Europe: An Unintended Laboratory for American Policy

By Steven S. Ross ■ *Editor-in-Chief*

Japan adds more FTTH customers every month than any other nation – about 300,000. The US has the fastest FTTH growth rate, more than doubling last year and expected to redouble in 2007 and maybe again in 2008. Europe? Just 820,000 FTTH customers by mid-2006, almost all in just five countries.

As we debate policies to stimulate bandwidth growth in the US, European examples are being cited by both sides in Congress – those who would regulate network-builders more tightly and those who want to loosen up.

Will Europe become a communications backwater on the world stage? And what might the lessons be for American policymakers?

For starters; Europe, where municipalities have easy access to capital for network-building and where the European Union itself is hostile about allowing incumbents to keep control of their own networks, offers lessons but should not be a model for Congress. Munis and non-communications utilities there are building most of the FTTH. The incumbents are betting on fiber to the node, and setting their bandwidth goals low.

In Europe, DSL loops average half the US length. Our First Mile column this month charts that difference, using data originally compiled by UK regulators. The shorter the copper loop – the distance to the customers from the closest fiber – the higher the potential bandwidth. European copper loops also tend to be newer, and made up of four copper strands, not two.

While AT&T in the US is having trouble meeting its target of 24 to 28 Mbps over DSL fed by FTTN, Europeans in urban areas can often get 30 to 50 Mbps that way. That's good enough for delivering this decade's HDTV, games, video on demand, VoIP, downstream data and other downstream services. But it won't suffice for the next decade – just a few years away – and it won't suffice for new services that require plenty of upstream bandwidth.

Ammunition for Competition

In fact, it isn't enough to make new broadband carriers from the world of telephony competitive with traditional cable companies using DOCSIS. So why isn't there more FTTH in Europe? And why is so much of the fiber built by municipalities? Let's look at the "business cases."

As in the US, municipalities in Europe see FTTH as a way to compete globally, to revitalize low-income areas by attracting knowledge-based industries, and to provide a service that is becoming more and more essential for everyone.

In Europe, where about half of all economic activity is performed by governments, the line between public and private is more blurred than in the US, where only about 30 percent of all economic activity is in government hands. European cities are more likely to have operational experience running utilities – even small communities supply heat (in the form of steam and hot water) to large districts. European cities are also more likely to have formed public-private partnerships to supply other services, such as water and waste disposal. They are often able to charge residents a high connect fee in exchange for a low monthly rate, in effect financing some of the build.

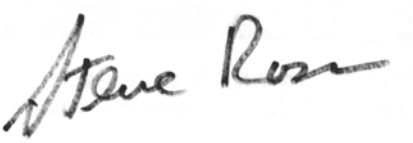
Competitive local carriers like Fastweb in Italy have also played a strong role in Europe as they have in the US. Fastweb, often cited as the poster child for this segment, has more than a million broadband customers (three quarters of whom buy the video service) and revenues now running at a $2 billion annual rate. But Fastweb has never been profitable, and is now being acquired by Swisscom for about $5 billion.

European Incumbents Lag

Large incumbents in Europe have been slow to bring FTTH to customers, and as we document this month, their FTTH deployments, with little new to offer, have tended to have a low take rate. Major exceptions have been in Austria (which is testing upstream applications) and in France. But France Telecom started pushing FTTH only after Paris-area deployments by Cite-Fibre, which was then acquired by Free (a subsidiary of CLEC Iliad, with muni funding as well). In Scandinavia, incumbents often sell services on municipal open-access networks.

Deutsche Telekom (thanks to short and modern VDSL copper loop lengths in Germany) can promise 50 Mbps or more to customers with FTTN. But DT isn't usually offering that much, and has been disappointed by the European Union, which is suing to overturn German legislation that allows incumbents to keep exclusive use of "new" networks that have fiber-optic elements. The issue is complex, because DT wants to protect its not-entirely-new FTTN from unbundling, but has little FTTH. Telecom Italia, Telefonica and BT are all doing FTTN, insisting that the bandwidth FTTH can bring is simply not necessary.

In short: We can learn a lot from Europe. But following the same regulatory path would be disastrous. Those who think the US should return to requiring UNEs for FTTH are terribly mistaken, because the European experience clearly shows that incumbents don't want to invest in upgrading networks if they're going to have to share them. But the outcome would be even worse here because our older networks are in much worse shape than theirs.



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