

Telecommunication Industries

Aligning ISIC Rev. 4 on
NAICS 2002. Is that a good
idea?

The issue

- ◆ The proposal for ISIC rev. 4 closely follows the NAICS 2002 model
- ◆ There are concerns in North America that the NAICS 2002 model will become obsolete in the medium term
- ◆ Should ISIC Rev. 4 be modeled on a classification that is likely to change?

A look at the Canadian situation to help answer the question

- ◆ Why is the classification of telecom industries likely to change?
- ◆ What changes have we seen in Canada and what do we expect?
- ◆ What do these changes mean for industry classification?
- ◆ What options are we looking at for NAICS 2007?
- ◆ What is the most logical option for ISIC?

Why is the model likely to change?

- ◆ Changes in regulatory frameworks and increased competition are leading to
 - Investment in new technologies and convergence of technologies
 - Changing output mix
 - Changing nature of organizations (consolidations)

Convergence of Technologies

- ◆ Gradual replacement of networks designed to deliver specific services by networks that can deliver voice, Internet and video services (IP world)
- ◆ The specificity of networks at the core of the current NAICS structure for telecommunications industries may no longer exist in a few years

Effects of technological changes in Canada

- ◆ Cable industry is a major supplier of high speed Internet access. 6 of 10 residential high speed Internet connections are cable
- ◆ One cable supplier has gained significant market share in telephony and others will soon enter the market
- ◆ DTH poised to offer Internet access
- ◆ Video by DSL launched a year ago by 2 carriers and application for licenses on the table

Changing nature of organizations

- ◆ Some carriers are integrating their ISP business unit with their telecom business unit
- ◆ Some carriers have begun to integrate their wireless unit with their wireline unit
- ◆ Takeovers and mergers are leading to a decreasing number of integrated units

Early signs of changing output mix

- ◆ For more than 35 years, cable was a single commodity industry (video) . At the end of 2003 Internet access accounted for 21% of their business
- ◆ Two major telecom carriers are marketing video services
- ◆ Some long distance service resellers are now providing VoIP as a substitute to local service and resell high speed Internet

What does this all mean for industry classification?

- ◆ Technology, output mix and nature of units determine industry definition
- ◆ If they change, industry definitions should change. But how and when?

What do we expect in Canada?

- ◆ In the next 10 years or so, we expect
 - A significant blurring of the distinction between the current cable and telecom industries
 - The disappearance of the ISP industry
 - The disappearance or re-engineering of the telecom reselling industry

Options for NAICS 2007

Current discussions in Canada

Option 1

- ◆ Telecom services industries
 - Wired Telecommunications Carriers
 - ISPs **
 - Cable and Other Program Distribution
 - Wireless Telecommunications Carriers (except Satellite)
 - Other Telecommunications **

** = major changes to NAICS 2002

Option 2

- ◆ Telecom services industries
 - Fixed telecommunications and multi-channel video service providers
 - Mobile telecommunications services providers
 - Other telecommunications service providers

Option 3

- ◆ Telecommunications services industries

What is the most logical option for ISIC?

- ◆ Option 3 for the following reasons:
 - ISIC must be applicable in countries where telecom industries are changing in different ways at a different pace
 - ISIC has to bridge these differences
 - ISIC must be applicable for a longer period of time

Disclaimer

- ◆ The opinions expressed in this presentation are those of the presenter
- ◆ The presenter knows that it will be easy to find many who disagree, in Canada and elsewhere
- ◆ The presenter understands that this is what classification is about!