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PTC '08: International backbone traffic growth 'nigh unstoppable'

But there may be clouds on the horizon, says TeleGeography

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It's been the best of times, it's been the worst of times, even in the voice business. In spite of a recent industry downturn, international backbone traffic has maintained an almost unstoppable growth, around 300 percent in aggregate over the last 10 years, say specialists at TeleGeography at PTC '08. This is 'good news' for carriers, says Tim Stronge, VP of Research at the consultancy. But in looking at the figures around the world, he suggests that the road ahead might be a little more bumpy. "We have seen a disturbing trend, recently," he warns.

This "disturbing trend" comes after years of traffic growth of at least 15 percent on a CAGR basis. Stronge says last year, however, there was a "fairly significant dip down to about 10 percent". One factor was a major slowdown in traditional TDM traffic, perhaps to only 6 percent growth, a figure not seen since World War II. However, VoIP has now reached that seen for TDM—traditionally a much larger business segment—because of the much higher VoIP growth rates.

VoIP is not just settlement rate bypass, says Stronge emphatically. "[It] is becoming a mainstream technology...the USA is No. 2 VoIP recipient in the world after Mexico, even though settlement rates are very low [for TDM traffic]; China is No. 4, UK is No. 3."

TeleGeography says VoIP will be particularly effective in developing markets where it is seen as a much cheaper alternative to the TDM network to build up.

He returns to the central question: "Why is traffic finally slowing?" There are number of factors driving this he says. Drivers have been international trade and economic health between countries. Another has been international migration, where migrants call home frequently. But both of these factors continue and haven't abated, says Stronge. The probable key is ongoing price reductions and their impacts. Price reductions are "no longer having the large effect that they did" says Stronge. He argues that subscribers have a different point of view from scenarios where call charges fall from US\$10 to \$1 say for the same call to where they fall from \$1 to 10 cents and are now longer so stimulated to make equivalent call activity. He also suggests that growth in mobile originated international traffic is also tailing off.

However, voice is only one part of an increasingly large picture and one that is dominated by Internet traffic almost completely. Voice, according to TeleGeography, accounts for less than 1 percent of traffic on international backbone networks. Private networks account for around 14 percent, and the Internet (principally web usage and peer to peer activity) the remaining 75 percent. In aggregate, Internet demand is consuming



available capacity on key transoceanic cable systems pushing cable operators into wanting new cable projects and upgrading existing systems. On both key Atlantic and Pacific routes capacity is being consumed, says TeleGeography. Internet growth on these backbones may well be in the 60-70 percent per annum range, far above the 40 percent per annum increase in corresponding supply.

On that basis alone, the industry should have reason to be optimistic. But there are imponderables, not least that demand can hold up in the next five years. On the supply side, there just may be too many cable systems coming to meet it—and upgradeability has suddenly entered the picture as a potential joker in the pack because no one seems to be able to put a definitive ceiling on what present systems could be pumped to.

Put together, analysts say that some uncertainty remains. “Considerable potential capacity remains on most submarine cable systems and will lead to an active upgrade market, but the risk of oversupply remains,” says TeleGeography. “Smaller regional systems will continue to fill in the market gaps but the risk of overbuild in these markets is real as well.”

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