Broadband Competition Policy for the Next Administration

Presentation to ITIF
November 21, 2008

John Windhausen, Jr.
President, Telepoly Consulting
jwindhausen@telepoly.com

Sources:

EDUCAUSE:

"A Blueprint for Big Broadband"

www.educause.edu/ir/library/pdf/EPO0801.pdf

Consumer Federation of America/Consumers Union (Mark Cooper):

BROADBAND IN AMERICA:

A POLICY OF NEGLECT IS NOT BENIGN*

http://www.consumersunion.org/pub/pdf/broadband-america.pdf

Lee & Brown

'Examining BB adoption factors: an empirical analysis between countries'

(2008, *Info, v.10.1)*

The following comments are my own and should not be attributed to EDUCAUSE or the authors of the papers cited above.

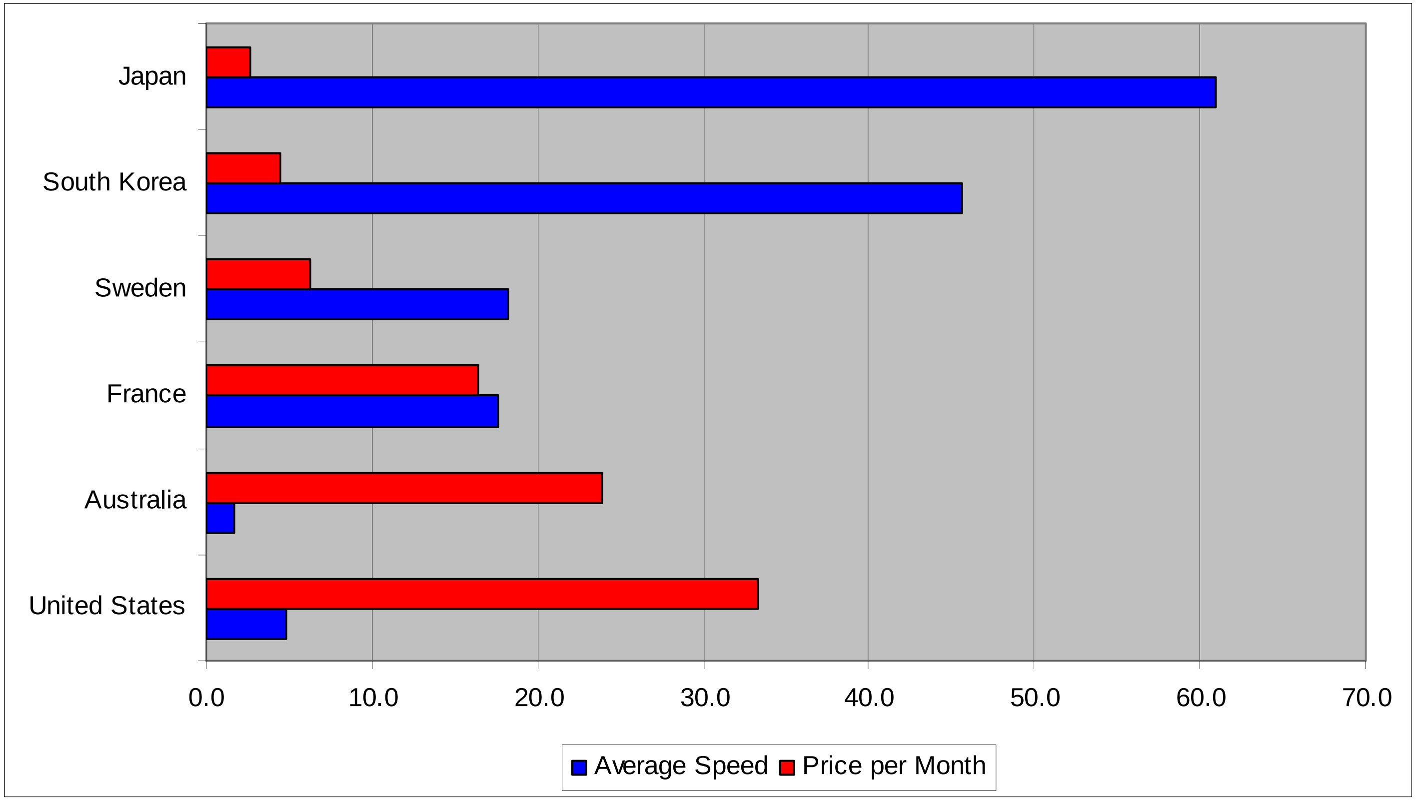
ITU: U.S. International Rank—Broadband Subscribers per 100 People:

