

Communications – Life-blood of Enterprise

Communications Services for the Public and Private Sectors – 2010 and beyond: CMA’s Manifesto for the next General Election

Introduction

CMA has a vision for the future of communications services in the public and private sectors in the UK, and how this should be achieved. The way in which a future government will promote and invest strategically in communications services beyond 2010 will be a crucial element in the policies of those political parties who wish to demonstrate their economic, social and technological competence to voters in the run up to the next General Election.

The current economic downturn provides the opportunity for politicians to think smarter, focus better, and provide the necessary policies to underpin a better future for communications services and, in consequence, UK plc. With members who spend £15 billion annually in the communications market, CMA has the necessary industry experience and know-how to help shape this future for the benefit of everyone.

Communications Services in the UK

Electronic communications services are the vital life blood in the UK’s economy. They enable all organisations, including government and business to unlock value, reduce costs, and provide value for money to the customer and citizen alike. But whilst competitiveness, enterprise and innovation are always important business objectives, communications are also used to improve people’s economic and social well-being. Enterprises generate growth, provide jobs and provide wealth creation; benefits which are a compelling enough reason for future governments to pay particular attention to the needs of enterprise users.

The UK’s electronic communications sector contributes around 2.3% of Gross Domestic Product (GPD)¹ with an industry turnover of £38.8 billion in 2007². However, this contribution is dwarfed by that from business users - the contribution of multi-national enterprises (MNEs) and their supply chains approximates to 35% GPD, according to data based on the top 500 EU companies.³ Government policies must therefore aim to optimise this output by fully supporting and encouraging the enterprise demand side of the communications sector. Unfortunately, UK policy-makers have hitherto tended to focus exclusively on the supply side of the ICT sector with initiatives and policies aimed at growing the 2.3% contribution to GDP from the operators and manufacturers.

Imbalance between consumer/citizen and business users

About two-thirds of the revenues received by the telecoms industry come from public and private enterprise.⁴ The disparity in contribution is in inverse ratio to the political and regulatory focus, which embraces protection of the “citizen-consumer” rather than

supporting, or even recognising, the needs of the business user. Further distortion derives from the co-ordinated lobbying efforts of some of the ex-monopoly operators. Few efforts are directed towards measuring and encouraging the economic benefits generated by the provision of communications services to business and resources are lavished on the pursuit of protection of the citizen-consumer. Yet public policy on wealth creators and wealth consumers must be evenly balanced in order to achieve equilibrium between economic benefit and protection of the consumer. This need is overlooked in the Communications Act 2003, resulting in a significant inequality in the way that regulatory resources and activities are deployed.

The Act, implementing European legislation, brought together several regulators to form a single communications regulator, Ofcom, and also laid down the new Regulator's⁵ general duties:

- (1) It shall be the principal duty of OFCOM, in carrying out their functions—*
- (a) to further the interests of citizens in relation to communications matters;*
 - and*
 - (b) to further the interests of consumers in relevant markets, where appropriate by promoting competition.*

However, the Act fails to recognise that there are significant differences between the domestic consumer and large business users. The key differences between the needs of the two are characterised as:

- **Bandwidth**: Enterprises and public sector users depend extensively on (very) high speed, dedicated, leased lines, backed up by xDSL or even dial-up circuits. The majority of domestic users have requirements that (at present) are satisfied by low speed ADSL or dial-up connections.
- **Traffic Patterns**: Enterprise and much public sector traffic is high volume and centres on a supply or value chain. Tariffs are refined accordingly. Residential traffic is individual, low volume, intermittent and peaks at predictable times of day/week/year.
- **Quality**: Enterprise traffic on fixed links is intolerant of inconsistent performance parameters. Connectivity outages or breaks in synchronisation can cost large sums of money. Residential traffic is largely tolerant of breaks in service.
- **Choice**: Enterprises and public sector bodies tend to be locked in to one or more suppliers for far longer periods than the typical residential contract. Outsourcing adds further complexity.
- **Reach**: UK-based multinationals need seamless quality of service, underpinned by seamless connectivity, across international borders, and if possible procured via a single supplier. This requirement has no equivalent in the residential or SME markets.
- **Management**: Only the very largest enterprises – those with international reach – and central government departments tend to employ in-house specialist regulatory staff. Medium-size companies usually employ staff who manage outsourcing contractors, either technically or financially, while the smaller companies rely exclusively on their suppliers.

