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# A National Broadband Plan: Opportunities and Risks

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The American Consumer Institute  
Center for Citizen Research



# Outline

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- Benefits of broadband
- Lessons from traditional telecom services
- What is the National Broadband Plan all about?
- What are the threats to broadband deployment?
- Policy goals



# The Telecommunications and IT Sectors Are Inextricably Linked to the Health of the Economy

- Stimulates economic growth
- Increases productivity
- Decreases inflation
- Leads to business and consumer benefits
- Creates new, high-paying jobs

Increasing Telecom and IT investment would be a major economic stimulus that would increase jobs and consumer benefits

# Broadband and the Environment

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- E-Commerce
- E-materialization
- Telemedicine
- Teleconferencing
- Distance Learning
- Telecommuting



# Greenhouse Gas Reductions from Broadband Technologies

*Cumulative 10-Year Forecast in Millions of US Tons*

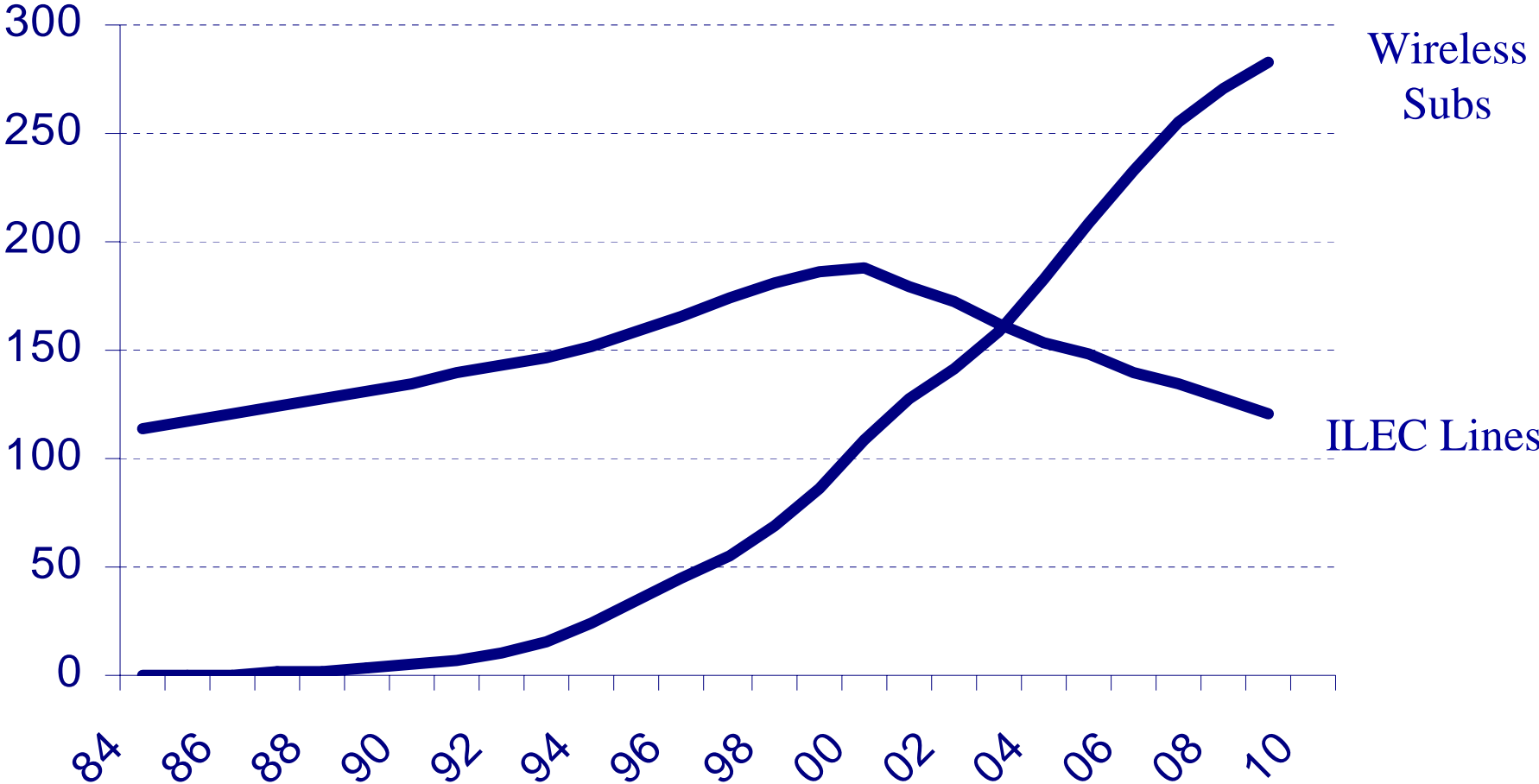
• E-Commerce: B2B and B2C	206.3
• Telecommuting: Direct and Indirect	588.2
• E-materialization	< 67.2
• Telemedicine	Not Measured
• Teleconferencing	199.8
• <u>Distance Learning</u>	<u>Not Measured</u>
<b>TOTAL</b>	<b>&gt; 1,000</b>

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# **Traditional Wireline Services and Competition**

