

## SUBMARINE NETWORKS BECOMING A COMMODITY PRODUCT?

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**Abstract:** The submarine cable industry went through various evolutionary stages in the last fifteen years from a solid “club” industry to a competitive private industry. Afterwards the industry moved to a kind of a Hybrid industry whereby cable owners were served also as carriers with vast interest in the systems as carriers. In the last years the “open consortium” model is the leading model, it is no longer the “exclusive club” and there is a secondary market for the ownership including the upgrade rights. A parallel evolution occurred in the vendor side which saw the number of main vendors shrinking to three. The outcome of both evolutions is that today there is no big differentiation between new systems and submarine cables network on the main routes are becoming commodity product.

### 1. THE CLUB ERA

Until the mid 90's, submarine cables were a unique product, built by the end users for their own usage. This was primarily due to the regulatory environment of monopolies, state owned companies and lack of privatization. The industry was a closed one with limited number of customers and vendors. Basically all cables were built and operated on cost plus basis and on solid demand needs. Systems did not compete with each other and investor bore zero risk with regard to the return over the investment. The know-how was spread between few people who dealt with these projects years over years. Even the suppliers' world in those years had correlation with the geography and it was highly unlikely that a US vendor will build a Mediterranean system. The outcome of the described model was an exclusive “club” with access only to limited number of players and therefore the product itself (although it was not a profit center) was unique and rare.

### 2. THE PRIVATE ERA

In For a period of five years between years 1996 and 2001 a total revolution occurred in the submarine cable industry. The change in the regulatory environment of privatization and deregulation together with the rise of the internet and exponential demand for broadband were a perfect ground for changes in the industry. A massive wave of private cables was appeared with a clear objective to return the investment out of capacity sales over the systems. The period was emphasized by glut of capacity, direct and tough competition. As a result of the above systems were highly accessible, products were very flexible and there was a need to differentiate between systems by branding the networks and products as offering portability, global coverage etc. Although the competition caused price decline, it was clear what is the nature of each system, who is standing behind it and what are the future developments.

### 3. THE HYBRID ERA

After the internet bubble burst at the beginning of the decade and the fact that

almost all private networks went bankrupt, a new model of ownership came out as a consequence to the industry state. Bankrupt networks were bought by carriers who had interest in the footprint of the network and got it at very cheap price. These new owners continued to sell capacity in the market besides the self own usage. These systems have clear identity which was very important to the customer after the acknowledgment that right of use on bankrupt system may disappear and the investment lost.

#### 4. THE NEW OPEN CONSORTIUM

The majority of new systems build on the main routes in the last five years are back to the consortium model. But the model these days is quite different from the old "Club" model. The Construction and Maintenance Agreements (C&MA) are as open access as possible, based on the regulation on the landing points, there is participation as a shareholder of non landing parties, no restriction for reselling the capacity, simple upgrade approval concept etc. We can also see consortiums competing with each other in the same regions. The main concern of the investors is not to protect their markets but to get a lower unit cost as possible. A secondary market was also developing in these systems whereby investors are ready to sell part of their investment with a minimal margin including all rights as upgrade rights.

#### 5. THE VENDORS

The vendor environment was strongly hurt during the industry crisis in the beginning of the last decade. The number of manufacturers for the wet portions (cables, repeaters) decreased and all vendors are competing on every opportunity in the market. Prices are well known and there are no big secrets in the supply market for new systems.

#### 6. PROFIT CENTER OR NOT

Based on the description above, it looks like that submarine cables networks are not a profit center any longer from the following reasons:

- Unit cost including future unit cost is well known
- Competitors are cooperating in the same consortium
- No restrictions for reselling capacities
- Existence of resell at cost plus minimum margin
- No exclusivity on the landing points, routes, in principal, are practically the same

So why to invest if no margin exists? the answer is that the investors have other interests allowing them to create value from the systems. Either a real need from the retail market or selling other services as continuous capacity, content delivery etc.

#### 7. COMMODITY OR NOT

Yes!, trying to avoid the negative connotation of commodity product, and although submarine cables are a highly technological and sophisticated product we can identify the systems on the main routes as commodity due to the following reasons:

- Routing is the same
- No technological differentiations
- Same cost of unit
- Ability to buy the product at any time with all rights

#### 8. TO INVEST OR NOT

The business model for investing in consortium cables should not take into account return on investment from capacity wholesale sales. Unless there is a clear and strong interest how the capacity can

generate profit from other services as content, continuous capacity, IP sales etc, it would be better to leave the ownership to the large players as the premium price for buying the capacity afterwards is becoming minimal.