



***Future broadband – Policy approach to next generation access
Ofcom consultation***

Written comments from Yahoo! UK & Ireland

Introduction

Yahoo! welcomes Ofcom's early consideration of the regulatory and policy issues relating to investment in next generation broadband access infrastructure in the UK.

We appreciate that this consultation is the first step in a long and in-depth analysis of next generation access and that Ofcom has chosen as its starting point an examination of the regulatory framework insofar as it impacts on investment decisions. There is also a wider debate of which the supply-side issues are just one element and we note Ofcom's commitment to play a role in "*facilitating and participating in the wider debate on the public policy and economic implications of next generation access*"¹. The value chain that depends on the underlying infrastructure available to UK households is now long and complex. Understanding the needs of this value chain and balancing it with a supportive climate for infrastructure investment is critical to achieving a framework which delivers the most value to UK citizens and the economy.

Our comments relate to issues which the consultation touches on but which, in our view, require more in-depth examination to strengthen the central discussion about supporting timely investment. These are:

- Demand for more advanced broadband services
- Consumer expectations
- Wider impact of the regulatory framework

Demand for more advanced broadband services

Evidence of the demand for next generation access is explored in sections 3 (*Next generation access: the broader context*) and 7 (*The case for direct intervention in next generation access investment*). Ofcom concludes that it is hard to judge the demand for higher speed broadband in the UK. Based on current usage trends and available research on consumer attitudes, consumers appear satisfied with current broadband speeds but there are reasons to believe this picture may change. We agree. We also feel that a more in depth understanding could be achieved by broadening the analysis. In particular:

- User generated services are now highly valued by users. The sharing of personal photo and video content is a big part of the market. Very soon, HD quality video

¹ Para 2.25, page 14

cameras will be within financial reach of most UK households and new online tools are available to allow users to edit and share their content more easily. Many users are already frustrated by slow upload speeds and we anticipate that the availability of HD home video and services which place similar demands on networks will accelerate user demand for higher speed and more *symmetric* broadband services².

- Consumers have transformed their relationship with providers of public and personal services using their domestic broadband connection. The consultation document focuses on content services but other services such as banking, retailing and public services are also relevant. Online services are typically designed to function effectively within the limits of today's broadband technology in order to give users a satisfactory experience but some could work better with higher bandwidths. A better understanding of how businesses and Government wish to further transform their relationship with customers via online services and what expectations they have of end-user connections (in terms of quality, choice and speed) would add an important dimension to the analysis of demand for higher speed infrastructure. This will involve engaging with non-traditional stakeholders (including financial services, retailing and providers of government services)³. The experience of these stakeholders and their customers in other parts of the world would also complement Ofcom's work on international benchmarking.
- The consultation considers a range of relevant issues regarding the provision of content services. Ofcom also notes that the lack of next generation access infrastructure was not cited in research for the DCMS as a major barrier to the development of the creative industries sector at this time. We feel this is an overly narrow examination of how content distribution might evolve in the future. Content providers are exploring a range of new distribution channels both on and off their own networks, some in partnership with other networks and online communities. Content providers will want users to have a similar experience of their content regardless of their broadband connection and or distribution channel. We therefore anticipate growing interest in this issue from the DCMS and stakeholders in the creative industries who are actively exploring non-traditional and novel distribution channels which will rely on the quality and speed of domestic broadband. This will merit closer examination by Ofcom.
- The consultation notes a range of distribution technologies which are contingent on the quality and speed of broadband connections, including P2P file sharing, full-screen video streaming and mass-market video conferencing. The demand-side case presented in the document relies heavily on anecdotal evidence. More meaningful and robust research in this area is needed to fully understand the potential market for these services and consumer demand. Again, this may involve engagement with non-traditional stakeholders.

² Figure 10 presents UGC and online communities as separate services. In practice, they are one not separable in this way and we would suggest that UGC services involving video will in due course be assessed as having both high scope and high intensity, alongside commercially produced content.

³ The Broadband Stakeholders' Group will explore some of these issues. However, there is also value in Ofcom engaging in this wider debate.

Consumer expectations

The consultation touches on a number of consumer issues which are relevant to the wider debate about next generation broadband. We believe that these are the right issues to explore but that the evidence presented in the consultation is inconclusive and too anecdotal

- Willingness to pay – We acknowledge that the willingness of end-users to pay for higher speed broadband is an important factor in building confidence of investors. An assessment of the latent demand for access and anticipated business models will help here. However, an analysis of this issue is also complicated by the way broadband is marketed to UK consumers as a ‘free’ addition to their domestic telecoms and TV package. In this environment, it would be no surprise if users’ willingness to pay were low. It would be interesting for Ofcom to consider this issue in future research on consumer attitudes to next generation access.
- Price – The consultation document notes that where next generation access networks have been deployed in other countries, the price to the end user is similar to existing triple play services over cable or DSL. This will be an important trend to monitor alongside claims that next generation access will be significantly more costly to deploy and manage than current generation networks and will therefore necessitate changes to existing payment relationships within the wider value chain.
- Choice – The internet is the powerful medium it is today because users are free to choose which services they consume, when and how. They choose the winners and losers, determine which online business models will be successful and fuel investment in innovative new ones. It is important to acknowledge that consumers have become accustomed to this choice and will want to retain it in the next generation world.
- Service quality – We know that some online services depend on low latency and jitter and that the consumer experience may be enhanced when they are delivered via ‘next generation’ networks that implement network management tools or simply provide sufficient bandwidth to support these services. This functionality is valued by, and will benefit, both users and service providers. Given the degree of control users are used to, it is likely that they will expect to be in control of both what they consume online *and* the quality of service at which they consume it. The consultation rightly points out that users generally have a poor understanding about the factors which influence the quality of their broadband service. Consumers’ expectations of the future in this regard would benefit from more research.

Wider impact of the regulatory framework

The consultation’s assessment of the regulatory framework seeks to give clarity to infrastructure investors. There are some additional issues which merit further analysis in our view:

- Differentiated retail broadband – Ofcom is committed to its existing policy of delivering competition at the deepest point in the network and promoting consumer choice in retail broadband. In the next generation environment, it will be important to consider where in the value chain competition should take place in order to allow retail providers to differentiate broadband packages according to the factors that users value most. At what point in the value chain quality of service and other network intelligence is determined, for example, could decide what range of services are ultimately available to the end user⁴.
- Avoiding unintended consequences – One of Ofcom's key objectives is to ensure that there are no obstacles in the existing regulatory framework which may delay investment in next generation access. However, in doing so it will be important to avoid unintended consequences for players elsewhere in the value chain. As mentioned above, there is now a long and complex value chain of stakeholders and business models which rely on broadband infrastructure. A regulatory framework designed to promote investment but which also incentivises behaviour that could negatively impact on incentives to invest and innovate further down the value chain would put at risk the public, social and economic value which Ofcom is seeking to create. Thought should also be given to how the existing (and future) regulatory framework would give protection from such behaviour and deliver timely remedies.

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⁴ This assumes a business case for differentiated end user offerings (on the basis of up/download speed, QoS etc) developing over time.