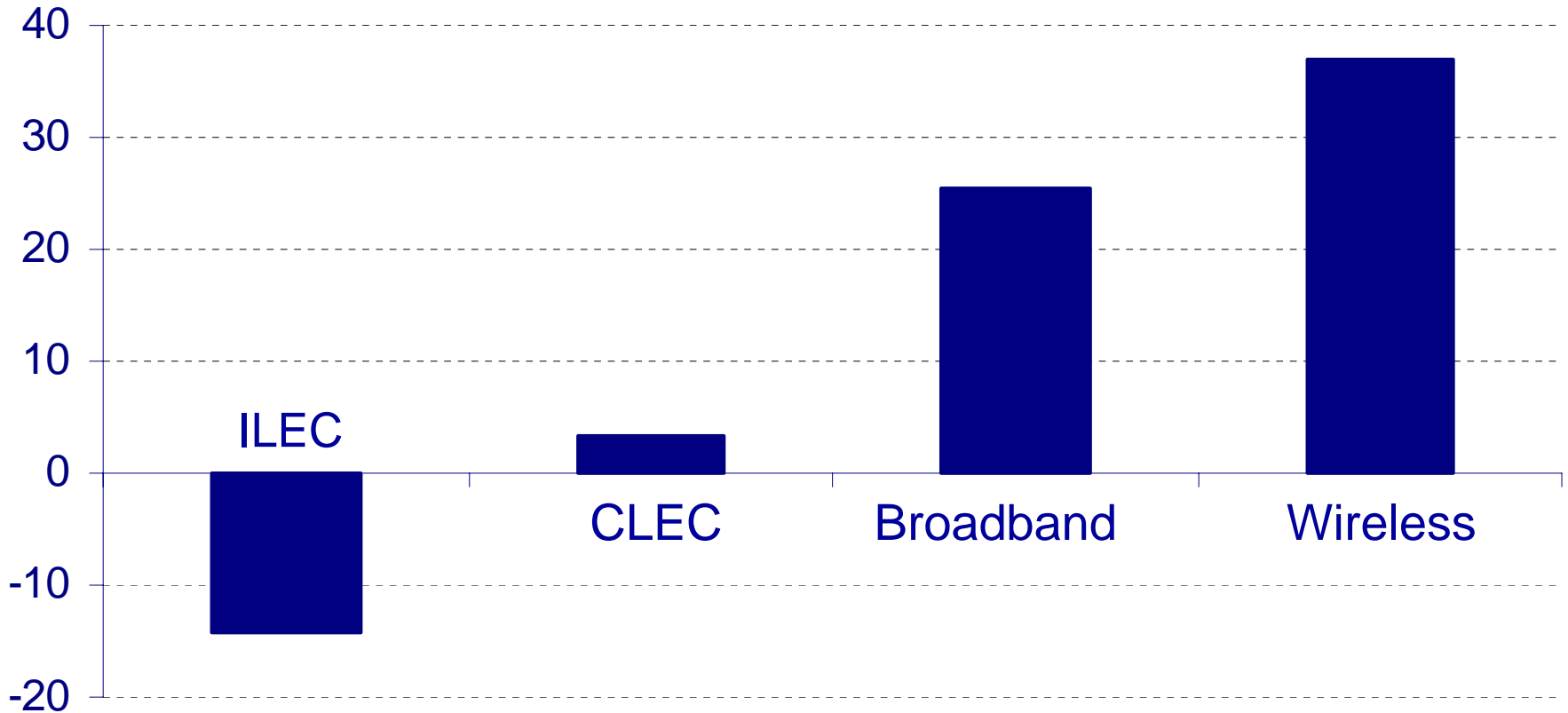


# U.S. Wireline vs. Wireless Telephone Service



# In the Last Two Years, ILECs Lost 14M Access Lines, While 66M Other Connections Were Added

*Millions of Connections – U.S.*



# Internet-Based Services Are Replacing All Traditional Telephone Services -- Often Free Of Charge

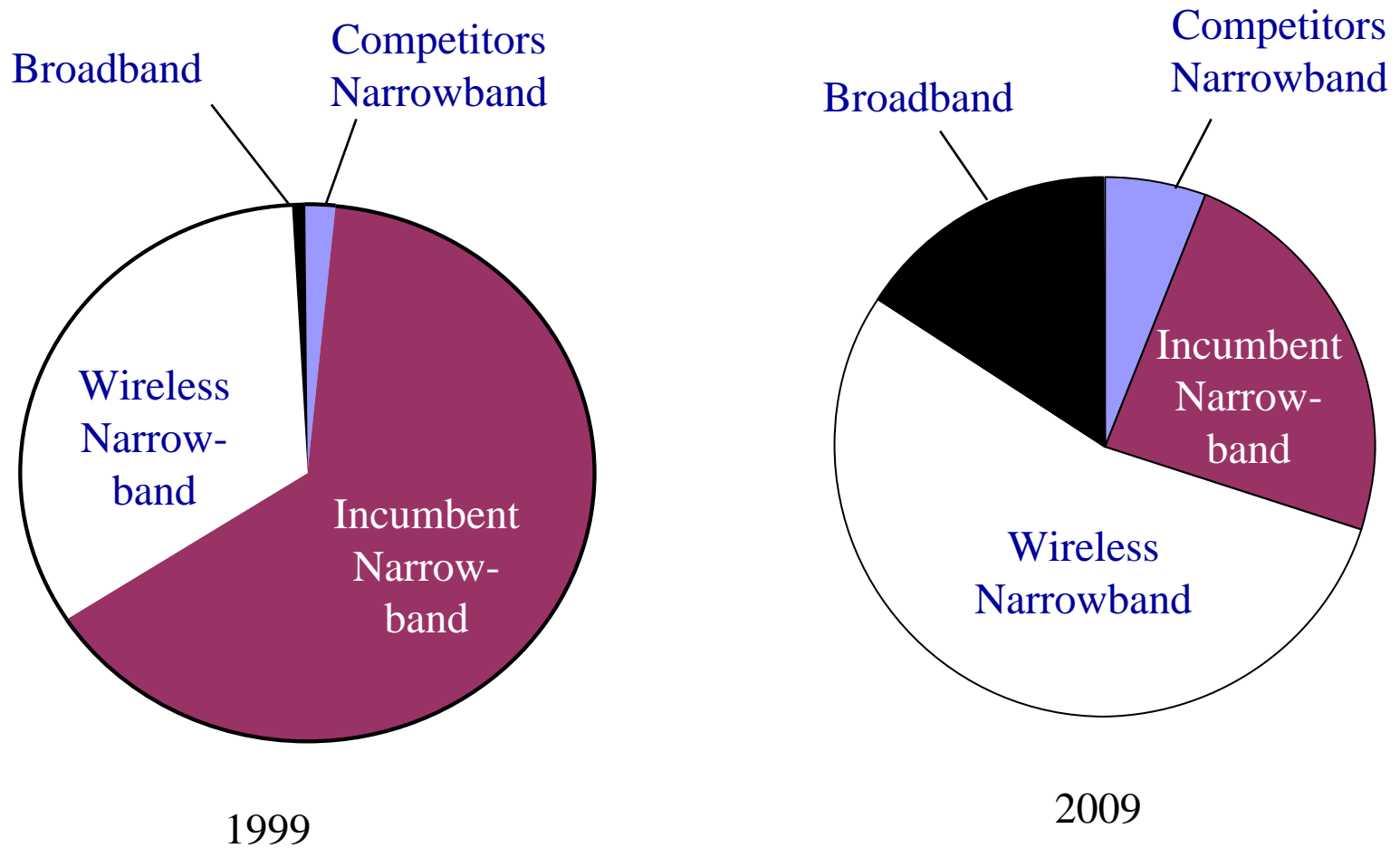
