Stephen A. Carter, Minister for Communications, Technology & Broadcasting

When Adrian introduced himself earlier and said he was the editor of the Stirrer, I thought, I have already read the Stirrer at least five times on the way up this morning on the train. Its been an interesting exercise both producing this report, but then also publishing it, and hopefully when we get to the Q&A session today there will be an opportunity to have a good discussion about some of the detailed substance in the report, as well as the eye catching reported headlines. As this is a gathering of experts and people who have really hard experience, I am going to keep my formal comments relatively brief because I think these sessions work far better as Q&A, than they do as a lecture, because I'm not sure what I can tell you that many of you will not already know. But what I will try to do in the first instance is give you a sense of what the report is, why it is what it is, some of the things it says and why it says them, the latter I think being the most important.

The first thing I would say is that it tries to do one thing over and above everything else as a piece of work. This is, it tries to put the digital and knowledge economy firmly on the map as a central industrial capability for this country. As virtually everyone in this room will know, that is an enormous, in many instances untapped, potential and capability which we are, I think, uniquely placed to benefit from. There has been much discussion, some of it by us, about the diversification of the UK's industrial capabilities. That is definitely a policy debate that is happening at the centre of government and in many other places. For me, I put it slightly more simply which is, it seems to me to be an entirely legitimate question that government should seek to answer, which is to identify over a 5-7 year period where do we want to have industrial capabilities, and what are the social and cultural consequences for those, and when answering those questions where does government have any role and where does it not? In many instances it won't and in some instances it will.

Secondly, the report tries to analyse our infrastructure capabilities, and if you try and dig below the telephone tax headlines, which are misleading and almost entirely inaccurate in what I have read, because in most instances they elide together what we said about current network capabilities for fixed networks and the extension of them, and the funding mechanism for new networks, which are quite separate questions and I think pretty clearly described as such in the report. What we have tried to lay out in the report is the importance of ensuring that we have infrastructure that is as future proof as you can make it, that has reach, has range, has capability, has resilience, is regulated in a way that allows for an open and competitive market, because competition improves choice, reduces prices and creates innovation and has reach across the country.

I have found in all of my different interfaces with this industry – the cable industry, one of the interesting things about the cable industry is that it was not London centred. When I was the regulator, and indeed in this project, the further that you go away from the centre of power the more critically important these questions become, because network capability, reach, range, inclusion, participation are all questions that are more acutely placed and put the further out you go geographically from London. We recommend therefore in the report, in relation to fixed infrastructure, that there are (in round numbers) 1-1,500,000 homes today that do not have an ability to connect to the network in a way, the fixed network, in a way that we would judge as a minimum level to be appropriate, and we allocate a sum of money and a process to resolving that problem through commercial tender between now, and delivery, between now and 2012. And make the point that clearly in running that tender there will be little point in deploying that connectivity to those households with yesterday's technology, in effect you would have a pump primer for next generation capability for those homes, so there will probably be a million homes that you will bring online through connection using next generation capability. Separately, however, we address the question of next generation fixed infrastructure, because as you know there is a limit to what you can exploit out of the existing copper network. We can have a debate about how far you could go with local loop unbundling (LLU), we could have a debate about how far you could go with so-called sub loop unbundling or the unbundling at the street cabinet, but the clear analysis that we have seen is that there is virtue and value to individuals and to businesses in seeing the deployment of new network capability either fibre to the kerb or fibre to the home. Virgin Media has already made a decision to upgrade its network using the Doxis 3 technology to give itself the capability to deliver increasing connectivity to its customers, almost largely domestic customers but although it clearly does have a business to business telecommunications capability as well.

What is the market telling us? What does the analysis tell us? What do the independent studies tell us? And more importantly, what does international comparison tell us? All of those things tell us that if left to its own devices that deployment in new technology, or indeed the extension of the existing cable network, is unlikely to go beyond 60-65% of the country by geographical reach. That therefore leaves you with a question which we put in the report as a public policy question, that's a grand way of saying it's a society question, it's a community question. That means there will be 35% of the country that won't have that network capability. Now I'm, as Jeremy Paxman and others have pointed out, I'm not a professional politician but I think that poses a very simple question – are we happy with that? Now, if the answer is we are, then actually that takes a chapter out of the report because then we are happy with that, so move on. Some people have said, well what we should do is simply open up BT's ducts and indeed impose a wholesale access obligation on Virgin Media. I would observe that the people who say those things casually in television studios, neither understand the variable quality of BT's ducts, nor understand the practicalities of what duct access would mean, nor understand the competition rules around how you could impose a wholesale access obligation on Virgin Media but that's tricky to say in a TV studio.

