Remarks of Deborah Lathen, Board Member, BT Group plc
FCC Broadband Workshop: *International Lessons*
August 18, 2009
FCC, Washington D.C.

Thank you for your kind introduction and invitation to participate on this panel. In 2007, I was appointed to the board of British Telecommunications (BT), the incumbent provider of telecommunications in the United Kingdom as a non-executive director. In addition, for over a decade I have worked in the US communications industry, both in government and in the private sector. This experience has afforded me a front-row seat in the broadband debate both in the US and UK.

As in the US, there is recognition in the UK that broadband is **critical** to the country's future. As in the US, the UK government is grappling with broadband issues relating to availability, affordability, investment and take-up. In June this year, the UK government published its "Digital Britain" report which lays out the UK government's views and policy commitments on broadband.

Before I summarize the relevant findings of this report, let me provide you with a snapshot of the UK broadband market today.

– There is intense broadband service competition in the UK. Approximately 700 national and regional ISPs compete to serve a population that is one fifth that of the United States occupying a landmass that is the size of the state of Oregon.
– Over 99 percent of the exchanges in the UK have been enabled for ADSL service and over 89% of homes can get 2 Mbps or higher headline speeds.
– Ofcom estimates that the average delivered broadband speed in the UK is 4.1 Mbps (the average 'headline speed' in the UK is 8Mbps to 10Mbps).
– The UK has one of the lowest average monthly subscription prices for broadband amongst the OECD countries.
– Amongst the G7 countries, the UK has moved from a laggard position in 2001 to one of leadership in 2009 in terms of broadband penetration.[1] At 28.5 per 100 inhabitants, its broadband penetration rate is second only to that of Canada.

Despite these achievements, the UK government recognizes that more needs to be done. Therefore in the Digital Britain report, it has announced its intention to achieve universal 2 Mbps broadband service to all UK homes by 2012. By 2017, it intends to achieve deployment of superfast broadband to 90 percent of UK homes. On universal service, the UK government's target of 2 Mbps to every UK home by 2012 is not unachievable given that Britain enjoys near universality of 2 Mbps broadband service today. The 11 percent or 2.75 million UK homes that cannot receive a 2 Mbps service today can be addressed through market and self-help initiatives, fiber to the cabinet deployment and utilizing wireless and/or satellite technologies. The funding for universal broadband service will come from a variety of sources including £200 million from pre-existing UK government

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[1] *See* http://www.oecd.org/dataoecd/21/35/39574709.xls and Chart 1 in the attached Annex.

Funds, such as the Digital Switchover Help Scheme and the Strategic Investment Fund, private partners, other public sector organizations and consumers.

The next stage of the UK government's infrastructure plan is to achieve superfast broadband deployment (e.g. 40-100 Mbps) to 90 percent of UK households by 2017. BT has already announced that it intends to spend £1.5 billion to extend next generation access via a mix of FTTC and FTTH technologies to 10 million UK homes by 2012, approximately 40% of UK homes. The government estimates that, over time, 50-60 percent coverage of households will be achieved through market-based initiatives, primarily by BT and Virgin Media with deployment to the bulk of the remaining one third of UK homes being achieved through government intervention. A Next Generation Fund will be set up to cover the cost of deployment to most of this final one third of homes. It will be funded by assessments of £6 per annum on all fixed copper lines including cable. This is expected to generate over £1 billion between 2010-2017.

While BT's FTTC deployment will not be subject to a regulatory holiday, BT is being permitted pricing flexibility on the wholesale generic Ethernet-style product that BT must make available to competitors to enable them to sell superfast broadband service. This wholesale product will be made available through BT's functionally separate Openreach business on absolute equivalence of input terms to both BT's retail arm and competitors and will be subject to vigilant regulatory oversight for margin squeeze.

The government also anticipates that mobile and wireless technologies will be important to achieving a "Digital Britain." Hence it proposes to free up more spectrum for auction, making indefinite 3G license terms in exchange for Administered Incentive Pricing (fees to promote efficient spectrum use) and adopting rules to allow greater flexibility to mobile and wireless providers while ensuring a competitive market. It has reiterated the importance of wholesale regulation and stressed the importance not only of ensuring broadband deployment to consumers and small businesses but also to large businesses.

On the subject of digital inclusion, the UK government finds that certain communities – the elderly, disaffected youth, the disabled and those unable to afford broadband or equipment such as computers – are especially vulnerable to being excluded from Britain's digital future. In addition to existing government outreach programs, the government intends to create a consortium spearheaded by Ofcom, and funded to the tune of £12 million to drive further communications and outreach. The UK government as a whole will also be responsible for delivering more compelling offers of public services online, including national health services, to attract the digitally excluded to participate online.

So what if any are the lessons to be drawn from the UK's experience with broadband? In BT's view, there are two critical lessons that are relevant in the US context, despite differences in geography and population density:-

1. Effective regulation of bottlenecks drives service competition (i.e. intramodal and intermodal competition). Service competition in turn drives availability and low prices. In the UK, service competition has been the driving force behind

achieving near universal availability of 2 Mbps broadband service at some of the lowest prices amongst OECD countries.
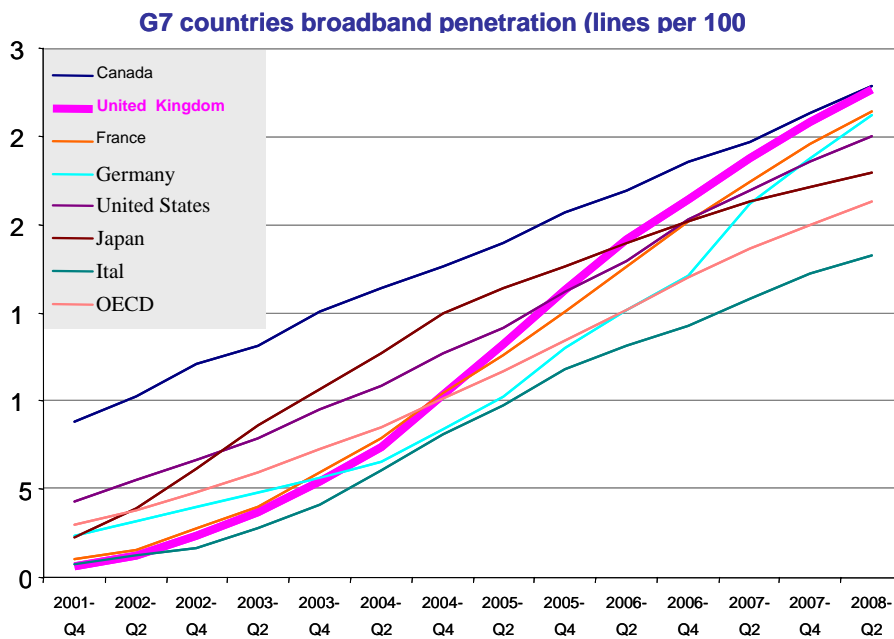
2. A balance between ensuring service competition and encouraging infrastructure investment is possible. Higher risks and uncertainties associated with infrastructure investment can be rewarded with appropriate and fair regulation and returns. Hence there is no need to award regulatory holidays to incentivize next generation infrastructure investment.

Thank you for your time and attention. I look forward to your questions and comments.

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ANNEX

Chart 1

Source: BT; http://www.oecd.org/dataoecd/21/35/39574709.xls