

Fixed narrowband market reviews – narrowband and broadband services

28 April 2003

Oftel's fixed narrowband market review consultation documents were published on 17 March 2003. The following market reviews came to the initial conclusion that there are separate narrowband and broadband markets, with the boundary between the two identified at a speed of 128kbit/s:

- Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets;
- Review of the fixed narrowband retail markets; and
- Review of the wholesale unmetered narrowband Internet termination market.

This boundary was identified because, at the time of publication, mass market services available in the UK at speeds in excess of 128kbit/s allowed both a four-fold increase in achievable speeds and with it different content to be delivered that is not practically available at a reasonable quality at speeds of 128kbit/s and below. Such content includes the delivery of streaming video which allows video clips to be viewed over the internet for real time news and sports coverage, movie trailers etc.

In general, this type of content requires around 300kbit/s or above. However, it is difficult to define a precise speed given swift technological changes which may allow these services to be delivered over lower speeds in the future. Oftel therefore considers that it is appropriate to define the boundary between narrowband and broadband on the basis of the speeds of existing products. At the time of publication, Oftel did not consider that there were mass market internet access products available at speeds between 128kbit/s and 500kbit/s.

Since publication, ntl has announced that it is upgrading its 128kbit/s cable modem service to 150kbit/s and Oftel is also aware that Tiscali offers a 256kbit/s internet access product. The Director is now minded to consider that a speed distinction of less than or equal to 256kbit/s for narrowband access services captures the relevant demand side distinction for UK narrowband access services because it is still the case that products available at speeds in excess of 256kbit/s allow different content such as streaming video to be practically delivered.

The Director, however, acknowledges that as new Internet access services of different speeds are created and as broadband content develops, the speed boundary between narrowband and broadband Internet access services may need further consideration in future market reviews.

Despite this change in the speed distinction between narrowband and broadband, Oftel remains of the view that narrowband services constitute a separate market to broadband services because:

- there remain significant price differentials between narrowband and broadband services:
 - there is a £10-£15 monthly premium for broadband internet access compared to single line analogue unmetered internet access;
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- there is a £8-£9 monthly premium for broadband access compared to ntl's 150kbit/s service;
- there is a £6-£7 monthly premium for broadband access compared to Tiscali's 256kbit/s service; and
- available consumer evidence suggests that at current prices narrowband customers do not value the extra functionalities and bandwidth of broadband services to a sufficient degree such that significant numbers of them are likely to switch to using broadband services if current narrowband prices rose by 10 per cent.

Further detail of the narrowband broadband price differentials is contained in the *Review of the wholesale broadband access market*, April 2003.