At the Regional level the need for a single, seamless market in telecommunications goods and services has never been greater if EU enterprise is to compete globally. Yet,

acknowledgement of the problem is muted: even the 2007 review of the relevant Framework Directives misses the point. The European Commission has offered no road map, no milestones and little recognition of the end objective. The European Union can offer nothing compared to the continent-wide connectivity that is easily available on the basis of a single contract in the USA. The competitiveness of UK businesses suffers as a result.

Failures in current UK communications policy

The structure of UK government and policy-making is fragmented between departments and lacks continuity and stability in ministerial appointments. This is an issue which the Secretary of State for Innovation, Universities and Skills has recognised, particularly in relation to the lack of co-ordination amongst Ofcom and other business regulators⁶.

Until recently, the UK has lacked a national communications policy focus under strong and well-informed leadership and with clear and funded objectives. However, although Lord Carter of Barnes has now been appointed as the first Parliamentary Under-Secretary of State for Communications, Technology and Broadcasting, he reports to two masters and there is still divided expertise between the responsibility for entertainment and content, centred on DCMS, and the technical and economic aspects of telecommunications, centred on BERR. There is a sense that activities that hitherto have been carried out in government have been outsourced to the regulator. At the same time the regulator is becoming visibly under-resourced and over-stretched.

A rapidly converging industry demands a converged approach to policy-making at the higher reaches of government, together with a properly resourced, fully independent regulator and a clear division of responsibilities between the two.

Converged policy authority at the top, supported by policing of the industry by the regulator, must be supported at the lower end of the supply sector by a positive, dynamic approach to local provision of infrastructure and services.

CMA's vision for the future

UK plc needs:

- New or revised legislation that places a responsibility on the regulator to address the specific needs of UK plc;
- A national policy aimed at the provision of a universal broadband access infrastructure by 2013 to which all service providers have open access unconstrained by technical architectures.^{7 8 9}
- Real, effective and sustainable competition in the supply of telecommunications goods and services;
- A mobile communications network that provides better than 95% geographical coverage and allows roaming of basic services between national operators.
- A Single Market in telecommunication goods and services across and within all 27 Member States of the European Union, based on a harmonised and rationalised system of sector-specific regulation and competition law.

How this vision is achieved

- Today's neglect of business and public sector ICT needs can be addressed either by a revision to the Communications Act 2003, or through a new Act that takes full account of the impact of convergence.
- A converged Act, applied by a converged regulator, must be supported by a converged government Department, having the requisite skills and resources to develop national policy and to represent the interests of UK consumers in international forums.
- Ofcom must be given a remit to:
 - take full account of the differences between domestic and other users;
 - conduct research into the needs of business and public sector users and the extent to which those needs are being met;
 - monitor continuously the extent of competition in the supply of services to business and the public sector and take appropriate action to ensure that competition is effective and sustainable, especially outside of the major cities;¹⁰
- The regulator must be given appropriate powers and resources to discharge that remit effectively, including the authority to require suppliers to provide all relevant data.
- Given the resources that the suppliers are able to devote to lobbying the Regulator, and the close relationship that the Regulator is forced to maintain with them, measures should be put in place to minimise the danger of regulatory capture. An annual report to Parliament on this specific point would assist in this process.
- Improved harmonisation of the application of remedies is a beginning, but it is not enough.¹¹ The Commission's focus on competition law at the expense of ex-ante regulation is counter-productive while the incumbents continue to dominate the market. Competition law must be harmonised across all Member States and, in the meantime, misuse of the appeals process must be monitored and curtailed.
- The intense activity surrounding the Commission's proposals to curb excess profits from international roaming on voice and data calls highlights the imbalance of lobbying power between the telecommunications incumbents and their competitors.¹² The business consumer voice is too fragmented to be fully effective. The UK Government is urged to support the Commission's intention to redress the imbalance through, for example, a significant reduction in call termination rates.¹³
- The UK Government should exert more effort to persuade the Commission to create and adopt a roadmap, based around the needs of European businesses, leading to the establishment of a Single Market in telecommunications goods and services.
- While it is important that governance of the public internet continues to be entrusted to co-regulatory bodies such as the Internet Governance Forum, it is important that formal regulatory policy complements and supports that model. Ofcom must be given the powers to ensure that content carried on the internet is not discriminated against on the basis of origin, ownership or destination.
- "Digital Britain" is a long-delayed step in the right direction and implementation of its access and infrastructure proposals deserves unqualified, all-party support.