So if you conclude that duct access is not the answer, what do you then conclude? Well, you have to find a way of funding delivery. Now if you have to find a way of funding delivery, you can look round the world and see different solutions. In some countries what the governments have decided to do is ride rough shod over the regulatory framework and said "we would grant regulatory holidays to the incumbent network operator to therefore find a way of financing a full build". We have decided very, very clearly in this country that is not what we would want to do. Why would you not want to do that? You would not want to do that because the consequence of that would be to reduce all the competition benefits that we have spent the last 10 years building into the market, which has driven choice, wholesale access to BT's network, the open reach separation, the introduction of Carphone Warehouse and

BSkyB, the developments from Virgin, the reduction in prices, the competitive domestic broadband access market we have. So granting a regulatory holiday, so-called, to BT in order that they would in return fund a national viable network might seem like a good idea for, in fact I'm not sure it would ever seem like a good idea, but it might seem like a good idea if you worked at BT but its unlikely to have a lasting benefit to society.

So what's the next option? Well, the next option is you just simply spend public money. You make an investment out of the general exchequer and we as a government have made a very clear decision that (a) that is not required at the scale it is being done in other countries. Probably the most dramatic example around the world, people talk about Korea, Malaysia and Singapore, but probably the most dramatic example is Australia, where the Australian government have committed to spending 43 billion AUS dollars, 50% of it, I think, proposed to be raised from the issuing of infrastructure bonds, in order to build from scratch a national broadband network in that market. But if you talk to the Australian government they will tell you that part of the reason why they're doing that is precisely because they do not have the competitive broadband market that we have in this country, and therefore they are trying to compensate because they did not deliver in the previous generation what we managed to deliver here in the UK. So if you are not going to do it through large injections of public cash, you are then faced with a mechanism. You have to devise a mechanism and we have proposed, I think, a relatively forensic, and relatively proportionate telephone levy "so called phone tax". 50p per month, £6 per year, for every fixed copper line defined in the report, which we believe - modelling what the level of fixed and mobile substitutions likely to be over the period is going to give you - between £150-175 million over the 7 year period, £1-1.5 billion sterling which you use as a means of making the economic investments being done by other companies, is likely to give us close to 90% network capability on an open access basis which maintains the competitive structure of the market.

Equally, what we said at the same time was you can't anymore simply talk about fixed networks, important though they are; you have to have an equal passion for wireless networks. We lay out, probably in more depth than on any issue whatsoever in the report, a programme of spectrum liberalisation. I think it would be fair to say I have not read one jot of analysis or coverage of that, but nevertheless, we have laid out very, very clearly how we believe we could find a way of moving the existing spectrum allocation, licensing structure, liberalisation programme and future auction structure to give us in the UK a route map to extended 3G coverage, and an accelerated deployment of 4G and mobile broadband capability.

We also talk about digital radio infrastructure, we also talk about television and we also talk in some less detail about the increasing importance of network resilience and network security. So there is an unashamed, significant portion of the report that seeks to address the importance of infrastructure, but we equally try and look in comparable detail at the content questions, because the content, the applications, the services, actually as most of us in this room know whilst there will be big infrastructure operators, there will be big network operators – actually for many of them, even their businesses are moving more towards value applications and services in a way from the returns they used to get from being network operators. So the real industrial prize, the real flowering of a thousand opportunities that Cllr Tilsley was talking about earlier, comes from having that capability of which you can see the development of these services. So what do they need? They need a mixture of open access, they need a mixture of interoperability, they need a mixture of a clear framework within which to operate, they need some parameters around where public intervention works and where it doesn’t, and in some very specific areas you need to try and unblock problems. You need to try and unlock the problem of orphan works, you need to try and unlock the problem of format shifting, you need to try and address the question of digital piracy and copyright, you need to try and find a way of making some judgments about the importance of impartial news and independent news sitting alongside that provided by the BBC.