## Traditional Services

- Local and LD telephony
- Second line service
- Message service.
- Call waiting
- Voice mail
- Conference calling
- PBXs
- Call Forwarding
- Speed Calling
- Directory Assistance and Information

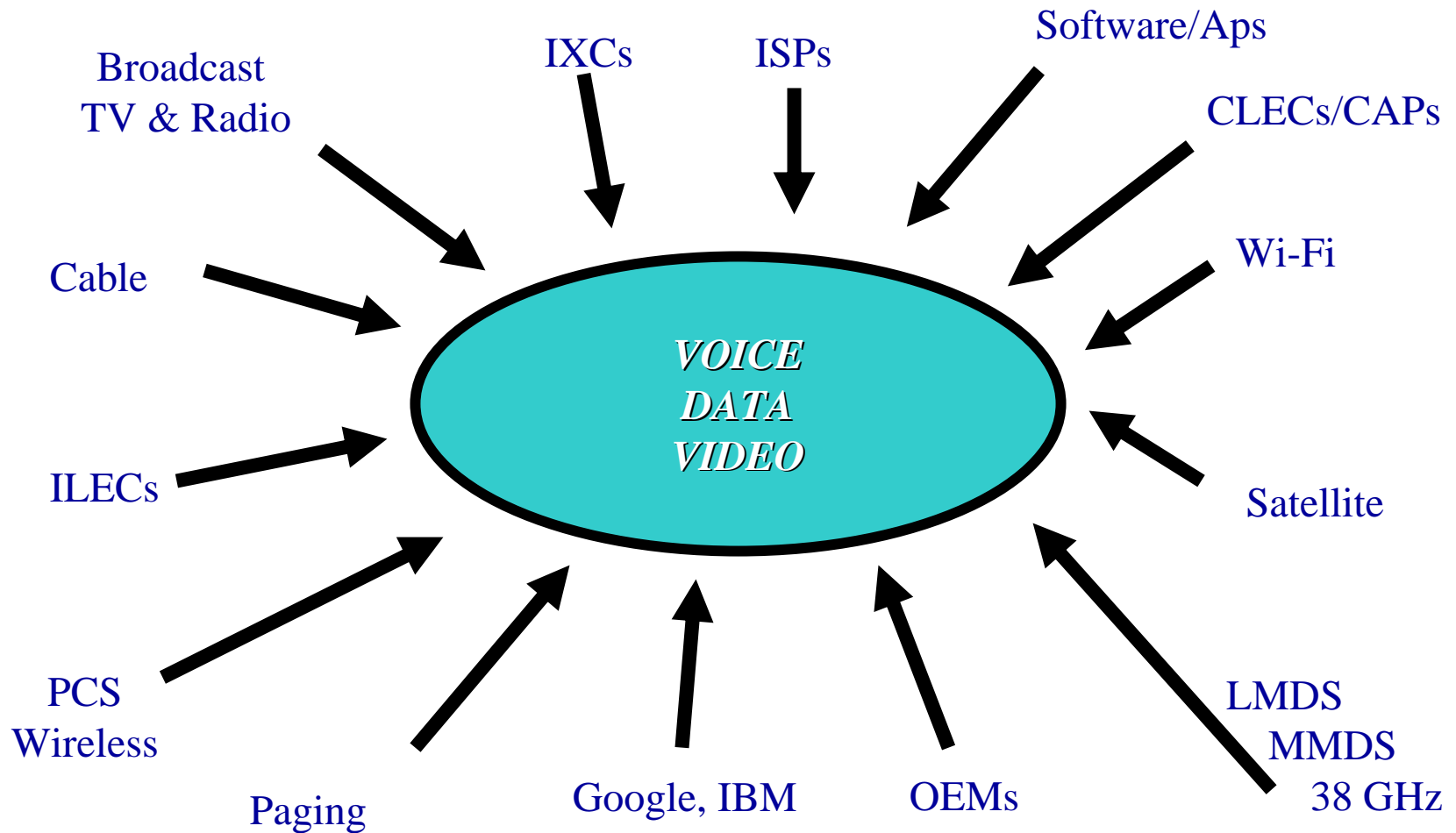
## IP-Based Services (Examples)