Supporting Notes

¹ Ofcom Communications Market 2008

² Office of National Statistics

³ "Productivity, Growth and Jobs" - Joint BT/INTUG/EVUA report at <http://www.btplc.com/Thegroup/Regulatoryinformation/Consultativeresponses/BTdiscussionpapers/Productivitygrowthandjobs/ProductivityGrowthandJobs-3April2008.pdf>

⁴ BT results for 2Q 08 - Revenue Major corporate customer, £1.9B, Revenue SME, £0.7 billion, Revenue Consumer, £1.2 billion

⁵ Communications Act 2003 – "General duties of OFCOM"

⁶ Rt. Hon John Denham MP: Speech to the CBI, July 2008.

⁷ Access technology: companies and public services need 10 – 100 Mbps everywhere. In practice this means either fibre or Ethernet over unbundled copper – a technology delivering 40Mbps in other countries, but only 20Mbps in the UK – for reasons relating to the age and condition of our legacy copper network, as advanced by BT. There is no thought leadership from either government or from Ofcom. In the Netherlands Rabobank has installed 1Gbps access at 1200 branches, because the Dutch incumbent, KPN, has installed point-to-point fibre into these premises. Of course the long term answer in the UK must be point-to-point fibre everywhere business requires access – which means everywhere. The alternative broadband architecture - GPON – is attractive only because it is cheaper and more easily deployed. But it is at best an interim technology that will require replacing before 2020.

⁸ *The next phase of broadband UK: Action now for long-term competitiveness*, by Francesco Caio. <http://www.berr.gov.uk/files/file47788.pdf>

⁹ *The cost of deploying fibre based superfast broadband* – report by Analysys Mason for the Broadband Stakeholder Group www.broadbanduk.org/fibrecosts

¹⁰ Reducing competition in the national UK market: Cable and Wireless has absorbed Thus. Virgin Media is trailing the threat of exiting the business market. While this is not an issue in the major cities – where many suppliers have their own fibre – elsewhere all other suppliers are resellers of BT or Cable & Wireless products and services, resulting in a return to something like the Duopoly of 17 years ago.

¹¹ Market Analyses in the EU are carried out at national level and hence there are no mechanisms for ensuring international competition or preventing joint dominance.

¹² Mobile charges are unclear and too high – a combination inimical to the rapid growth in take-up of such services by business users, both in the UK and when roaming internationally. The action taken by the European Commission in 2007 to reduce voice roaming charges must be followed by equally robust action on data charges, despite special and occasionally mendacious pleading from the mobile operators.

¹³ Termination Rates (fixed to mobile and mobile to mobile, nationally and internationally) are a tax on trade, as are excessive roaming charges.

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CMA- *The Communications Management Association is the UK's business communications membership organisation. We inform and represent corporate enterprise in both public and private sectors and support individual professionals with responsibility for communications systems.* www.thecma.com