



Sohonet: Response to 'Digital Britain – Interim Report'

Sohonet Limited's Response to 'Digital Britain – Interim Report' ("the Report")

Introduction

Sohonet Ltd ("Sohonet") is a unique and "niche" service provider specialising in connectivity including consultation, design, implementation and support to the media industry, primarily film and television. Originally set up in 1995 by a consortium of Soho-based Post Production companies, Sohonet has grown to become one of the largest worldwide suppliers to the high end media industry. We are the first and largest high bandwidth connector and operate a private network for our customers, allowing them to transmit large volumes of highly sensitive data very quickly between film studios and post production facilities worldwide. We represent all the most desirable elements of a modern company: small, highly innovative, service orientated, and operating successfully internationally with subsidiary companies in the USA and Australia.

To develop our offering, we have pioneered some unique telecommunications services specifically for the media industry. Whilst focused on the content production process, we have a wealth of experience in all aspects of both media and communications, and consider we are exceptionally well placed to provide an insight into the issues that the Digital Britain report is attempting to address. We welcome the opportunity to input to the next stages of the process, whilst acknowledging that as a small company we do not have the resources to devote the same amount of time and effort to this opportunity as the larger players quoted in the report.

Our pioneering credentials in the digital information and communications sector are excellent: we were the first to offer a commercial wide area ATM network, the first to offer long haul and 'burstable' Ethernet bandwidth, the first to provide a commercial SDSL service in this country, and the first to use VDSL in this country. These few examples of our innovation were all made as a direct result of the inability of the existing telecom infrastructure to respond to our needs.

In our response below, we have highlighted some important parts of the interim report that we feel require significant further discussion. In particular we note that the focus is very much on the large, existing telecommunications infrastructure, and existing business models. We believe that the opportunity for new, innovative, and radically different companies to enhance and stimulate the growth of a digitally connected and competitive Britain has not been fully addressed in the report. Our experience of the problems we have had to overcome in the UK and overseas provides a unique insight into areas we consider are omitted from the Report, and we welcome the opportunity to highlight these areas and further consultation on them.

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Due to the Report's primary focus on the internet, we believe that it has missed some very important issues around the development of both private and public independent networks for business to business, or even business to consumer. The development of such networks (we consider pioneered commercially by Sohonet) has the potential to generate significant business opportunities for areas outside the internet model. Focusing on existing internet based infrastructure inhibits exploration of these exciting opportunities.

We have attempted to highlight the issues as they arise in the report, and provide an outline of our views. We would welcome the opportunity to elaborate on these in more detail, ideally in person with representatives preparing the Report.

Response to the Report

Section 1: Introduction and Executive Summary

On page 9 of the report, you highlight the need to identify the market failures that are standing in the way of a full rollout of digital infrastructure, and act swiftly to help. You also identify the growing global focus.

It is important in considering these matters to look not just at the large incumbent players – many of whom have an existing business to support – but also at the new operators and the issues they face. Sohonet deals with around 30 telecom providers worldwide, and in some countries we have seen innovative business models and small business flourish. This has not happened in the UK, where the small innovative companies have typically been squashed or absorbed into the few larger players. This is highly regrettable since, with very few exceptions, the smaller companies have always been more responsive and adaptable than the larger players. The lack of small and niche players has made the UK one of the slowest, most frustrating and most cumbersome countries to operate in the context of network expansion

Digital Networks (Next Generation Access Networks)

Action 1

“We will establish a Government-led strategy group to assess the necessary demand-side, supply-side and regulatory measures to underpin existing market-led investment plans, and to remove barriers to the timely rollout, beyond those declared plans, to maximise market-led coverage of Next Generation broadband. This Strategy Group will, by the time of the final Digital Britain Report, assess the case for how far market-led investment by Virgin Media, BT Group plc and new network enterprises will take the UK in terms of roll-out and likely take-up; and whether any contingency measures, as recommended by the Caio review, are necessary.”

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Sohonet recommends that the Government-led strategy group assessing the rollout of the Next Generation network pays more attention to the opportunities for smaller niche operators, and the issues they face when considering what measures the Government might want to take. Whilst the Report acknowledges other providers who may have ducts and infrastructure, the issues facing the smaller operators are not considered.

Action 2

“Between now and the final Digital Britain Report, the Government will, while recognising existing investments in infrastructure, work with the main operators and others to remove barriers to the development of a wider wholesale market in access to ducts and other primary infrastructure.”

Sohonet welcomes the initiative here, and again believes that support for smaller players is crucial. We have experience of the operation of similar schemes overseas, and would want to ensure that smaller companies are not penalised in any developments in this area. This is particularly important as the current infrastructure favours larger incumbent protectionism, and the comments on traffic management and opportunities will not be sufficient to ensure a level playing field for the new, innovative services which are crucial to continuing development. The emphasis on internet infrastructure is understandable, but no consideration is given to the possibility of a range of other networks running in tandem that, whilst not ‘the internet’, may be providing services that currently are considered to be such. Sohonet again has experience and suggestions in this area. For example private Content delivery networks already exist, and there is a demand for fibre to the cinema to enhance and expand the opportunities in large scale audience viewing environments. The infrastructure to provide this and other content delivery networks has a different business model, and this is just one example of broader thinking that is required.