- VOIP, Skype, Google Talk
- Virtual Second Phone Line
- Instant Message (AIM, ICQ)
- Internet call waiting (BuzMe)
- Voice mail (CallWave, Pagoo)
- Desktop IP conference (PalTalk)
- IP-based virtual PBXs
- Find Me-Follow Me
- Voice Activated Dialer, content and e-commerce
- 800-Goog-411

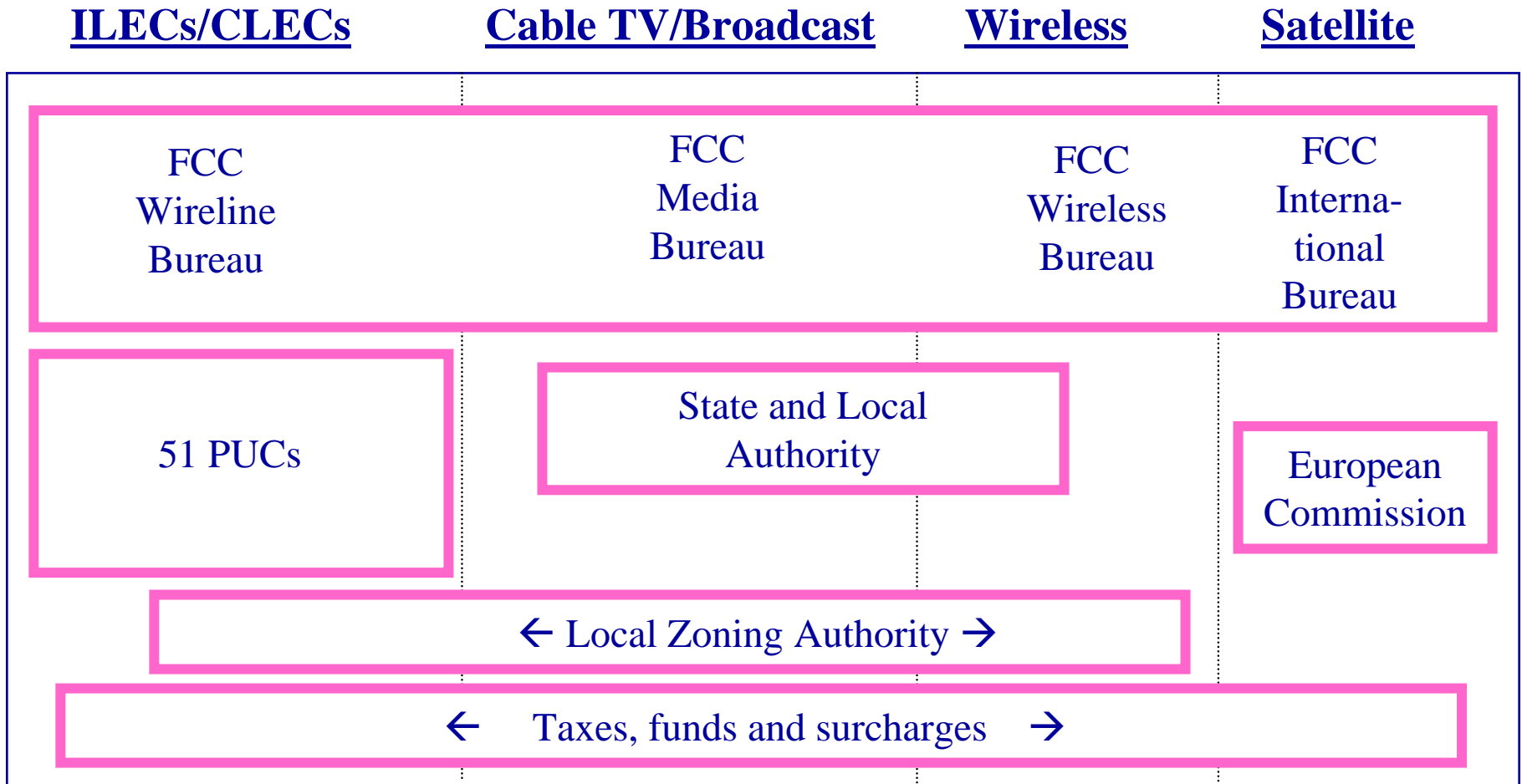
# The Incumbent's Narrowband Market Share Dwindles



