

Reference 2008/201
Date 12 September 2008

INDEPENDENT REVIEW SAYS UK ON TRACK TO BE A LEADING INTERNET ECONOMY

The UK's competitive telecoms market can deliver the next generation access (NGA) in broadband, and maintain the country's position as a leading online economy, but the Government and Ofcom need to be vigilant and play an active leadership role. Francesco Caio sets out his recommendations today for how the Government should do that.

Next generation access represents the next major step forward in the evolution of broadband, to deliver faster services to homes and small and medium-sized businesses. It will be important to British businesses making the most of new opportunities arising from rapidly developing technology and is essential for the UK's future economic success.

The review, jointly commissioned in February this year by the Department for Business and HM Treasury examined barriers to investment in NGA. Mr Caio has reported promising signs of investment by major players such as Virgin Media and BT, and, at a more local level, by communities experimenting with new deployment methods.

Unveiling his report "The next phase of broadband UK; action now for long term success" today, Francesco Caio said: "The UK and its consumers and businesses

benefit from a competitive broadband industry and a rich choice of digital communications and entertainment platforms.

“Although demand for bandwidth and Internet traffic continues to exhibit strong growth, there is little evidence that in the short term the UK is going to suffer from the lack of an extensive next generation access network. I have therefore concluded that the case for a public intervention at this time is weak at best. But it is the right time to create the conditions that will deliver a competitive NGA infrastructure in the next five years”

The report has recommended an active role for the Government in monitoring development of the new networks and supporting their rollout through measures to lower costs without distorting the market. These include:

- Supporting the development of local access networks by helping them organise and develop common standards;
- Allowing NGA to be delivered over new overhead lines, by relaxing rules that currently prevent this;
- Working with the construction industry to ensure all new homes have next generation broadband; and
- Supporting Ofcom to ensure spectrum auctions take place soon.

Mr Caio added: “The government needs to play its part across a number of areas in supporting development of NGA. It cannot afford to be complacent.”

Business Secretary John Hutton said:

“I am grateful to Francesco Caio for conducting this review. This technology will touch almost every part of the economy; it is a vital tool for the future, supporting innovation and economic success.

“We will consider his recommendations as we plan how to make sure the UK remains one of the world’s leading Internet economies. It is reassuring to have evidence of timely investment being made by a broad range of players.

“We want to create the right conditions for private sector investment and stand ready to play our part in ensuring the UK has a competitive infrastructure in the years to come.”

Mr Caio’s review was conducted through discussion with over eighty organisations and companies, and considered three key questions:

- Is the delay in the development of NGA causing a competitive disadvantage for UK businesses and families?
- Can the market deliver an investment in NGA on its own, or should the Government intervene now to get the rollout of NGA started?
- Is there a role for the Government to play in the development of NGA infrastructure – and, if so, what?

The specific recommendations for Government include:

- Launching ten specific initiatives that do not distort the market, but provide some further momentum and remove obstacles to the deployment of NGA;

- Establishing a structured, permanent benchmarking process to monitor the development of NGA in the UK in relation to other countries; and
- Investing time and resources to identify remedies to adopt in case the market fails to deliver the required NGA investments.

Over the last ten years, massive investment by companies has led to a rapid development in broadband services. In 1997 less than 10% of the population had ever used the Internet. By the end of last year, 70% of the population were Internet users and more than half of homes had broadband.

As businesses and consumers increasingly demand a more powerful and seamless broadband experience, the next decade could see technology develop at just as fast a rate. The Government is committed to helping to ensure that companies are able to continue to build on the UK's world-leading position.

Government will consider the report's findings and respond in due course.

Notes for Editors

1. Francesco Caio's report: "The next phase of broadband UK; action now for long term success" is available at <http://www.berr.gov.uk>
2. Francesco Caio is a vice chairman of Lehman Brothers Europe. He is also chairman of the European Advisory Board. Francesco joined the Firm in September 2006. Prior to this, he was chief executive officer of Cable & Wireless from 2003. In 2000, he founded Netscalibur, the European business telecommunications and internet service provider, and from 1997 to 2000, was chief executive of Merloni Elettrodomestici, one of the European leaders in domestic appliances. In 1996, he was appointed chief executive of Olivetti having previously led its telecommunications and multimedia divisions. Francesco led the creation of Omnitel Pronto, Italy's second largest mobile phone company before its acquisition by Vodafone,

and was its first chief executive officer from 1994 to 1996. He has also worked at McKinsey in London as a consultant for the technology, telecommunications and media industries. Francesco is a member of the International Advisory Board of Bocconi University in Milan. He has been a non-executive director of a number of public companies including Equant in Amsterdam (1998-2000), Merloni Elettrodomestici in Fabriano (Italy, 2000-2004) and Motorola Corporation in Chicago (2000-2003), where he was also a member of the Technology and Innovation Board Committee.

3. Users spend an average of 34.4 hours online per month, at home or work, compared to an average of 24 hours in Europe and 31.4 hours in the US.
4. The UK has the largest online retail market in Europe, with sales worth £46.6bn in 2007, comprising 15% of overall retail sales.
5. The UK also has the highest level of internet advertising per head in the G7, and internet advertising spend in the UK makes up a far higher proportion of total advertising spend compared to other G7 countries.
6. Consumers are using more online services as part of their everyday lives; according to APACS; for example, 21m UK consumers currently use online banking.
7. In parallel to commissioning Francesco Caio's review, the Broadband Stakeholders Group was asked to examine the economics of fibre deployment, specifically whether deployment of fibre to the premises will be viable without a first-step of deploying fibre to the cabinet. A copy of the report is available at:<http://www.broadbanduk.org>.
8. The Broadband Stakeholder Group is the UK government's leading advisory group on broadband and was established in 2001 to tackle the strategic issues affecting the broadband value chain by facilitating cross-sector collaboration. More recently, the BSG has focused on the debate surrounding next generation broadband in the UK. Its aim, between 2007-2009, is to work with stakeholders to create the right conditions in the UK to enable efficient investment in next generation broadband services and to ensure their timely and widespread availability for the benefit of UK citizens, businesses and public sector.

9. The Department for Business Enterprise and Regulatory Reform helps UK business succeed in an increasingly competitive world. It promotes business growth and a strong enterprise economy, leads the better regulation agenda and champions free and fair markets. It is the shareholder in a number of Government-owned assets and it works to secure, clean and competitively priced energy supplies

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