



Lord Carter CBE  
Minister for Communications, Technology and Broadcasting  
Department for Business, Enterprise & Regulatory Reform  
1 Victoria Street  
London  
SW1H 0ET

9<sup>th</sup> February 2009

Dear Lord Carter,

**Re: Digital Britain Interim Report**

Firstly, I should like to thank you again for giving me the opportunity to present at the Digital Britain Steering Board on 9th January. I very much welcomed the opportunity to put forward proposals from the service provider perspective which I strongly believe can help with increasing accessibility to broadband across Britain.

I read with great interest your recently published Digital Britain interim report which addresses the shift to digital technology across all walks of society in the United Kingdom. I very much support you and your colleagues on the work being undertaken by Digital Britain and I wish to express that I share with you the need to secure Britain at the forefront of the global digital economy.

When I presented to the Steering Group in January I stressed the need to not only consider broadband infrastructure roll out but also to consider how citizens might be able to access such infrastructure. I maintain my view that access to affordable broadband must not be overlooked. There are, of course, other factors that are significant and which determine the take up of digital services (affordability of lap tops, PCs, media literacy etc.). However, if the cost of access to the service applications available across broadband is high then the benefits of the shift to digital technology services will be denied to certain economic groups in the community (specifically the DE socio economic group).

I view the future of broadband as a utility via which applications may be accessed – no different from the national grid which supplies electricity into homes and offices and which is used to run appliances. The higher the cost of electricity the less affordable those appliances designed to run on electricity become. The same can be said for those digital services designed to run across broadband networks.

I shall not repeat the points made in my January presentation in this letter. However, suffice to say in the longer term it is only through a combination of infrastructure competition and services competition that consumer choice and lower prices can be sustained. Attached is a very short paper which I believe you will find helpful and which explores further the need for sustainable services competition in conjunction with infrastructure facilities.



I would therefore urge that you and your colleagues focus on the outcome of services competition not being readily available to consumers:

- (i) low VoIP penetration;
- (ii) increases in line rental by BT and LLU providers;
- (iii) customers migrating away from fixed line solutions altogether in favour of lower quality mobile solutions (dongles);
- (iv) having moved away from fixed broadband, those who may wish to return to a fixed line broadband solution having difficulty in doing so and facing exclusion.

I have expressed a view that naked dsl will make broadband more affordable and will significantly lend itself to increased services competition which will bring about lower prices and a competitive market for innovative services that specifically are designed to be accessed over broadband. I believe that this view should not be ignored as one of the building blocks in securing Britain's place at the forefront of the digital economy.

At the Steering Board in January it was suggested by Peter Phillips that a naked dsl product can only be offered as a subsidised loss making product. With respect to Peter, I disagree with this supposition. Peter's view is not supported by the evidence. In other countries where naked dsl has been made available there have been clear savings to consumers and there has been a clear increase in the uptake of broadband. Incumbent providers would not offer loss making services for a period of 5 years or more (naked dsl first started to become available in 2004) if to do so would result in sustained losses over such a long period of time – their shareholders simply would not allow this situation to continue. Further, sustained loss making activities would have been challenged under competition law as being predatory. There is evidence to show that even allowing for the cost of copper, savings can be passed on to customers seeking a broadband only product and that these savings do not result in an underlying loss making activity for the provider.

To summarise, I would urge Digital Britain to consider not only an infrastructure approach to increasing broadband penetration but a services competition approach also, namely naked dsl. Plans for a national roll out of next generation access and the underlying new infrastructure is highly capital intensive and will take a significant number of years to build. Given the costs and timescale, in the meantime a services approach will help increase broadband access, and going forward services competition will ensure the sustainability and affordability of infrastructure provider offerings to consumers.

I should very much like to explore my services competition proposals with you and your colleagues further and would welcome a meeting if you consider it appropriate.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'VPotier', written over a horizontal line.

Vincent Potier  
Managing Director  
Vonage Limited



## **The Need for Sustainable Services Competition**

Investment in access infrastructure in the short term can promote competition and consumer choice. However, in the longer term it is only through a combination of infrastructure competition and services competition that consumer choice and lower prices can be sustained.

Charting the development of the UK telecommunications market from the 1990s it can be seen that the infrastructure market initially developed in a competitive environment with numerous infrastructure providers competing with each other. However, following this early competitive activity, the industry soon became recognizable for its merger and amalgamation activities which gave rise to oligopolies in the infrastructure access market. Nowhere is this more apparent than in the UK cable market where today Virgin Media is the sole cable supplier. Whilst the development of LLU has brought about greater competition in the access market in the short term, LLU will inevitably follow the same pattern in the longer term and we shall see the same pattern of merger activity developing amongst LLU providers. Today's unbundling regimes merely favour oligopoly over monopoly and will not sustain competition in the longer term. The result will be less consumer choice and a trend towards higher prices.

The current regulatory framework is not promoting consumer choice or the growing demand amongst consumers for independent service provision. A competitive framework must exist whereby independent service providers can compete and offer their services across all networks. It will only be through the availability of services such as VoIP and potentially other services across all networks that competition can develop. We believe that naked dsl is a prerequisite for services competition, consumer choice, an increase in broadband penetration and sustainably lower prices.

With naked dsl consumers will have the right to choose their broadband and voice service providers separately and most importantly will not be forced to pay for a telephone line they no longer need. Naked dsl also simplifies the switching process for consumers by ensuring consumers are not locked into long term arrangements for services with one provider and by helping break apart the restrictive infrastructure components that can obstruct consumers from migrating to new services. For example, with "triple play" bundled packages it is extremely difficult for consumers to switch and take advantage of new voice services offerings without the risk of loss of connection altogether or severe penalties for breaking lengthy contracts.

Consumer choice is about flexibility, being able to choose between suppliers without encountering undue barriers, and about availability of a range of alternatives from different providers from which consumers can mix and match their services. In other industries we have seen increased consumer choice through the availability of unbundled service offerings. For example, in the airline/package holiday industry we have seen greater consumer choice through holiday makers being able to book flights and hotels separately and no longer being locked into expensive tied insurance policies. Today consumers can book their flights and hotels and choose to take out better value insurance cover from providers who are separate and independent from



the packaged tour operators. Without this flexibility and choice consumers would continue to be locked into paying higher prices and prevented from shopping around for the best deals. There are parallels with the communications industry where today consumers are all too often locked into taking their services (broadband, voice, TV etc.) from one provider without the ability to obtain better and cheaper services from different independent providers.

In addition to simplifying the switching process and increasing consumer choice, naked dsl also serves as an important consumer protection mechanism. For example, loss of dsl connection on porting of a number from a dsl provider to another provider is a consequence that consumers are unlikely to be aware of at the time they put in a request for number portability. The dsl connection will be lost when the number has been ported across to the recipient provider. This is because dsl providers use the telephone number to provision both the voice line and the data connection. Upon porting the number the data service ceases leaving the customer without any connectivity whatsoever. By separating broadband access and voice service provision, naked dsl will ensure that there is no loss of connection when consumers switch providers and port their telephone numbers.

The demand for independent voice service provision can be seen from the growing uptake of naked dsl across Europe in countries such as Austria, Belgium, Estonia, France, Italy, Holland, Norway and Sweden.

We see a clear demand naked dsl. With naked dsl consumers have the benefit of real choice between their broadband access provider and their voice provider. Naked dsl will encourage services competition, which in combination with infrastructure competition will lead to greater consumer choice, greater broadband penetration and lower sustainable prices for services offered across all broadband networks.

Vonage Limited  
9<sup>th</sup> February 2009