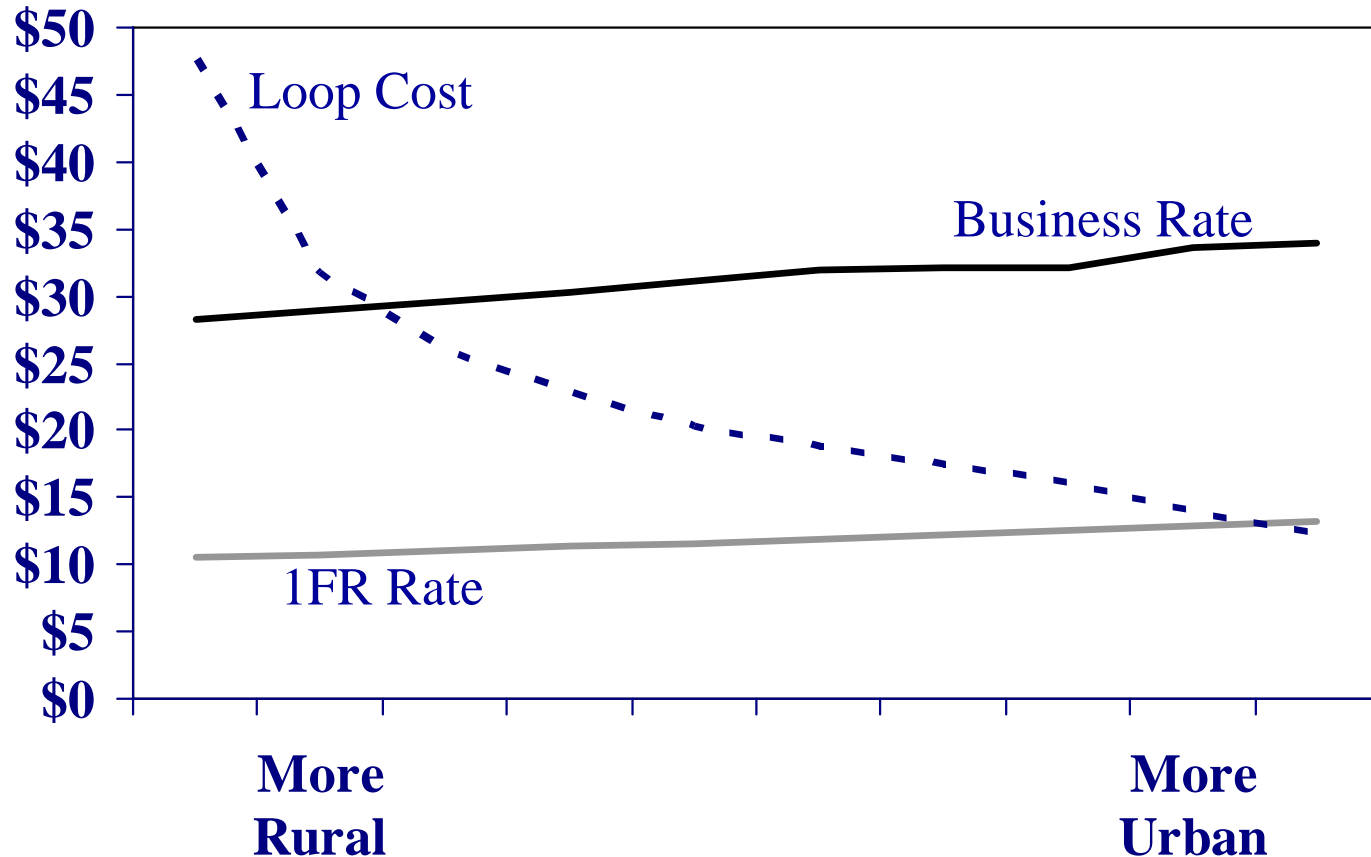
# Industries Are Converging and Inter-Industry Rivalry Is Here



# Telecommunications Regulators Have Compartmentalized Themselves into Industries



# Regulation Has Set Prices That Are Not Sustainable Under Competition



For Competition to Work, Price Flexibility is Needed to Achieve Rational Prices



# Why Tax What You Want To Encourage?

<b>Service</b>	<b>Average Monthly Charges</b>	<b>Average Tax Rate</b>	<b>Average Tax Paid</b>
<b>Retail Sales Tax Paid</b>		6.61%	
<b>Cable TV</b>	\$52.36	11.69%	\$6.12
<b>Wireline Phone</b>	\$49.33	17.23%	\$8.50
<b>Wireless Phone</b>	\$49.98	11.78%	\$5.89
<b><i>Subtotal</i></b>	\$151.67	13.52%	\$20.51
<b><i>Total with Internet</i></b>	\$188.17	11.04%	\$20.77



