based on our UK experience BT does not see a need for new public policy actions at the European level to stimulate the provision of broadband in remote, rural or sparsely populated areas of the EU. BT agrees with the European Commission's proposal (page 53) "to strengthen the application of current policies" instead of conceiving new policies. The EU has adequate policies in place to address the key influences for increasing broadband deployment, namely competitive market conditions, adequate EU Structural Funding of broadband projects and EU funding of research and development of cheaper broadband access technologies. For many EU Member States including the UK it is more appropriate and effective to address the socio-economic elements of the digital divide.
- Public intervention particularly the use of Regional Aid/Structural Funding in areas of market failure to ensure coverage, is defensible where a commercial case cannot otherwise be made, or an accelerated timetable achieved. However, public intervention should not be permitted in areas where private sector infrastructure already exists, is planned, or where the market has the potential to deliver. Partnership approaches conceived from an integral Information Society strategy and responding to specific local demands from users and socio-economic actors are much more effective than supply side interventions or technology-driven approaches.
- The EC should ensure that current assisted areas which have not yet closed the development gap should continue to enjoy Regional Aid/Structural Funding within the next Structural funds framework (2007-2013).
- The consultation frequently refers to the situation where "satellite is the only available option". BT believes that it is inappropriate to consider any technology-specific initiative or policy to address the broadband coverage issue, even in locations where technology choices are limited. Such an action could distort the market by favouring one technology over another at a time when many new broadband technologies and commercial models are evolving quickly and are yet to realise their full potential.
- We would give a low priority to the usefulness of a European website. Most of its proposed objectives are already covered by existing initiatives and we



believe that the current market structures and specific national/regional characteristics favour approaches formulated at the nearest level to the region itself. In addition, it is questionable to seek to facilitate market entry for any particular broadband technology, as is suggested by the purpose of using the website to investigate demand aggregation for satellite solutions.



General questions relating to policy proposals and to policy proposal # 1

1. Is there a need for new public policy actions at the European level to stimulate the provision of broadband in remote, rural or sparsely populated areas of the European Union? YES/NO

Based on our UK experience BT does not see a need for new public policy actions at the European level to stimulate the provision of broadband in remote, rural or sparsely populated areas of the EU. In the UK (which has some of the most remote, rural and sparsely populated areas of the EU e.g. the Highlands and Islands) coverage of at least 512k DSL will be available to 99.6% of the UK households and businesses this summer (which is more households than can receive BBC television). This has been achieved within the existing EU policy framework. It is our view, therefore, that the EU currently has adequate policies to address the digital divide issue of broadband geographical coverage. This policy framework supports the key influences for increasing broadband deployment, namely competitive market conditions, adequate EU Structural Funding of broadband infrastructure in areas of market failure and EU funding of research and development of cheaper broadband access technologies. Unless there are some very unusual circumstances in the new Member States we therefore agree with the European Commission's proposal (page 53) "to strengthen the application of current policies" as a suggested step forward, instead of conceiving new ones.

The rapid roll-out of broadband infrastructure to remote and rural areas and other areas of market failure has only been commercially feasible with the help of Regional aid/Structural funding. However, the current proposed reform of Regional State Aid may lead to a reduction of assisted area coverage and Regional aid intensities in the UK resulting in the UK's Regions losing or receiving less funding. We therefore ask the EC to ensure that where current assisted areas have not yet closed the development gap, they should continue to enjoy support post 2006 in line with their needs and opportunities.

However, infrastructure provision is not the main digital challenge facing certain Member States, particularly the UK. For many EU Member States it is more appropriate and effective to address the socio-economic elements of the digital divide. We should all aim to increase take-up of ICT and broadband in particular amongst specific vulnerable groups (low income, older people, disabled people). We would therefore welcome more EC initiatives in this area. To ensure a digitally inclusive EU we need to consider digital inclusion in terms of the propensity to use broadband, and the services and opportunities it can provide. The key driver which will ensure commercial investment and return is increased ICT use/broadband adoption, whether rural or urban. To drive increased adoption more has to be done to increase awareness, knowledge/skills and motivation of EU Citizens. In short, through the market, commercial operators will provide the network and infrastructure but the real impetus for this growth will come if organisations (particularly Governments) assist the drive to ensure that all of the population have the motivation and the skills to access them.



2. If YES, which ones? National broadband strategies, regulatory intervention, financial support, exchange of best/good practice, other measures?

BT does not see a need for new policy actions at the European level to stimulate the provision of broadband in remote, rural or sparsely populated areas of the European Union. As discussed in our response to Question 1, BT views existing policy mechanisms as adequate and appropriate to achieve the stated broadband coverage goal while maintaining technology neutrality and a sustainable commercially competitive environment.

However, BT notes that the discussion document supporting the consultation frequently refers to the situation where “satellite is the only available option” and states that the Commission intends to “investigate the feasibility of a pan-European initiative that may bring satellite services at lower price to those communities where satellite is the only available option”. BT believes that it is inappropriate to consider any technology-specific initiative or policy to address the broadband coverage issue, even in locations where technology choices are limited. A technology-specific action could distort the market by favouring one technology over another at a time when many new broadband technologies and commercial models are evolving quickly and could have a better service capability and cost base within a couple of years. Therefore, BT opposes subsidisation of ongoing broadband satellite annual running costs in areas where no terrestrial broadband infrastructure currently exists.