1999	3rd
2000	5th
2001	7th
2002	11th
2003	15th
2004	18th
2005	19th
2006	20th
2007	22nd

Source: ITU/ICTEYE

International Comparison: Speed and Price

(Source: ITIF)



2008 Cisco Speed Test Study

- 1st Japan
- 2nd Sweden
- 3rd Netherlands
- 9th Germany
- 12th France
- 13th Norway
- 15th Finland
- **16th U.S.A.**
- 17th Russia
- 18th Bulgaria
- 24th U.K.
- 27th Canada
- 28th Australia
- 35th New Zealand
- 37th Iceland
- 41st China

The U.S. Broadband Market is Not Keeping Pace

- Subscription
- Speed
- Price

Why?

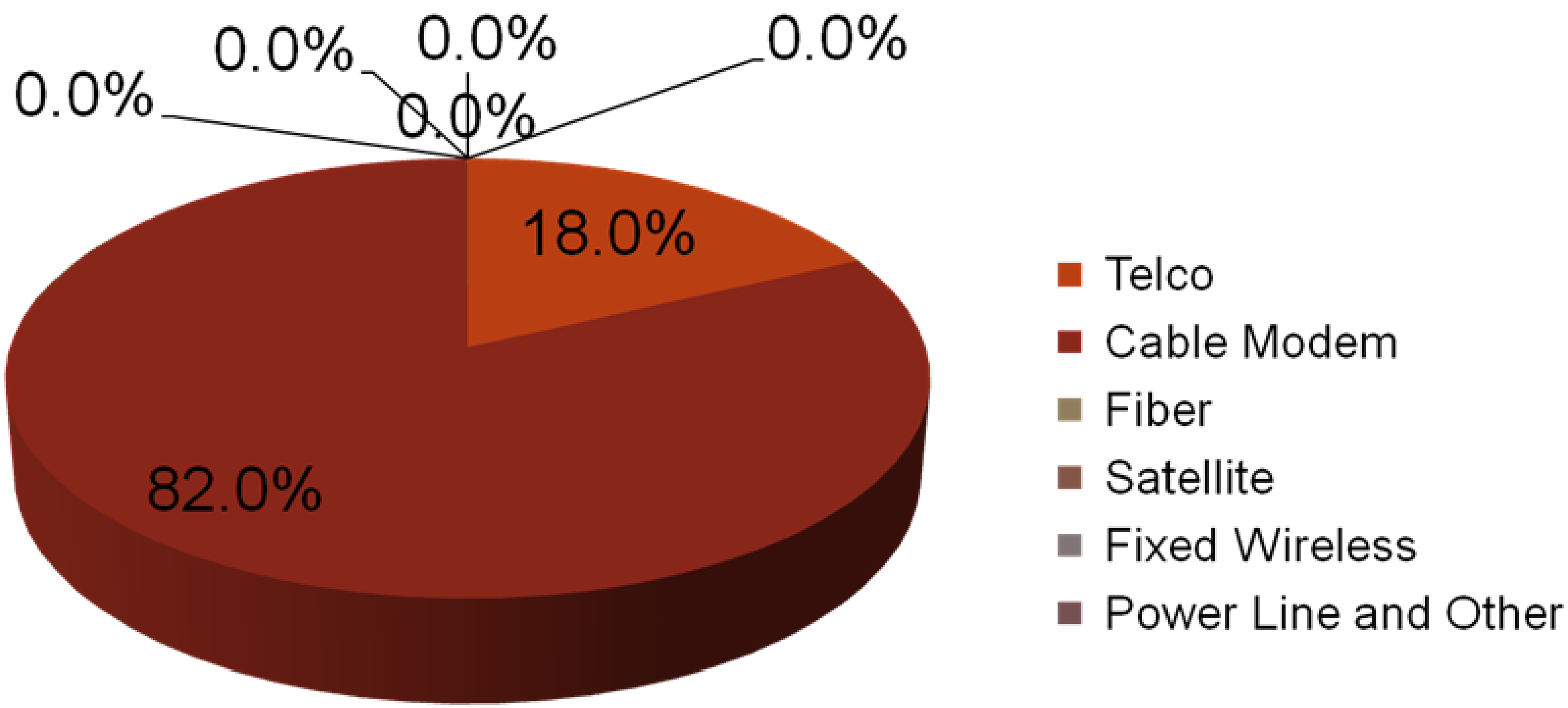
Two Causes of the Relatively Unimpressive U.S. Broadband Performance:

