

Vive la High-Speed Internet!

French policy has nurtured competition among providers, advancing the country to the cutting-edge of broadband technology

by [Jennifer L. Schenker](#)

What a difference a few years make. In 2001, France had one of the weakest markets for broadband Internet access in the developed world, with less than a quarter of the penetration of the U.S. Today, it has sailed past the U.S. to become one of the world's most wired nations, with more than one in five inhabitants enjoying high-speed Internet connections.

What's even more interesting is what the French are doing with their fast hook-ups. According to tech research firm [Analysys](#), a remarkable 52% of broadband connections in France today are used for voice-over-Internet protocol, or VoIP, phone calls—far and away the highest level in Europe and perhaps in the world. In Britain and Germany, by comparison, just 6% of broadband connections are used for VoIP.

The Battle of the Boxes

The French also have gotten off to a fast start in Internet TV. [Analysys](#) figures 2.6 million households in France now get TV over the Net using Internet protocol technology (IPTV). That's about 10 times the number using IPTV in Britain, qualifying France as the European leader in video-on-demand services.

How did the land of wine, cheese, and luxury goods become a world-beater in cutting-edge Net services? Part of the credit goes to what could be called the Battle of the Boxes. Paris and other cities are plastered with ads for state-of-the-art home Internet gateways—with names like Livebox, Freebox, Neufbox, and Dartybox—that offer connection speeds of up to 28 megabits per second, plus voice calls, TV, and Wi-Fi. They usually come for free with a monthly broadband subscription starting around €30 (\$41).

Competition is fierce among the boxes and the Net service providers who provide them. And the value consumers get for their money is far better than in Britain or the U.S., where monthly fees can be more than twice as high for slower connections and fewer services. "France has become a clear leader," says analyst Chris Lewis of telecom consultancy [Ovum](#) in London.

France Outstrips U.S. in Infrastructure

At stake is much more than bragging rights—or smoother video streams from YouTube (GOOG). Having a top-notch data infrastructure is a critical factor in 21st century economic competitiveness, and by that measure France is on the rise. In recent years, the country has gone crazy for the Net, with skyrocketing use of everything from e-shopping to blogs. Though its labor costs are high, France enjoys some of the highest productivity in the world, in part due to heavy use of information technology.

By comparison, "the U.S. is living on borrowed time," says Peter Cowhey, a former official with the U.S. Federal Communication Commission and now professor of telecom policy at the University of California, San Diego. The next generation of information services will require very fast and cheap connections, he says, and while the U.S. is still ahead in software and Web innovation, it is falling behind in network infrastructure. That gives a potential leg up to the European and Asian countries that have rolled out better broadband services.

How did France—not always seen as a paragon of the free market—turn into such a hotbed of broadband competition? The surge can be traced government actions at the start of the decade that have proved far more effective at stimulating broadband competition than the policies of the FCC.

"Unbundling" for True Competition

In 2000, France's national telecom regulator forced former state-owned monopoly France Telecom (FTE) to open up its network to rival operators, a process known as "local loop unbundling." That encouraged telecom upstarts and carriers from other countries, including Telecom Italia (TI) and Deutsche Telekom (DT), to rent access to France Telecom's wires and start offering competing broadband services. And that, in turn, spurred France Telecom to improve its own prices and services, becoming the first major telecom company in Europe to roll out residential VoIP service in June, 2004.

The competition also owes to a handful of scrappy entrepreneurs, especially startup telecom Iliad (ILD.PA), which offers broadband services under the name Free. The company first launched DSL service in October, 2002, and now counts 2.5 million subscribers, all of whom use VoIP and get 90 channels of IPTV through the company's Freebox service. From the very beginning, Free has stuck to the same monthly price, €29.99, but has continually added more services.

That helped set a benchmark that rivals, especially France Telecom, had to meet. "We didn't have a legacy business, so were free to make bold choices and create a new paradigm," says Iliad Chief Financial Officer Olivier Rosenfeld. The company booked revenues last year of \$1.3 billion, up 31%, and profits of \$170.7 million, up 80%.

U.S. Bungles "Unbundling"

Of course, the U.S. also implemented local loop unbundling, but it didn't work as well. Powerful incumbent telecoms such as SBC Communications (T) fought the measures and

did everything they could to stall. They also persuaded state telecom regulators to set wholesale rates for "unbundled" DSL lines that were so high that rivals couldn't survive on the resulting meager profit margins. Eventually that led to the demise of alternative providers such as Northpoint Communications and Rhythms NetConnections.

The FCC also was at war over the best way to spur competition. Many policymakers favored an approach known as "facilities-based competition," which pitted telecoms against cable companies, in the belief that encouraging construction of multiple networks was better in the long run for competition than encouraging rival services running over a single infrastructure. But as DSL startups have died off, many U.S. communities are left with a cable-telecom duopoly, with limited innovation and price competition.

Former FCC chairman Reed Hundt recalls that when he began implementing local loop unbundling after the 1996 Telecommunications Act, *The Wall Street Journal* called him a "French bureaucrat" in an editorial. "It's the worst thing they think anyone can be called," Hundt says with a laugh. "But the French must have assumed it was a compliment because they looked at what we were doing and copied it."

Strong Competition Leads to Innovation

Five years later, the FCC changed course in favor of facilities-based competition, but the French, who have a more limited cable infrastructure, stuck with unbundling. "Now it looks like French bureaucrats are the most pro-innovation regulators in the world," Hundt quips.

The ironic windfall is that France's DSL rivals are now strong enough that they can start weaning themselves off of France Telecom's network and build their own—the regulatory nirvana of facilities-based competition. Iliad, for instance, announced last year that it would start rolling out its own fiber links to subscriber homes in France. So did Neuf Cegetal (NEUF.PA), another broadband entrant. Now France Telecom is following suit.

The argument in the U.S. was always that if newcomers could piggyback on the networks of the incumbents, why would they ever bother to build their own? Iliad's Rosenfeld explains why the logic breaks down: "We have such a high density of subscribers in certain areas of the country that it makes sense to own the network and not to rely on local loop unbundling," he says. "Tomorrow we want to be totally independent." French consumers are the beneficiaries.

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