

FTTH COUNCIL EUROPE - CEO INTERVIEW

Interview with Carl Russo, President and Chief Executive Officer of CALIX 28 August 2013

Calix solutions have been deployed in 80 countries globally, with 85% of U.S. local exchange carriers using its solutions. What are your views on fibre deployment in the USA? What are the drivers and challenges?

The USA's disaggregated communications service provider market is unique in the world. There are over 1000 incumbent service providers spread across the country. Also, hundreds of other service provider companies are in a position to compete for the broadband relationship with the subscriber.

As a result, the USA has seen the widest conceivable spectrum of fibre deployments – from large players to small, from mansions to cell towers and in hot and cold environments. We have over 800 fibre customers in the USA alone. Most of these are capable of delivering gigabit services today. Some are actually selling gigabit services to residential as well as business customers.

The biggest drivers of fibre deployment in the USA today are competitive advantage and strategic transformation, where service providers see fibre as the most cost effective technology to meet the service demands of the future. The main challenges revolve around the regulatory environment for service providers, which is still cloudy. The Federal Communications Commission is still in the midst of transitioning its decades-old Universal Services Fund (USF), focused on subsidising service provider voice services, to a new Connect America Fund (CAF) that plans to offer capital incentives for broadband deployment.

Calix has been involved in successful rural rollout projects in the U.S. What made these successful and what are the differences and similarities compared to European projects?

Calix has been involved in projects across a variety of service provider types, ranging from incumbent operators, competitive overbuilders and cable operators to electric cooperatives and municipalities. Virtually all these projects were, in part, successful thanks to the support of the community – from the local government and businesses to its citizens – in becoming a fibre-enabled community.

This directly addresses the largest fibre business case contributors: the combination of service take-up rate and time-to-market. Wherever European projects have been able to tap into this community support, they have been successful. However, some rural European fibre projects stalled because they lacked a locally dedicated service provider option for deployment. As a result, they depend upon a large incumbent operator to prioritise their effort, which generally does not happen. In other cases, regulatory requirements, such as difficult access to rights-of-way or expensive pole attachment fees or taxes, added complexity to the deployment model, challenging the fundamental of the business model.

Who are the fibre leaders in Europe? What could other European countries learn from their markets and attitude towards FTTH?

Europe's fibre leaders seem to have emerged from three different areas. The first group of service providers have emulated a common USA model of grassroots community support. They have rapidly leveraged resulting high take-up rates and facilitated rights-of-way into positive business returns. The second group, which has often sprung up in countries where rights-of-way issues can be more difficult, has focused on reaching out to multiple dwelling units (MDUs) and hospitality markets first. This has minimised their exposure to pervasive regulatory hurdles while focusing their marketing and attention on targeted markets. The third group has surfaced in Eastern Europe, which has more regulatory flexibility, and found success largely by focusing on high value business and residential customers willing to pay for the superior fibre experience.

The lesson for other European countries is clear – FTTH thrives in markets where regulatory hurdles are low and communities of interest can easily organise and make their interest known to local service providers. These two elements together form the foundation for a promising business model and facilitated deployment.

The USA National Broadband Plan should result in providing 100 Mbps to 100 million Americans by 2020. However, actual rollout figures are lagging. What should the government be doing with regard

to education, legislation and stimulating business? What do you think the role of European legislators should be in stimulating rollout? How can they support this with actions?

Reaching 100 million Americans with 100 Mbps requires wide deployment of fibre across suburban and urban areas, which have been primarily served by large service providers with limited fibre access aspirations. The USA Rural Utilities Service Broadband Loan program has been extremely successful in encouraging fibre access roll-outs by offering favourable loan rates that allow service providers to invest strategically with a long-term view of their investment. Another USA best practice has been complementing fibre access build-out investment commitments with matching funds.

Governments that take active roles in facilitating rights-of-way issues, such as granting easy access to utility poles and fast-tracking environmental approvals, will pave the way for fibre success. European regulators may learn from these same policies, which address the core economic challenges that discourage service provider investment today.

How do you see the future of fibre in Europe?

We're optimistic about worldwide fibre access deployment. The trends that are driving the need for fibre are clear and here to stay. Mass fibre deployment will happen across Europe. Advanced services competition will develop and either stimulate or crush laggards. Also, governments may realise that a country's broadband infrastructure is just as critical to its ability to compete on the global stage as its other strategic infrastructures like transportation or power. In fact, a country's broadband infrastructure may be the key enabler to improving its other strategic infrastructures through increased efficiency or displacement. The promise of fibre is too powerful to be ignored – it's just a matter of time.

What role does FTTH play in your future market strategies?

Our business is built upon aligning with service providers to help them transform their networks from copper to fibre, and in doing so transform their businesses to become the broadband service providers of choice to their subscribers. We believe that these transformations are core and essential to their success. Since Calix as a company focuses only on access, it's easy to see that FTTH is fundamental to our long-term market strategy.