BT notes that existing Regional Aid and Structural Funding mechanisms can be applied to any technological solution, including existing broadband satellite offers, on an equal basis. A satellite service provider is already able to gain economies of scale by providing service across all countries covered by the satellite service footprint if they choose to do so. Consolidation of demand could reduce the cost of existing broadband satellite offerings across Europe, although probably not by much. Satellite capacity is the dominant cost element of any satellite service, and wholesale costs do not reduce significantly with volumes. There is no additional policy action required to enable existing satellite service providers to offer services across Europe, unless further action is perceived to be necessary to remove barriers to the cross-border movement of goods and services within the EU.

The discussion of satellite broadband services in the consultation document is based on the report “Alternatives for extending broadband coverage to underserved EU regions, in the context of the Digital Divide Forum” that in turn uses data from third parties. BT believes that the analysis of satellite broadband capabilities present satellite broadband in a more positive light than is actually the case. For example, no explanation of the 76% reduction in running costs for the 512/128kbps service with high volume is provided. For any given satellite service definition, increasing the volume of users alone does not have a significant impact on per-user capacity costs. It is questionable whether aggregation of demand across Europe would have a significant impact on per-user costs given that each country is also likely to need its own front/back-office and field-force infrastructure.

In addition, broadband service data rates will continue to increase (even for entry-level services) and evolving applications, such as streaming audio/video and video calling, will put increasing demands on quality of service parameters, e.g. guaranteed session throughput, lower contention levels. Therefore, a commitment to



subsidise a low-end satellite that cannot support future application requirements may actually hold back true broadband deployment rather than accelerate it.

The relatively high cost of existing satellite broadband services is due to a combination of the underlying technology costs and the nature of the traditional value-chain for satellite service delivery. Instead of subsidising existing satellite services, efforts should be focused on: a) reducing the underlying satellite technology costs through ongoing ESA development programmes; and b) encouraging industry to streamline the broadband satellite value-chain through use of innovative commercial models, e.g. applying the lessons learned from the terrestrial experience with Local Loop Unbundling (LLU), regional/local partnerships etc.. Neither of these aspects requires any new policy initiatives at the European level.

3. On a scale from 1 to 5 (1 low and 5 high), how do you rate the justification for the need for public intervention for broadband in these areas, in particular the non-availability of broadband infrastructure (lack of coverage), high end-user prices (affordability), and the low quality of available services?

• **Rate “Lack of coverage”:**

In areas of market failure BT would give a rating of 5. Without public intervention particularly the use of Regional Aid/Structural Funding in areas of market failure a commercial case cannot otherwise be made, or an accelerated timetable achieved using normal commercial criteria. However, public intervention should not be permitted in areas where private sector infrastructure already exists, is planned or where the market has the potential to deliver. This sort of intervention may also discourage innovation, distort competition at both network and service levels and may infringe the EC’s State aid rules. It could also be viewed as an unnecessary and wasteful use of public money, inconsistent with ‘best value’ principles, because it duplicates privately funded existing and planned infrastructure.

▪ **Rate “Affordability”:**

BT would give a rating of 1 for end user prices for broadband usage. A key determinant for sustained affordability is competition i.e. increased competition leads to lower prices, hence increased affordability. The UK has one of the most competitive broadband markets in the EU with over 200 service providers which has resulted in significant prices reductions for consumers and businesses. However, in areas of very low adoption e.g. socio-economic deprived areas it may be necessary to offer financial support to customers to meet certain costs such as the cost of the PC, connection, training to encourage adoption. Such assistance should allow customers to use the technology and the service provider of their choice and to benefit directly from any financial assistance.

▪ **Rate “Quality of Service”:**

BT would give a rating of 1. By summer 2005, 99.6% of households and businesses in the UK including those in very remote areas such as the Highlands and Islands will have access to at least 512k DSL which offers customers the broadband experience of faster web browsing, e-mailing, downloading of music, photos and larger business files. Even when quoted download speeds may be reduced by contention at peak times, both within an operator’s network and



across the Internet, customers will have Internet connections that are “always on” and that provide speeds significantly faster than dial up connections.

To guarantee that all customers have access to broadband at speeds of 512k or greater will require a very substantial upgrade of the “backhaul” network requiring very significant capital expenditure which cannot be commercially justified at this moment.

Quality of service is also about excellent levels of customer service and technical support. Again, a highly competitive broadband market will deliver a high level of quality of service without the need for public intervention.

4. Can you identify further bottlenecks that inhibit broadband deployment in rural areas and corresponding policy options to address them?

BT believes that **lack of awareness** of the benefits that broadband can deliver is a significant barrier to take up. Initially, awareness was required to create sufficient demand within communities to justify commercial investment. Now that the necessary infrastructure is in place, it is vital to develop effective ways of informing SME’s and citizens about the benefits of ICT and broadband so that they use it.