1. Insufficient Investment in high-speed (next-generation) broadband.

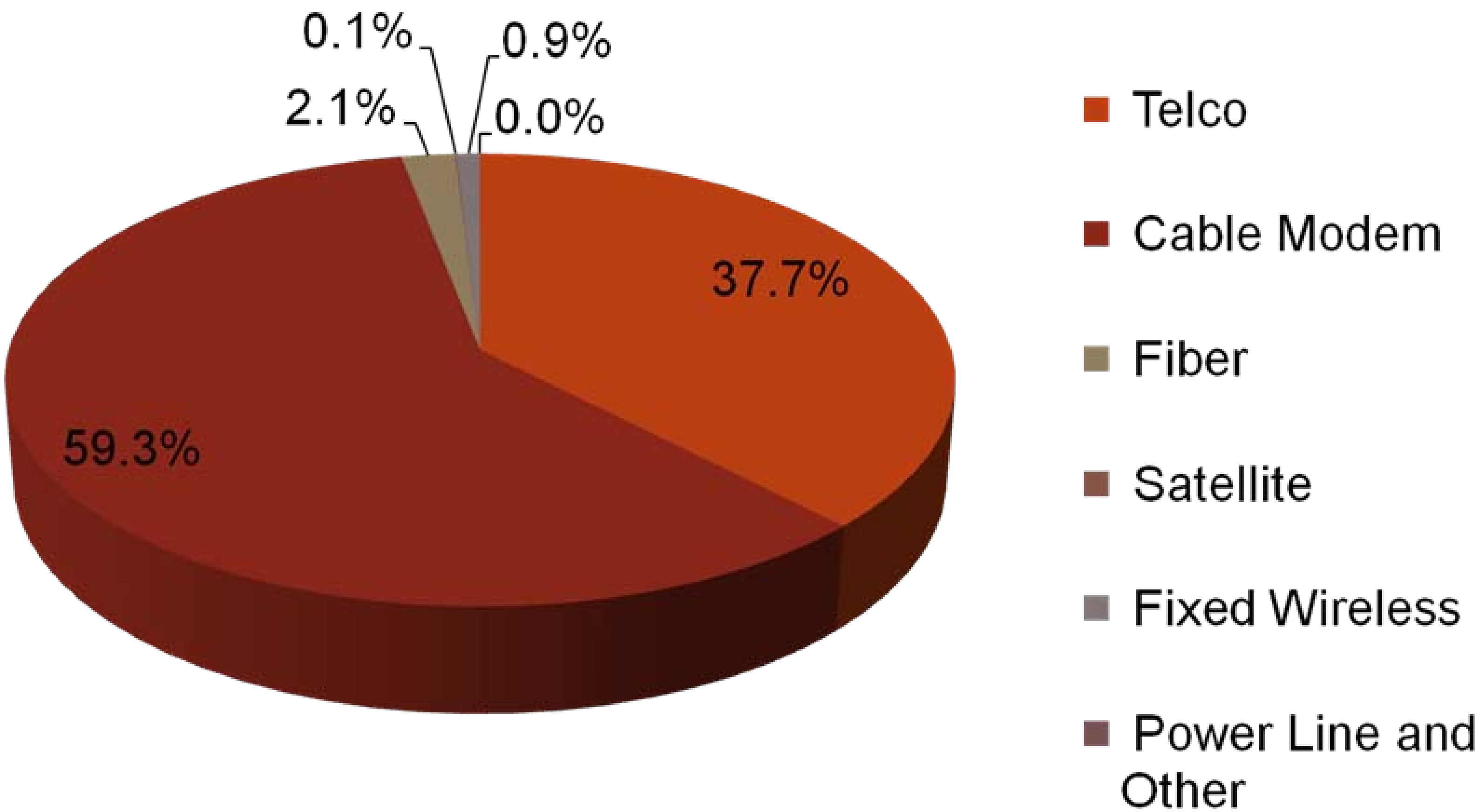
2. Insufficient Competition

The U.S. Broadband Duopoly :