# Traditional Wireline Services in the Face of Competition

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- Service regulations
- Price regulations
- Cross-subsidies
- Protected groups
- Universal service funding
- Taxes



# National Broadband Plan (NBP)

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- Issues
  - Consumer benefits, jobs, investment and economic growth
  - Applications -- healthcare, education, energy ...
  - Access and deployment
  - Wireless and wireline use
  - Public safety and homeland security
- Congressional mandate for the FCC
- 10-Year vision
- Civic participation



# NBP Summary

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- 80% (100M) homes with affordable 100/50 Mbps
- Affordable access to EVERY American – 4/1 Mbps
- Every community should have a 1 Gbps anchor institution
- Every American should be able to manage their energy consumption
- World leader in wireless innovation and speed
- First responders – nationwide wireless broadband network



# Governments Influence Over the Broadband Ecosystem

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- Policies to encourage competition
- Ensure efficient allocation resources
- Reform USF to support broadband for low-income and rural consumers
- Maximize government benefits related to public education, health care and government operations



# NBP – Competition

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- Disclosure
- Set-top boxes
- Spectrum
- Roaming
- Wireless backhaul
- Competition and price analysis
- Wholesale rules



# NBP – Universal Access

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- Connect America Fund
- Mobility Fund
- High-cost fund transition
- Broad USF contribution base
- Expand Lifeline and Linkup
- Consider free wireless services
- National Digital Literacy Corps



# Will Broadband Be Regulated Like Telecom?

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- Service regulations?
- Price regulations?
- Cross-subsidies?
- Protected groups
- Universal service funds?
- Taxes?



# Competitive vs. Regulation: Structure, Conduct and Performance

- Will regulations produce net benefits greater than an imperfect market?
  - Regulations would likely reduce network investment and investment-driven innovation within broadband networks
  - *Ex Ante* regulations can raise consumer prices; reduce quality and innovation
  - Potential costs of regulatory imperfections
- Market Failure
  - Concentration continues to decline
  - Broadband prices are decreasing
  - The rate of network investment is substantial
  - The industry has comparatively low profits



# Where is the Market Power?

	Profit Margin (%)	Return on Invested Capital	Return on Assets	Sales Growth (%)	Price To Cash Flow	P/E Ratio	Annual Sales (\$B)	Market Cap (\$B)
S&P 500	11.4	10.5	17.5	13.2	7.7X	11.2X	NA	NA
Google	22.9	19.7	18.1	71.6	25.8X	34.6X	22.3	157.0
Yahoo!	11.9	7.6	6.5	34.7	41.1X	NM	6.8	25.3
eBay	17.1	10.5	8.6	31.6	13.3X	20X	8.3	30.5
Amazon	3.7	21.8	9.7	29.5	39.1X	60.2X	20.5	40.3
Apple	12.2	21.6	14.0	39.2	28.6X	32.4X	34.6	166.0
Comcast	7.0	1.8	1.7	13.3	5.3X	17.5X	35.1	48.4
T-Warner	(5.7)	NM	NM	17.4	NM	NM	17.6	15.8
AT&T	10.7	5.0	4.3	25.1	5.0X	13.5X	111.4	159.0
Verizon	7.1	4.7	3.3	7.6	3.6X	14.2X	102.9	86.0

