

## **New Wholesale Broadband Regulations Could Entice New Players**

**Susan Richardson**

U.K. regulators are proposing new controls and pricing mechanisms to limit BT's significant market power in broadband. Customers and competitors should plan for a more competitive future.

## NEWS ANALYSIS

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### Event

On 16 December 2003, telecommunications regulators in the United Kingdom announced proposals covering the provision and pricing of wholesale broadband services. The outgoing Office of Telecommunications and the incoming Office of Communications agreed to regulate wholesale broadband in the United Kingdom. Plans are to impose regulations on BT Group and to negotiate a pricing system based on allowing a sufficient margin between retail and wholesale prices ("a retail minus price") to encourage competition. Interested parties have until 6 February 2004 to comment on the proposals, and the regulations are expected to come into effect in 1Q04.

### Analysis

The regulators found that the incumbent BT Group enjoys significant market power in the distinct market for wholesale broadband services. Most Internet service providers (ISPs) use BT's IPStream products as an intermediate service to connect their retail customers to BT's network. The ISPs can also get wholesale broadband connections from network operators that compete with BT. Some of these may use BT's Datastream products to connect to BT's backbone. They cannot compete effectively with BT if the Datastream price is too close to the IPStream price.

BT cut its Datastream prices in May 2003 but by less than it cut prices for IPStream. In November 2003, several competitors formed the Broadband Industry Group to lobby for a more competitive broadband market. The group has achieved a partial success with this recommendation. The ruling should lead to more competition. The small number of wholesale providers should be able to extend their geographic coverage, provide more differentiated services and improve the margin available for retail providers. As broadband prices keep falling, service providers need to be able to compete on differentiated service offerings and not just on price.

**Recommendations:** Once the new system has come into force:

- Competitors and companies considering entering the market should revisit their business models for providing services either using Datastream or obtaining access to BT's local loops.
- Internet service providers should look for new wholesale offerings from alternative providers.
- Customers should review their broadband contracts and consider alternative suppliers.

**Analytical Source:** Susan Richardson, Gartner Research

### Recommended Reading and Related Research

- "BT Confronts Cable Rivals With VoIP Service Offering" — Telecom operators should note a recent move by BT Group, which is out to woo U.K. customers who defected to cable services for voice telephony. BT is offering low-cost telephony service using voice over IP (VoIP). **By Katja Ruud and Susan Richardson**
- "Western Europe Shifts Steadily to Broadband Internet Access" — Internet service providers should expect little growth in the number of subscribers to dial-up Internet connections after 2005. They must prepare for small businesses to demand broadband access at speeds of up to 8 Mbps. **By James Woodcock**

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