Residential Broadband Market Share June 2000 (excluding mobile wireless).



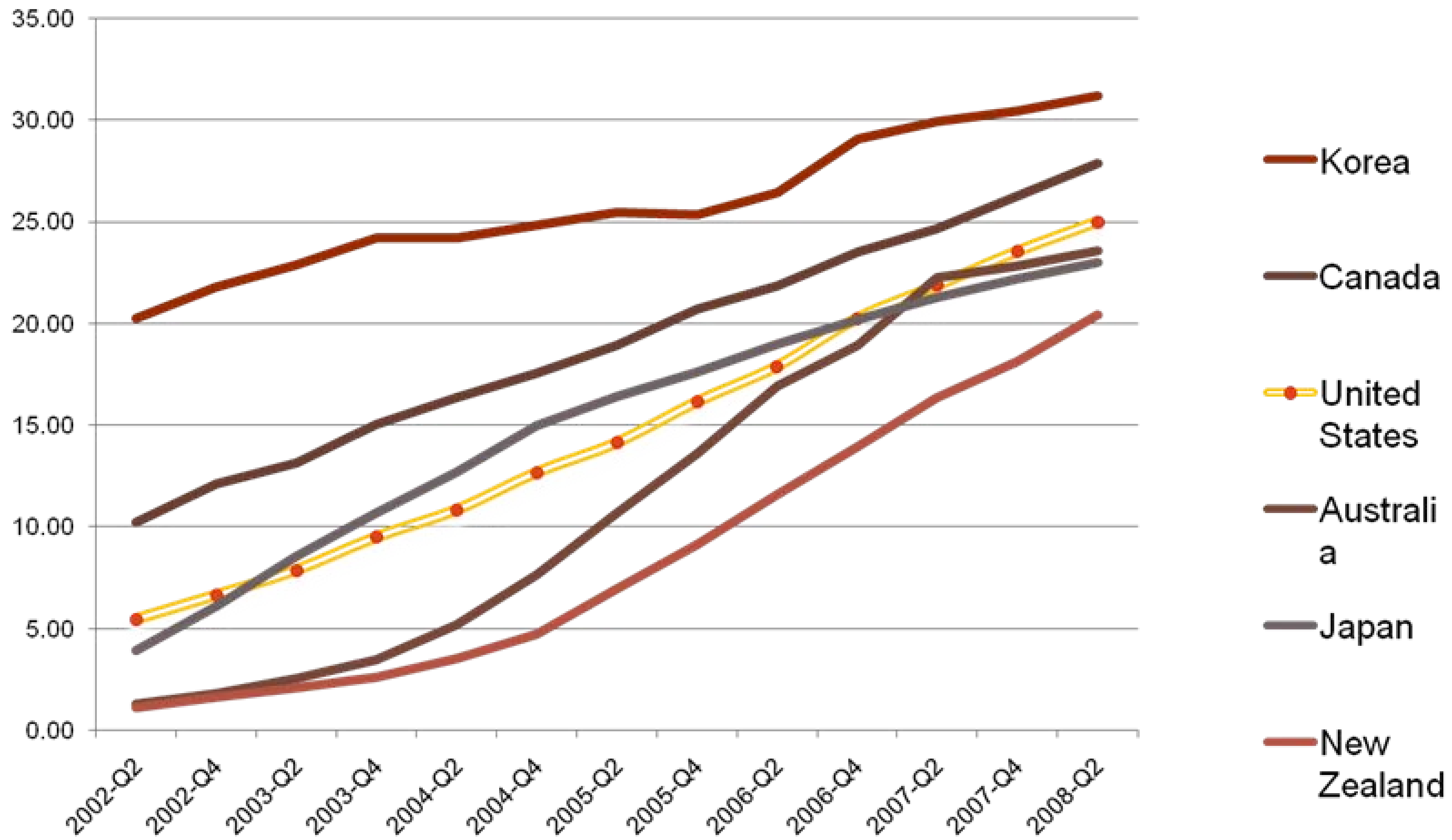
Residential Broadband Market Share June 2007 (excluding mobile wireless)