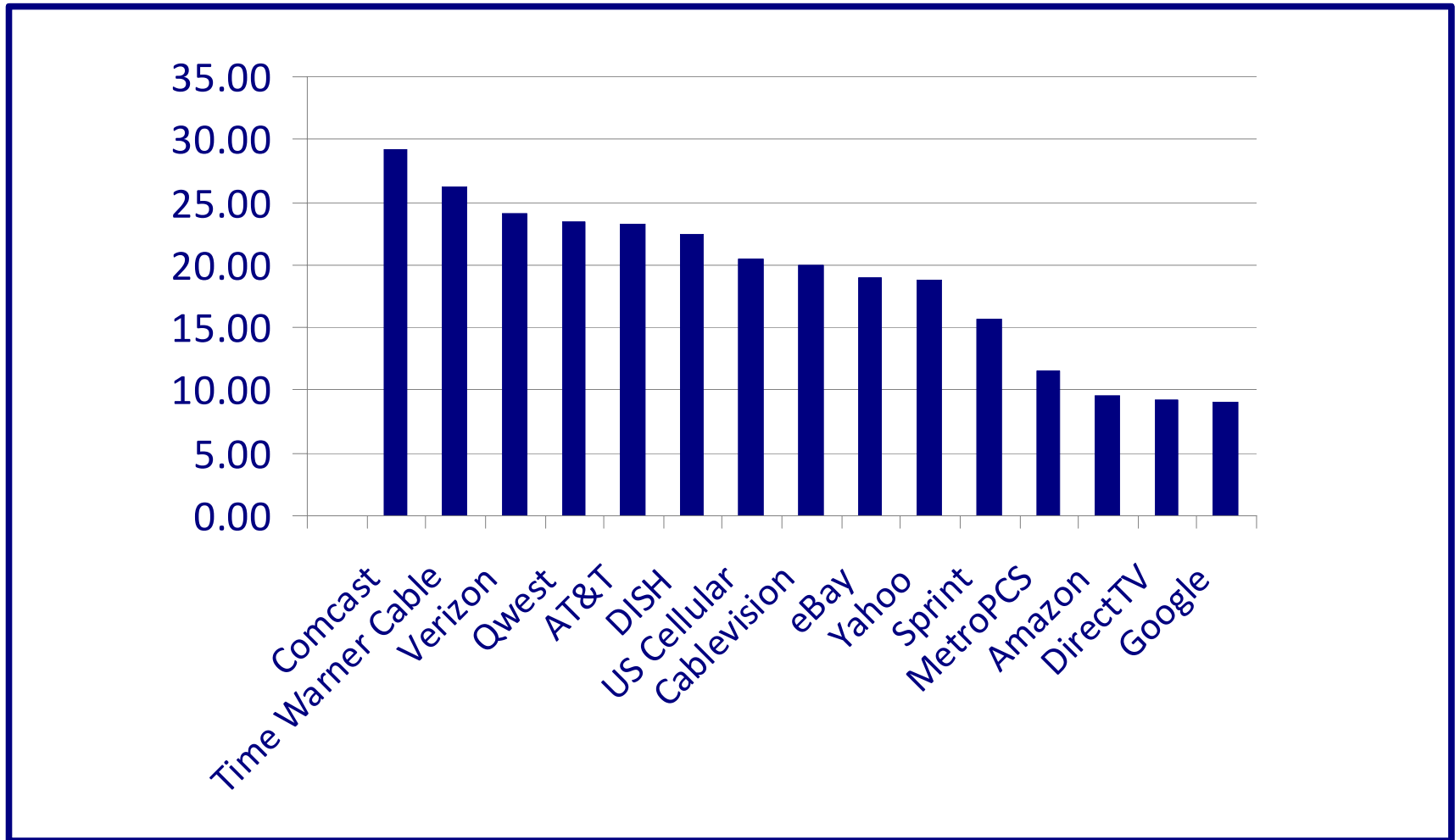


# Market Value, Jobs and Investment: Leading Firms in the Internet Ecosystem

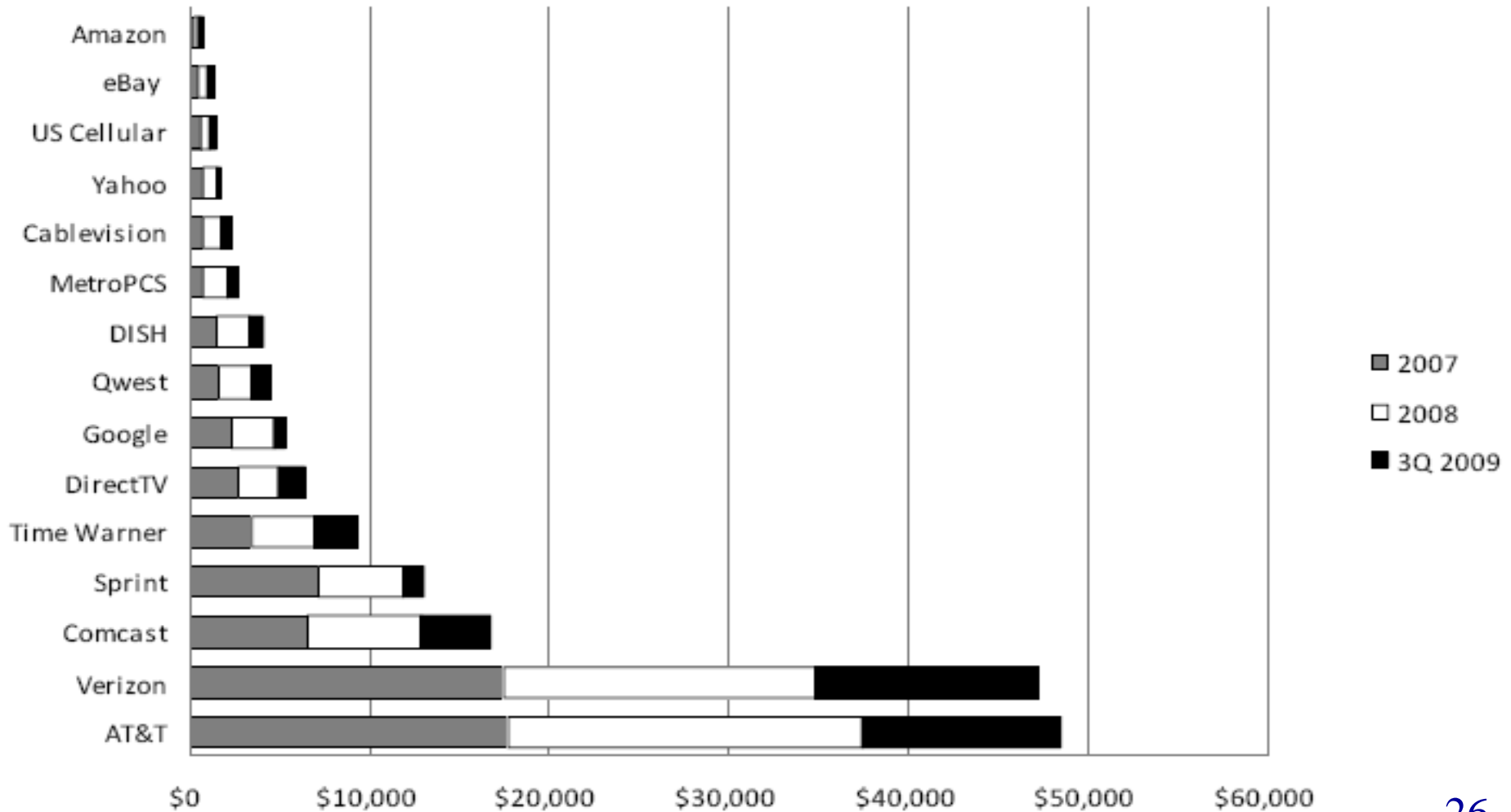
<b>Company</b>	<b>Market Cap \$B</b>	<b>Jobs</b>	<b>Capital Expend \$B</b>
Google	185	19,800	2.35
AT&T	151	288,600	19.67
Verizon	87	235,300	17.24
Comcast	46	100,000	6.28
Time Warner Cable	16	45,100	3.52