Our comments on the Non-Domestic rates are significant, and discussed in our response to Action 3.

Action 3

“The Valuation Office Agency has provided new, clear guidance which addresses the problem of clarity over business rates identified by Francesco Caio in his report, and will ensure that they respond to any queries from existing and new investors and maintain clear, helpful guidance. For its part, the Government will ensure that the guidance is widely understood by potential investors.”

Sohonet strongly disputes that any clarity has been provided by the Valuation Office in business rates for fibre infrastructure, and in fact can demonstrate that the existing system has inhibited the growth of both infrastructure and business, in particular in regionalisation

of the media industry, as longer distances attract a higher rate. We consider the Report needs to look at how fibre and network rating is affecting wider business issues such as innovation, distributed working, regional growth, international competitiveness, and is instead supporting a stagnation in new ideas. We can provide figures that demonstrate how the current business rating system and Valuation Office guidance has cost more in loss of substantial inward investment, particularly to the regions, and contrast it with successful developments overseas, such as in New Zealand, which would have not gone ahead if the UK business rating system had been in place. We believe the current business rating system restricts and discourages small, non-traditional, network providers from rolling out valued and much needed niche networks as it places a disproportionately high cost of investment upon them. We conclude this approach is set to firmly place Britain in the “Digital Backwater”.

Action 10

“In the final report we will examine measures needed to address the challenges for digital content in more detail, including opportunities for providing further support to foster UK creative ambition and alternative funding mechanisms to advertising revenues.”

Sohonet has significant experience in areas where UK creative ambition could be enhanced significantly by ensuring the correct environment. We welcome the opportunity to provide input in this area. There is a great emphasis on collaborative and distributed working in the media industry, and this is most productive with the right kind of connections between those carrying out the work. This is not just about good connectivity, but the right kind of connectivity which includes additional services (such as access to render servers and HD video feeds) in order to facilitate interactive interchange of ideas and ‘work in progress’ across the creative sector. For example, to have a remote office working as if it was virtually in the same location requires more than just a good internet connection; the network infrastructure for this is fundamentally different, and we would like to ensure that this is given due consideration along with the different business models required. This is particularly significant in looking to develop more regional and distributed centres.

Action 13

“Our response to the consultation on peer-to-peer file sharing sets out our intention to legislate, requiring ISPs to notify alleged infringers of rights (subject to reasonable levels of proof from rights-holders) that their conduct is unlawful. We also intend to require ISPs to collect anonymised information on serious repeat infringers (derived from their notification activities), to be made available to rights-holders together with personal details on receipt of a court order. We intend to consult on this approach shortly, setting out our proposals in detail.”

Sohonet acknowledges the need for responsible action in dealing with unlawful content distribution. As a supplier distributing highly sensitive and confidential 'work in progress' for all the major US film studios, we have great experience in security of content. However we are also a small ISP, and the proposed plans have taken no account of the tremendous burden this would place on smaller companies that may happen to run what is currently termed 'ISP services' often alongside other core services. We feel that the Report needs to take more account of smaller companies, especially those providing niche services, and most importantly to recognise that including such companies in the current definition of an ISP places an additional and costly regulatory burden on them, and will prevent the opportunity for new business models to develop. These business models may not be based around internet access, bandwidth or data, but instead around different service models where internet access and accompanying ISP services are a minor and supplemental part of the service.

Section 3: Digital Content

3.1 The Economics of Digital Content

The Report acknowledges that the Creative Industries sector accounts for around 6% of UK gross value added, and also acknowledges that this revenue has recently dropped.

The Report does not, however, address the demands to stimulate more regional development of content, as required by Ofcom's Regional Quotas. Nor does it address how these issues affect the global distribution and international competitiveness of the creative industries sector. Sohonet is in a position to expand on how the current legislation and rating regimes (ignored by the Caio Report) have acted as an inhibitor to growth of this sector outside London, and how in turn that has affected this sector's global competitive position.

Conclusion

The above is just an outline of Sohonet's comments and input that we believe could add significant value to the Digital Britain consultation. We feel its current focus is far too inward-looking, and that it has not explored some of the more exciting and radical opportunities. Sohonet considers it can contribute to the current debate prior to publishing of the final report and would welcome discussion on the appropriate actions we feel the Government should take to ensure a successful and fully inclusive Digital Britain.

David Scammell
Managing Director, Sohonet Limited
March 2009

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Note:

David Scammell, Managing Director of Sohonet Limited, is a well-known and distinguished industry figure who has served in various advisory and executive capacities including the DTI / DCMS Digital Cinema group, BKSTS, and the North American Advisory Group (NAAG). He undertook a UK Foreign Office assignment in Los Angeles, working with the British Film Commission (BFC) to help set up the British Film Office, writing a report on the UK Visual Effects industry in 1998 entitled 'Lost In Space – where next', as part of a secondment to the FCO. Many of the recommendations of that report have since been adopted, and have been responsible for turning the UK industry into the accepted world leader in this field, contributing to growth of an industry measured at an estimated £1.4bn in 2003 (Report on Post Production by UK Film Council). Dave is a member of BAFTA and the VES. He has worked in the media production industry for his entire career, and took over the running of Sohonet in October 2001.

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