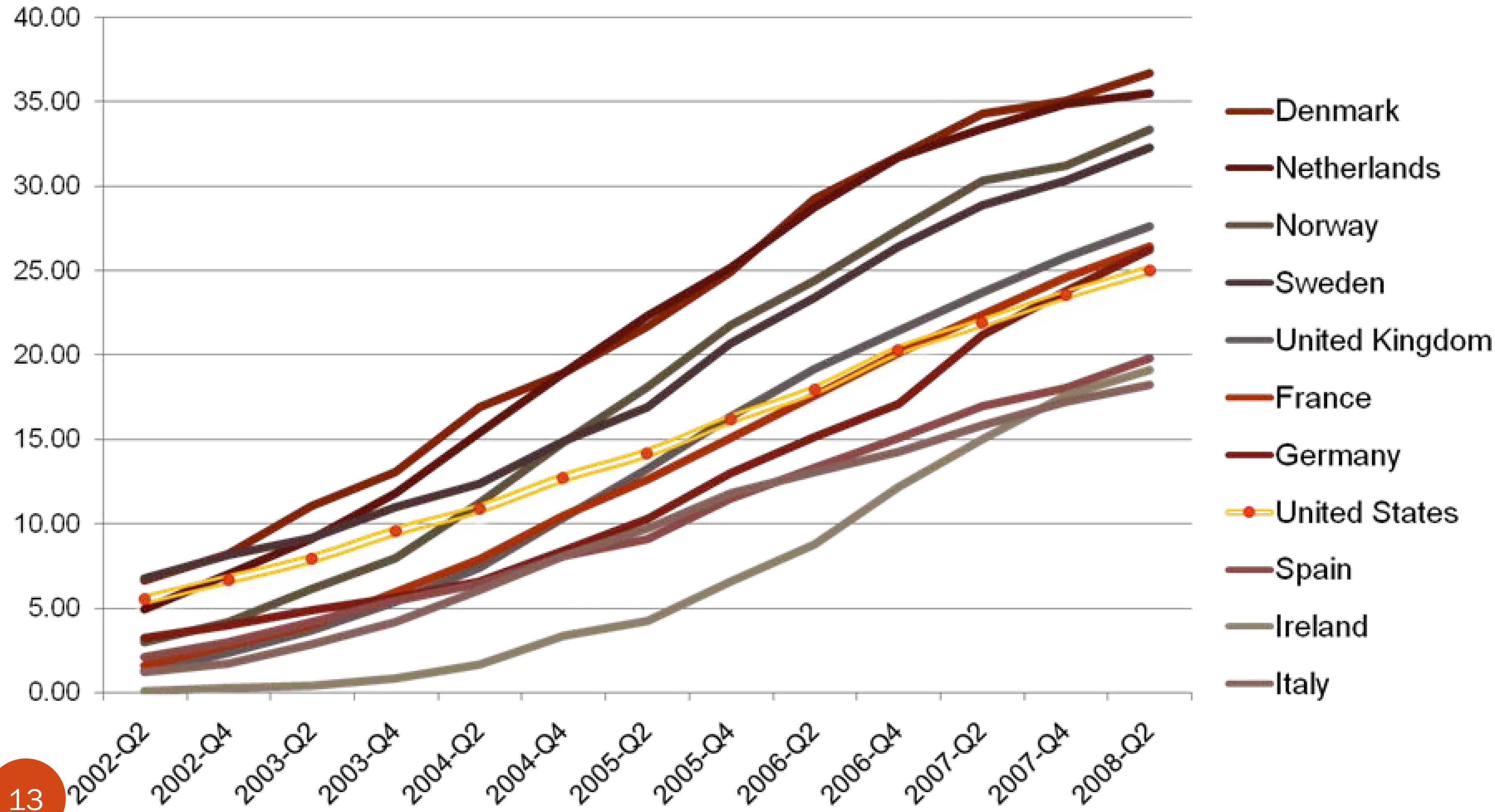
Lee & Brown

- "[P]latform competition (inter-modal competition) and intra-modal competition through [local loop unbundling] policy are both influential factors for global broadband adoption. These findings suggest that those nations striving to increase broadband penetration should seriously consider LLU as well as facilities-based competition policies.
- 106 countries with LLU = ***mean average 10.38 penetration rate***
- 53 countries without LLU = ***mean average 3.25 penetration rate***