In June 2002 BT Wholesale introduced a demand registration scheme for ADSL broadband which allowed people to register their interest (via a website or by telephone) via a service provider who in turn fed numbers into a central BT Wholesale database. If enough people registered their interest, the exchange was upgraded. The role of local campaign groups along with support from BT Wholesale was crucial to the huge success of this initiative. See our response to question 5 for more details. From June 2004 BT adopted a different approach based on a planned rollout to enable all remaining exchanges by summer 2005.

An **over-emphasis on supply side intervention** driven by the technical characteristics of the infrastructure (e.g. Fibre) may divert funds and attention away from demand-led digital inclusion initiatives that would bring more benefits in the long run. Supply-side intervention may impact investment scenarios because of the risks of possible network duplication and as a result rendering the area less commercially attractive.

It is our experience that best results are achieved when starting from an overall Information Society strategy that is based on an analysis of real needs (whether from business or specific user groups) and focused on delivering a precise and comprehensive programme (awareness programs, infrastructure, training, PC support, networking,...) to these problems in partnership (public, private, end-users). Cases of demand led projects actually show that take-up and usages can be higher than in “commercially-driven” areas.

A number of good practice Regional Projects, including the “Opportunity Wales” project, are presented in DG Regional Policy staff document (March 2005) *“Report of the Working Group for Information Society: What have we learned from our experience of the Structural Funds to support growth and jobs creation?”*. The report states as a recommendation that *“Actions must be demand driven. That is they need to address real necessities. One good way to ensure this is to prepare a strategy based on a good diagnosis of the actual situation and foreseeing future*



developments. Otherwise, counter-productive investment strategies and short-sighted solutions can be adopted at the cost of long-term financing opportunities.”

Specific questions relating to the policy proposal # 2: “Provide active assistance by using a website for regional and local authorities to publish their plans on a voluntary basis.”

5. On a scale from 1 to 5 (1 Low, 5 High), how do you rate the usefulness of such a site for regional/local authorities and network operators in terms of assessment/aggregation of demand, exchange of best practices, and publication of regional local broadband plans, etc.?

- Rate usefulness for regional or local authorities:
- Rate usefulness for network operators:

In general we would give a rating of 1 to the usefulness of a European website for the purposes as listed in the consultation document.

For the purpose (i) and (v) (best practices, exchange of information, workshops) some initiatives already exist at European level such as for example ERISA and the IANIS+ network that is co-financed by the Innovative Actions Programme of DG Regional Policy.

For the purpose of (iv) national broadband strategy monitoring, we believe that the regular publication of reports will do.

For the purposes (ii) (regional information, tenders...) we believe that the current market structures and specific national/regional characteristics, dictates approaches formulated at the nearest level to the region itself. We cannot see the added value of a pan-European database structure.

For the purpose (iii), it is our view that the EC is not the appropriate level to seek to facilitate market entry for any particular broadband technology, as seems suggested by the purpose of using the website to investigate demand aggregation for satellite solutions.

BT believes that websites – if a part of an overall conceived strategy implemented at national/regional/local level - can serve as a useful instrument and tool for facilitating broadband infrastructure deployment as shown in our response to this consultation. Outside this specific context, we believe there is less justification.

In the UK our experience has shown that websites have played only a minor part in aggregating demand. The demand registration scheme, operated in the UK, has been hugely successful with almost 900,000 individual registrations resulting in 2000 exchanges hitting their triggers. This success has largely been a result of increased awareness created by over 3000 local campaign groups. The fact that a focused target in the form of the registration scheme was introduced for those seeking broadband access was enough in many areas for significant local campaigning activity to take place involving mail shots, door to door visits, targeted business contacts, promotional activities in car parks of super markets etc. BT provided in kind support (brochures, fees for mailing, etc) to identified local champions to contact householders in their area and created a Campaigner's website http://62.172.198.79/broadband1/where_i_live/campaigns/index.asp to offer advice



on running a successful campaign. The website also listed details of current campaigns.

6. Can you suggest an alternative mechanism (to the website) to aggregate demand, without distorting competition and private incentives, in areas where satellite is considered to be the best solution for broadband delivery?

In addition to the role of the aforementioned local campaign groups a contact centre (staffed by three people) played a key role in the success of the demand registration campaign of the Highlands and Islands. This allowed people to register by phone (using a free-phone number) and receive information about the campaign and basic advice about broadband. The centre also collated and analysed both online and telephone registrations so that leafleting and local canvassing could target areas where greater registration was required.

7. Which other activities could be undertaken by the website?

As stated above we have questioned the usefulness of a European website for the purposes as listed in the consultation document. However, websites can serve as a useful instrument and tool for raising awareness/knowledge for consumers and businesses of the benefits of broadband in the home and for business. A good example is the Scottish Executive website "broadband for Scotland" <http://www.broadbandforscotland.co.uk> which provides a self assessment tool inviting consumers/businesses to answer a series of questions resulting in a short report on whether broadband is likely to benefit them and what actions they should take next. This website also provides information on "what it costs", "how to get it", and "suppliers in the area".

Furthermore, a website can also provide assistance on how to run a successful local campaign on raising awareness and demand - see our response to Question 5
