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The numbers on fibre to the home just don't add up



- [Charles Arthur](#)
- [guardian.co.uk](#), Thursday November 27 2008 00.01 GMT
- [The Guardian](#), Thursday November 27 2008

In 1990 I went to the headquarters of a cable company in London. You might imagine that it was a gleaming temple to the new age of superfast broadband (a word that in those days was barely used outside laboratories). Instead it was a poky set of rented rooms up the top of some crumbling stairs in a Soho building. Being a cable company in the 1990s was a

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shortcut to bankruptcy: it cost so much to dig up the roads to install the fibre-optic cable, and then to hire staff to persuade customers to sign up to the services (in those days, just TV and phone; there was no internet), that most companies simply keeled over from debt. Thus the cable business contracted from dozens of operators to a handful, and then to one - NTL - which still struggled with its debts, and was reversed into by Virgin Media.

The lesson: cable is very expensive to install. Which is why although I'm entirely convinced of the benefits of installing fibre to the home (usually abbreviated as FTTH), which can offer breathtaking speeds in the order of 100 megabits per second in both directions at once, I'm extremely doubtful that we're going to get it in the UK in a hurry.

Let's just discuss the benefits for a moment. Joeri Van Bogaert, president of the FTTH Council, a lobbying group funded by telecoms manufacturers (but explicitly not telecoms companies), notes that if you introduce high-speed links, suddenly all sorts of connections become possible: video from local services streamed directly, high-speed real-time backups (100Mbps is twice as fast as USB 2.0), real-time high-quality interactive multiplayer games and so on.

Here's the problem, though: how to pay for it. You may have noticed that there's a bit of a squeeze on credit and debt at the moment. Basically, if you're a company and want to make a big capital investment and up your labour costs, you'll have to pay for it out of your free cashflow - that stuff that your shareholders, who've been seeing all their other investments shrink, would like to have in dividends.

Van Bogaert says that studies in Holland have shown it costs between €750 (£636) and €1,100 to build fibre past a home. The low number is for those in urban areas; the higher one, for those in rural areas. That sounds promising, but you have to remember that that cost (involving digging, pulling fibre and connecting the fibre into the wall of the house) has to be done for every house in a street, regardless of whether those homes sign up to your spiffy new FTTH service or not.

And the statistics from the past cable boom aren't great: by the end of 1990 almost 15m homes were included in "franchised" areas - where one cable company had been guaranteed a monopoly. But only 828,000 had been passed

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by cable, and only 149,000 were actually subscribing. In other words, two in every 11 homes passed.

Now, FTTH will be an easier sell than cable was. But even if you get half of people to subscribe, then in effect they have to pay for the homes that get passed but don't sign up - between €1,500 and €2,200 over the life of the investment. And for most companies, that will have to be recouped over five years or so, because nowadays you can't get credit - or sell debt, in the form of commercial paper - as easily as you once could. That will push the prices of FTTH connections significantly higher than for ADSL, whose infrastructure is already there and paid for.

BT, which already has a big capital spend on its 21CN project to upgrade the core of its network, isn't going to rush to build fibre. And our government can't fund it. We may have to start fibre-laying parties. Got your spade ready?



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