Growth in BB Subscribers: Non-European countries

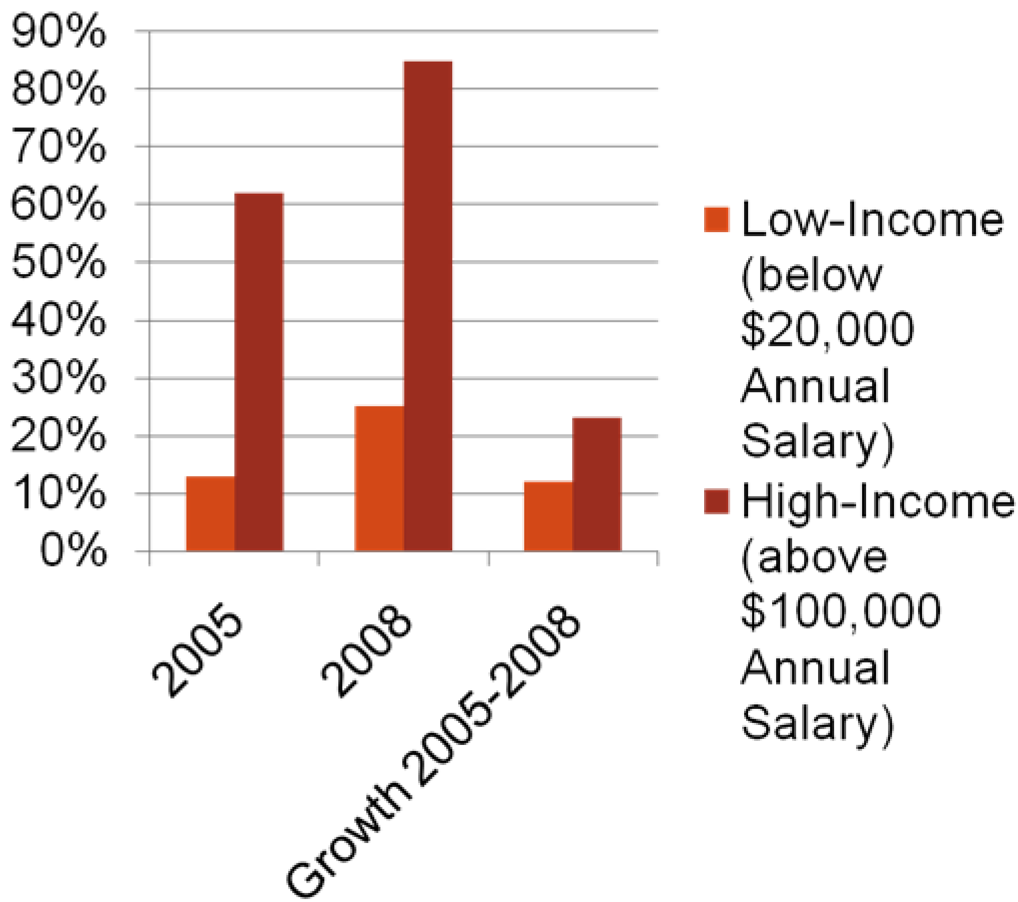


BB Subscriber Growth: Europe



The Persistence of the Digital Divide.

- About 90 percent of households with incomes above $75,000 have broadband at home; over 70% of households with incomes below $25,000 do not.



Lee & Brown (Cont'd)

- Garcia-Murillo (2005) found fixed broadband price and competition have been influential factors of fixed broadband adoption.
- Through data analysis of a national sample of US households, Rappoport et al. (2001) found that price elasticity of demand for broadband service is much greater than narrowband service.

Other Nations:
Three Primary Broadband Strategies:

<u>Force</u>
(Federal Government Mandates)

<u>Financing</u>
(Government Investment)

<u>Fear</u>

(Competition)

The 1996 Telecom Act Has Been a Great Success: In France!

- Mandated unbundling of local loop in 1999.
- Among lowest broadband prices: $20/mo. for 20 Mbps (using ADSL2+)
- Unbundling created competitors (Iliad/Free; Neuf Cegetel)
- December 2007: new rules to encourage fiber to new buildings.
- France Telecom deploying fiber to Paris and 1 million households (out of 20 million) by end of 2008
- Iliad and Neuf Cegetel now deploying their own fiber.

