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BT and the future of fibre

When BT makes an announcement about upgrading the UK broadband network, we all sit up and take notice. How the big telcos act in the next-generation network business has big implications for competitors from cable and satellite operators to ISPs and even mobile operators looking to expand their service portfolios.

However, the latest headline about how BT is to spend £1.5bn (€1.9bn) replacing old copper with new fibre technology and offering 100Mbps speeds to UK homes, needs more than a little studying of the fine print.

The headline numbers seem big, but the fibre will only reach a minority (40%) of homes by 2012 and most of these will receive a more modest 40Mbps. Furthermore the incremental spend from BT is less than £1bn (£500m is already accounted for, including fibre deployments in new towns such as Ebbsfleet, some copper wire replacements and the upgrade of fibre backhaul).

The planned investment, covering 10m UK homes, will be focused on fibre-to-the-street-cabinet (as opposed to fibre-to-the-home), but it will nevertheless provide speeds much greater than those available today. However, there is more (and more expensive) work to be done. Estimates of the cost of wiring the UK for fast broadband run to an eye-watering £15bn or more, depending who you talk to. The government has hired former CEO of Cable & Wireless Francesco Caio to put together a report (due this autumn) on how the UK will get there. Will the industry pay for the necessary upgrades or will it fall to the government? Politicians worry that the UK is falling behind in the world broadband league table. The UK has high penetration (nearly 60%) but speeds are slow compared to Japan

and Korea, and even France and Germany’s dominant telcos are beginning to offer faster broadband speeds, while in the US Verizon has launched FiOS, a 50Mbps FTTH service that accounts for 1.8m of the 2.9m US homes that are already connected to fibre.

Given the concerns of the politicians, the real beauty of BT’s fibre investment is its political canniness. BT is clear that it is investing in a wholesale network, not a retail network. On the basis of the recent public pronouncements of Ofcom’s CEO Ed Richards, BT is doing so with an understanding that the former monopoly telecoms company will be able to make a decent return on its investment through a new wholesale pricing regime.

In a statement welcoming the BT announcement in mid-July, Richards said: “Given the potential consumer benefits, regulation needs to provide the right incentives for operators to invest, recognising the inherently risky nature of these investments.” That is pretty crystal clear. You build it and we will make sure it makes financial sense for you. But BT, by focusing on the wholesale nature of its new fibre network, also drew attention to the other high-speed and fibre-rich network in the UK – the one owned by Virgin Media. Why shouldn’t it be opened up for wholesale use too? Virgin Media is already trumpeting its plans to roll out 50Mbps speeds to 12m homes across the UK by the middle of 2009, a much earlier date than BT.

Virgin Media and some analysts claim that it is “too complicated” to offer a cable network on a wholesale basis. New Street Research does not think that Ofcom will impose resale obligations on Virgin Media, arguing that it would require a major shift on key points of principle. In addition, cable networks are very

hard to resell, for technical reasons, New Street argues, making the case that ‘unbundling’ makes no sense in a shared medium such as a cable access network.

I’m not so sure. At the moment Virgin Media is focusing on retaining its two-year lead over BT in offering higher-speed broadband services, promoting its “fibre” broadband offer. But the company may come under pressure from a regulator looking to play fair about how next-generation network costs are allocated and how others are allowed to compete against the owners of the fibre networks.

Interestingly, BSkyB, which has been seen as a possible loser in the next-generation networks business because it relies to a large extent on local-loop unbundling for the broadband element of its offer, says that it is not worried. First of all Sky reckons that Ofcom will be vigilant about assuring that a wholesale fibre product is available at a reasonable cost to competitors. But it also thinks the infrastructure debate needs to take a step back as well and look at consumers’ appetites for high-speed broadband. “It is really unproven what people want these broadband speeds for,” says Mike Darcey, chief operating officer of BSkyB. “The only story I have ever heard that makes sense is high-definition video. For that you need a big pipe. But we’ve got that covered [by satellites] and at very little incremental cost. So we can use the satellites that already exist or we can spend billions finding another way to do the same job. I feel pretty happy with where Sky is with that. I think we’ve got that covered.” ●

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