We did make some conscious decisions in the report around the public interventions in the content market. We very firmly said we believe there was a case for keeping Channel 4 in public ownership. We equally said however that we thought there was a role for Channel 4 to take what it was doing in 4iP, and essentially have an internal takeover of the Channel 4 corporation to expand that role for Channel 4 to being a driving force for innovation across multi-platform content, to do what it did in the independent TV production market more broadly in the online content world. I think we laid out very clearly why we are at a point whereby we should accept the pretty close to full commercial liberalisation of the previously highly regulated commercial broadcasters. We lay out very clearly a regime change for the regulation of radio, we lay out very clearly a road map of how you take radio’s licensing regime from an analogue world to a digital world, and we make a proposal which some people have commented on about the future of the BBC license fee.

What do we actually say about the BBC license fee as opposed to what has been reported? What we say about the BBC license fee is that license fee funding of the BBC, a dedicated, hypothecated tax which goes directly to fund an independently run, impartial BBC in our view remains critical. That we do not believe in annual settlements, we think they are bad for independence and clarity. That we believe giving and maintaining the BBC in a structure, a governance structure which protects their impartiality is critical. But we identify a gap called news, primarily news, local news and news in the nations and in the regions – not TV news but news. Which we believe alongside the BBC, we as a society should seek to guarantee, that is not to say that there are not other commercial providers, many of whom are here today of news – who are not making an outstanding contribution either to impartial analysis, or in some instances to partial analysis. Those things are fantastic contributions to the rich variety and tapestry of news and democratic debate, but they are not guaranteed to be there, and in a situation whereby the private owner, the shareholder, the investor decides to take their capital and say “I am not going to publish this newspaper or maintain this site or maintain this broadcast capability, I am going to go and do something else” (clicks his fingers) they disappear, and the point we make is that we would not wish to get to a situation in any part of the country where the monopoly guaranteed provider of impartial news, not partial news, but impartial news on any platform was the BBC and if you take that view you then have to find a funding mechanism for it. So we recommend that we should take a portion of the license fee and share it, we should take the portion of the license fee that is not used to currently fund BBC services so it is not, in any way, shape or form a reduction in the quality of the BBC's services, and we make very clear recommendations on how that portion of the license fee can be shared, and at the same time provide the corporation with the necessary protections to ensure it isn't one sharing decision today, swiftly followed by another sharing decision tomorrow. We also lay out in the report a recommendation on enshrining protections in the charter, which would require any subsequent change to be a subject of open parliamentary debate and support.

Now the reason why we have not merely decided to do that, but to say we wish to take people's views is not because we are not clear we need to find a funding mechanism, but because we recognise that making those sorts of decisions legitimately is a subject of public debate, not public referendum, but public debate. And so, we will conduct that debate in an open and transparent fashion and then we will conclude on that question by the end of the summer.

Finally and more importantly in a sense than any of those things, the report starts with one thing and then finishes with another. Its starts with a central question around digital participation and what does it say? Well it says, if you see the world as we see it, as a digital economy, a knowledge economy, a society where you have increasing levels of access, transparency, participation and control, then you have to find a way of bringing as many of the population with you as possible. Digital participation, digital engagement, digital skills, digital smarts, digital access, must be an essential driving part of the curriculum, of the skills programme, of incentives to employers, of home access programmes, of the remit of the public service broadcasters or the content companies who receive public funding or public support. All of those organisations should be focused on driving up levels of digital participation.

I played an audience participation game yesterday, which I recognise 2-3 familiar faces so if they don't put their hands up I will know they are lying, or at least changing their position which you're allowed to do if you're a politician but no-one else is - which was put your hands up in this room if you have an internet connection at home? Keep your hands up if you regularly use connectivity in your work - almost 100% mapping. Now interestingly, when you do that same analysis of the entire population, it showed a significant proportion of the population neither had an internet connection at home, nor had a job where they are also using connectivity as a central part of their life. So this community, in this room, is every single day advancing in its expertise and its smarts and its experience, and there is another portion of society that is doing neither of those things, domestically or professionally and that gap is growing every single day. That is both, in my view, from a position of social justice and also simple, hard economics because that is a portion of society which tends to be a very high users of public services, is economically an unattractive place to be because the bit we finish with in the report is what does all this mean for government? And we make some very hard recommendations about what it means for government. We talk about what it means for government procurement processes, what it means for government delivery processes, we identify criteria for driving public services to a primary position of online delivery. We set targets for government departments to move from multi-platform physical distribution, to primarily or exclusively online automated distribution and service delivery. We talk about what it means in the way in which government itself conducts business, and the way in which it uses its procurement power as a means of setting standards and driving quality in individual

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markets, such as education and health, where actually government in many ways is the biggest purchaser, and therefore can be a very significant influence in the way in which standards develop not just here but around the world.