United Kingdom

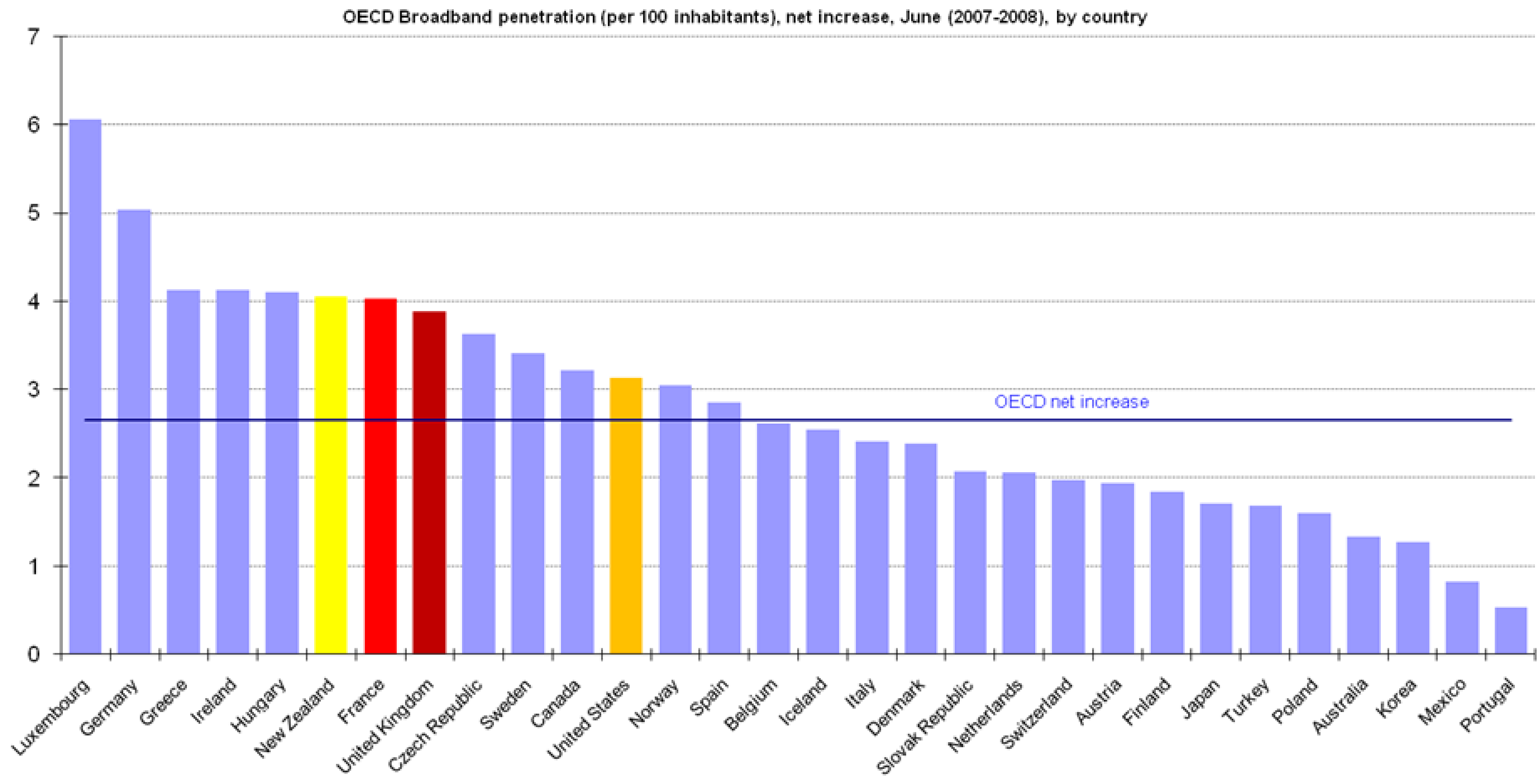
- Whose quote is this?
- "Investment, Innovation and Competition, Enabled by Regulation"
- British Telecom! The incumbent telco/broadband provider in the U.K.
- BT agreed to "functional separation" – separating its wholesale network arm (called OpenReach) from its retail services.
- BT has 24% of the ISP market, 4 other providers have at least 10%

New Zealand: Stronger and Tighter Regulation

- 1989: Privatized Telecom NZ – sold to Ameritech and Bell Atlantic
  - General Competition law – no enforcement
  - High prices, low investment resulted
- 2001: New Telecoms Act
  - Regulation and interconnection required
  - Prices still high and BB subscribers low among OECD
- 2006: Local Loop Unbundling and Functional Separation Required

Countries with Strong Unbundling Policies are Adding BB Subscribers Faster.

(net increase in BB subs 2007-2008)



Source : OECD

Europe Moves to FTTH

- France Telecom, KPN in the Netherlands, Telefonica in Spain, Telenor in Norway, and TeliaSonera in Finland and Sweden — have announced major FTTH deployments.
- European FTTH networks are much more likely to feature open access.
- In part because of this, they are more frequently Ethernet point-to-point rather than passive optical networks (PONs).
- Four Scandinavian countries (Sweden, Norway, Iceland and Denmark) and Slovenia occupied the fifth through ninth positions in the ranking of FTTH connections per home, with market penetration ranging from 7.5 percent to 3.2 percent.
- The U.S. FTTH ranking is at 2.9%.

Conclusion: America Needs a National Broadband Policy that Promotes Competition

- The U.S. is falling behind other nations and our own consumers' needs for big broadband.
- One recent survey found that consumers value broadband more than any other of the "new" services coming on the market, even more than HDTV.
- Both facilities-based (inter-modal) AND retail (intra-modal) competition can help lower prices and drive greater investment.