# Jobs for Each \$10 Million in Revenue: Selected Firms -- 2008

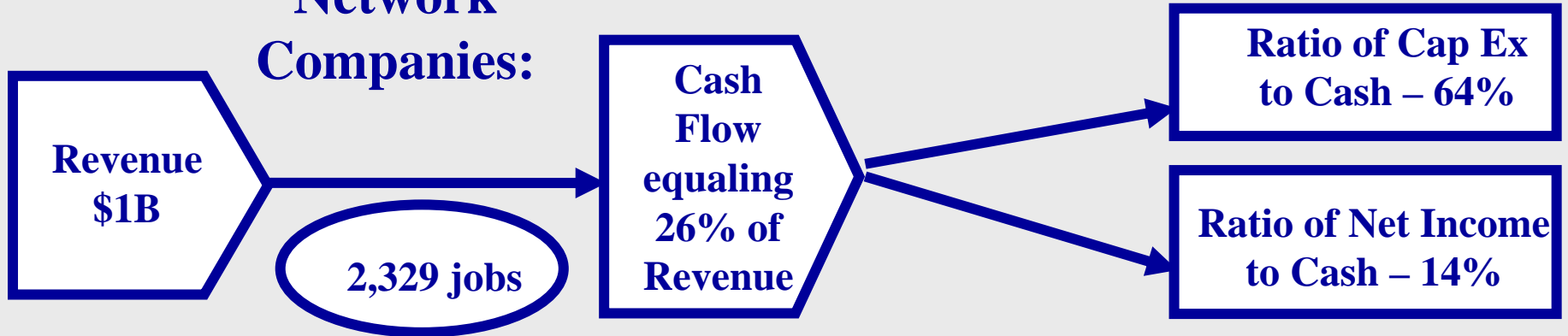


# Actual Investment by Leading Internet Ecosystem Firms – “Core” and “Edge”

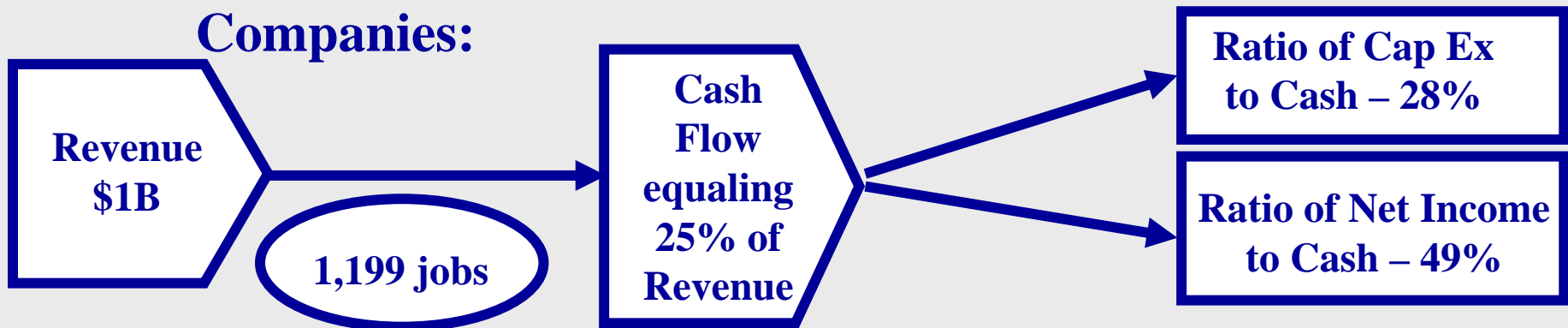


# Just Follow the Money!

## Network Companies:



## Non-Network Companies:



# To Regulate or Not?

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- Rent-seeking and special interests
- Regulatory proposals conflict in important ways with consensus requirements of a National Broadband Policy
- They undermine our macroeconomic policy goals of stimulating private investment and getting Americans back to work
- These regulations reduce consumer welfare



# If You Want Broadband Investment, What do you do?

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- NBP
  - Consider redeploying USF from narrowband to broadband
  - Demand-side
  - Spectrum allocation
- End barriers to entry
- Don't tax what you want to encourage
- Regulatory rules should meet a cost/benefit standard



# My Contact Information ....

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