So those 2 pillars, which start and finish the report of increasing digital participation and setting that as a goal and using the power of digital government as a way of driving that participation and increasing the level of benefit, are deliberately the 2 book ends of the report. Within which we say, a lot about infrastructure, a lot about content, and some things about a whole of range of other issues, some of them individually rather idiosyncratic and some of them slightly more broad ranging, such as issues like digital security and national and indeed international institutional structures that govern and run the internet.

So it covers a lot of ground. It is not by any manner of means the answer to every question, in fact in many instances there are many questions it does not actually ask. But there are limits, you have to set parameters and we were very clear from the very beginning that this would be a project that would take a year, and within a year we have sought to try and address as many of those questions as we can, and end up with a programme of delivery which is laid out in the final chapter - the so called “Delivering Digital Britain”. Where again, I do think we have 11 forward consultations, 80 decisions or recommendations, 11 of them come with consultations. Some people have suggested that that is some reflection of rampant indecision and inability of government to make final, determinative decisions. I would say to these people, they either don’t understand how you make decisions in government, because in many instances you are required, either by good process or by existing regulatory rules, to consult on certain questions, especially if you’re making changes to primary legislation, that is, it seems to me, good process and there is a difference between good process and indecision.

Looking internationally, because of course we can have this debate here, and it is important for this country that we have a digital economy. Digital Britain is, I think, a good way of describing what, in 10 years certainly for my children, I suspect will be one of the largest single sectors in the economy and where I suspect most of our children will be earning their living. It is important for there to be a Digital Birmingham, it is important for there to be a Digital Scotland, it is important for there to be a Digital Wales. It is important for areas and regions to have a sense of how they get competitive advantage and how they work together, how we use the distributed sense of connectivity to allow us to spread wealth and opportunity.

I am a Labour Minister in the House of Lords - to have a little political diversion, one of the reasons why I am both a profound believer in the power of technology, and a liberal progressive politician is because I think technology is fundamentally a progressive instrument. I think it opens up access, I think it provides opportunity, I think it breaks down barriers, I think it changes control, I think it takes down hierarchy, I think it allows people to make decisions about their lives that they are otherwise not allowed to do. All of those things are benefits that change the balance of power between those who make decisions, and those who often as much know more about the decisions that are being made. That level of participative engagement is ultimately the power of technology and effective working democracy. So it has enormous benefits. But even if we got it all right ourselves,s we have to recognise there are significant international issues, much of the framework for the rules is now decided by Europe and so engagement in the next stage of the European development will be very critical to many of the issues that we talk about in the report. And increasingly many of these issues are being dealt with internationally, not least the very, very challenging question of intellectual property protection in an online world, piracy, the registration of patents, and the whole issue of rights by territory and rights by region – which are not decisions however much we may wish to pull up drawbridges, that we can make in the UK regardless of what is done around the world. As we all know, because it is perfectly possible for us to set up rules, systems and regulations that prevents all of the things that we don't want to happen in the UK, and then their just off short, there is little or nothing we can do about that.

But as I said to somebody yesterday, one of the truths of this country, which we often forget and more often than not criticise, is around the world there are things that countries are regarded as outstanding at. Many people rightly believe the Germans build great cars, and by and large they do, many believe that the French make great food and by and large they do, many people believe that the British make outstanding laws and are very good at public administration and by and large we are. You would be forgiven for forgetting that in the environment of public debate we are currently in, but we are regarded around the world as being very strong on the rule of law and on the honest application of public ideas to public spaces. So when the British government take a position on an issue like intellectual property, that is paid attention to around the world and will inform the debate, it will not determine it, but it will inform the debate about how piracy is addressed, and what is a framework that recognises the reality of the free economy and the joy of open access but also the commercial and legal rights that rights owners have. It is by far and away in my view, the most complex and subtle area and I'm the first to admit that we have much to do to implement it. But I was very, very clear, based on the analysis that for the British government not to take a clear and determined view on that would not only be wrong in this country, it would have sent a signal to this debate around the world of where we saw the application of the rule of law and administration and structures to an environment that I think you have an intellectual economy, an IP based economy, that is not a place you can realistically be.

So that is a summary, slightly longer than a brief introduction for which I apologise, and I am very happy to take questions.