

Broadband Reality Check II

Executive Summary



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Consumer Federation of America

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With every passing month, the United States falls further behind the global leaders in broadband Internet access thanks to a combination of market and policy failures. Our markets lack the competition to bring lower prices, higher speeds, and universal access. Our policies lack the imagination and potency to create real change. Meanwhile, Americans pay more money for less service than a dozen other nations. A third of U.S households are still stuck with dial-up, and another third lack Internet access of any kind. Our broadband problem is becoming a crisis.

Yet major telecommunications legislation now moving through Congress lacks a comprehensive vision for how to bring multiple competitive broadband providers to each market offering truly high-capacity connections at affordable prices. Cable and telephone companies hold a cozy duopoly over broadband services with a 98 percent share of the residential market. Not only have we failed to craft policies to bring competitive pressure, we are poised to strip away the nondiscrimination rules that keep network owners from engaging in anti-competitive activity in the Internet content market. Scrapping so-called Network Neutrality rules will not bring us better broadband. But it will guarantee noncompetitive broadband markets for a generation.

To make matters worse, the Federal Communications Commission seems content to ignore the broadband problem and pretend we are moving forward. While the FCC is crowing about an uptick in 1 megabit per second (Mbps) DSL connections, Japanese consumers are paying the same price for 100 Mbps. How long can we afford to be 100 times slower than the rest of the world?

In April, Federal Communications Commission Chairman Kevin Martin published an op-ed in the *Financial Times* claiming that the United States is “closing in on President George W. Bush’s goal of providing broadband access to every US household.” But Martin failed to mention that President Bush’s stated goal was universal and *affordable* broadband access by 2007. The United States is nowhere near reaching this target, and the biannual reports generated by the FCC twice a year to monitor progress in the broadband market obfuscate more than they enlighten.

This report by Free Press, Consumers Union and the Consumer Federation of America comes one year after our first report on the state of the U.S. high-speed Internet market. *Broadband Reality Check II* updates our previous publication and details new empirical research in this area. Among its key findings:

The United States is falling behind the rest of the world in broadband penetration.

- The United States remains 16th in the world in broadband penetration, according to the International Telecommunications Union, and places 21st in the U.N. rankings of “digital opportunity.”
- Fourteen other OECD nations saw higher overall net growth in broadband adoption than the United States from 2001 to 2005.
- The United States has the fourth-highest level of students who have never used a computer among OECD nations — exceeded only by Turkey, Slovakia and Mexico.
- Population density is not a significant determinant of broadband penetration. The most important factors explaining the digital divide among nations are household income and poverty.

- Other countries' broadband successes can be largely attributed to their successful implementation and use of non-discriminatory, open access policy.

The United States trails the rest of the world in broadband speed and price.

- Consumers in other countries enjoy broadband connections that are far faster and cheaper. U.S. consumers pay nearly twice as much as the Japanese for connections that are 20 times as slow.
- U.S. prices show no real signs of dropping. Cable modem prices are holding constant or rising, and DSL customers on average are getting less bandwidth per dollar than they did just a year ago.
- Increased capacity abroad has made available "triple-play" services — fast broadband bundled with TV and phone service — for less than the cost of most standalone U.S. broadband connections.
- The threat of competition — not government regulation — is the most important factor behind broadband infrastructure investment decisions.

The U.S. broadband market is dominated by regional duopolies of cable and telephone companies that face little competition.

- Despite claims of "fierce competition," Cable modem and DSL platforms account for 98 percent of the residential broadband market.
- The top 10 broadband providers, each a regional monopoly in cable or DSL, made up over 83 percent of the entire U.S. broadband market.
- A recent Government Accountability Office (GAO) report on broadband shows that the median U.S. household has only two terrestrial broadband services providers available.
- According to the GAO, nearly 1 in 10 consumers don't have access to any broadband providers.
- FCC data show that over 40 percent of U.S. ZIP codes have one or zero DSL and/or cable modem provider reporting service.

'Third platform' alternatives like wireless and broadband over powerline don't offer viable competition.

- Satellite accounts for approximately one-half of 1 percent (0.5%) of all advanced service residential broadband connections.
- Mobile wireless accounts for roughly one-hundredth of 1 percent (.01%) of all advanced service residential broadband connections. Fixed wireless comprises less than one-half of 1 percent (0.5%).
- 99.8% of mobile wireless broadband connections are used by businesses, not consumers. And nearly all of these exceed 200 kilobits per second in only one direction.

- Broadband over powerline (BPL) accounts for about one-hundredth of 1 percent (.01%) of all advanced service residential broadband connections.
- The combined market share for all of these alternative technologies has *decreased* over the past five years.

America’s digital divide — between rich and poor and urban and rural areas — shows no sign of closing.

- Those living in urban areas are nearly twice as likely to have home broadband access as their rural counterparts.
- Rural broadband deployment continues to lag behind urban deployment. U.S. farm households have home broadband access at nearly half the level of all U.S. households nationwide.
- Approximately one out of 10 households with incomes below \$30,000 reported having broadband access, while broadband connections were in six out of every 10 households with incomes above \$100,000.
- The price of broadband service, and not necessarily the lack of a home computer, is the key barrier to broadband adoption by low-income households.

The FCC uses misleading and meaningless measures of broadband coverage and competition.

- The FCC’s low standard for “high-speed” connections (200 kbps) is barely fast enough for users to receive low-quality streaming video.
- The FCC counts a ZIP code as covered by broadband service if it contains just one broadband subscriber, inflating estimates of broadband availability and competition.
- Chairman Martin and major newspapers have used the misleading FCC ZIP code data to justify their claims that consumers have numerous choices of broadband providers

New Policies Are Needed for Real Broadband Competition and Deployment

U.S. broadband connections are slow, expensive and not available to everyone. Congress and the FCC have the power to reverse these disturbing trends, but they need to take an honest look at the lack of meaningful competition in the broadband services market. Faith-based policy and wishful thinking will not bring broadband to rural areas, and the repeated use of misleading data will not help low-income consumers afford broadband.

This report recommends that Congress and the FCC consider the following policy options to reach the goal of universal, affordable broadband access:

- Restore the non-discriminatory, open-access principles — such as Net Neutrality — that enabled the birth and historic proliferation of the Internet.
- Remove existing barriers to entry to encourage the development of “Community Internet” systems by municipalities, public-private partnerships and local groups.

- Make more “unlicensed spectrum” available for broadband Internet and other innovations by opening up unused TV “white spaces” — the vacant portions of the public airwaves between TV channels.
- Enhance competition by prohibiting the owners of wireline broadband systems from bidding on new licenses to the public airwaves for wireless broadband.
- Modernize the Universal Service Fund programs to support broadband deployment.
- Require the FCC to improve its broadband data collection and analysis. The FCC uses a low standard for broadband and employs meaningless metrics for coverage and competition.
- Encourage and facilitate state efforts to better monitor broadband markets, so they can act where the federal government has failed.

Moreover, we must engage in a serious policy debate going forward that will generate the big ideas necessary for systemic changes that address the slow adoption rates, high cost, low capacity, and lack of competition in American broadband markets. U.S. broadband policy needs a vision for how to bring truly big broadband (50-100 Mbps) from multiple, competitive providers to every community. Absent such goals, we will never regain our position as the world leader in technology.