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OECD global conference on telecommunications policy for the digital economy

Competition and an incumbent operator

John Butler

January 2002

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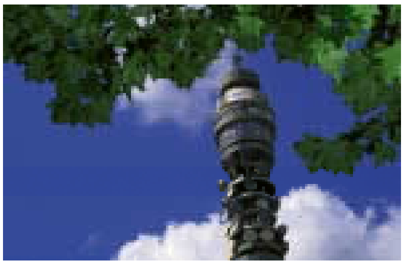
British Telecommunications' experience of telecommunications liberalisation as an incumbent operator



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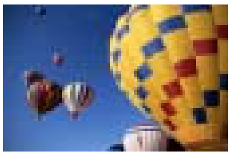
Agenda

- BT and the UK telecommunications market - basic facts
- Practical tasks for an incumbent facing competition
- Effects of competition on BT



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BT and the UK telecommunications market - basic facts

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The UK - some facts and figures

Area	244 820 km^2
Coastline	12 500 km
Population	60 million
Life expectancy	78 years
GDP	\$1.36 x 10^9
GDP/head (2000)	\$22 800
GDP on telecommunications	2.5%

Source US CIA

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History of UK fixed telecommunications

1969 Post Office ceased to be government department

1981 BT separated from Post Office

1983 Mercury Communications starts network competition

1984 Government sells shares in BT

1984 Government Office of Telecommunications formed

1991 Duopoly ended - full competition

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Size of the UK telecommunications market

Turnover (£bn)	98/99	99/00	00/01
Fixed Telephony	12.4	12.6	13.2
Cellular Telephony	4.5	5.8	6.9
Leased Lines	1.9	1.8	2.0
Interconnection	3.5	4.8	6.1
Other (e.g. cable TV, Internet)	8.2	11.8	13.2
Total	30.5	36.8	41.4

Source Oftel

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Telecommunications in the UK

- Annual turnover of over £40 billion
- 12% growth on previous year
- Value added by industry is 2% of GDP
- over 180 public telecommunications operator licences
- over 300 service providers

Source Oftel

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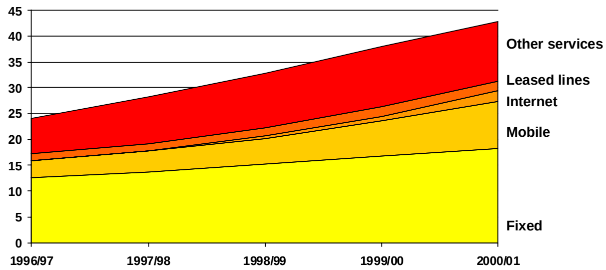
UK telecommunications industry turnover > £40bn -12%annual growth



Source Oftel

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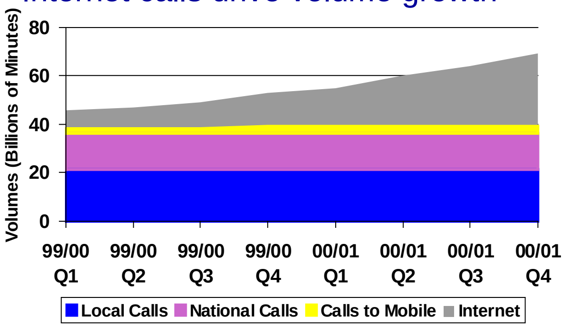
Internet calls drive volume growth



Source Oftel

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Introducing BT

Revenues	£17 b	27 b
Operating profit	£2.8 b	4.4 b
Profit	£1.7 b	2.7 b
Employees	115 000	
UK exchange lines	28.2 m	
(83% market share)		

BT retail

ignite BT

BT Wholesale

BTopenworld

Proforma basis: Source Circular to Shareholders and listing particulars October 2001 £1= approx. 1.6

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Some of BT's competitors today

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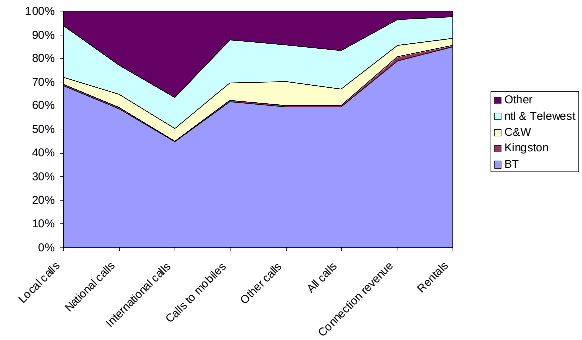
Selected market shares - 2001



First calendar quarter 2001 - source Oftel

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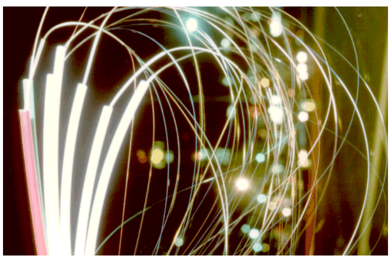
Practical tasks for an incumbent facing competition

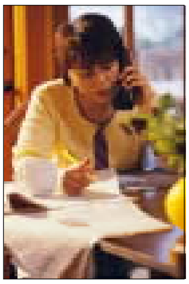


Work with the regulator

Office of Telecommunications - established in 1984

- independent regulator
- non-ministerial government department
- funded by levies on the industry
- 190 staff
- responsible for monitoring and modification of licences
- responsible for competition law and licence enforcement
- publishes information
- investigates complaints from the public and industry

Some types of competitor in the UK



Own local access

Service provider using BT's unbundled local loops

Indirect access - using BT's local access and switch

- call by call
- pre-selected - local, long distance, international

Service provider using BT's network - calls and access

Provide services to sustain competition

Interconnection,

Unbundled local loops

Equal access - Carrier pre-selection and call by call selection

Wholesale services for service providers

Private circuits for competitors

Number portability

- geographic
- non-geographic
- mobile

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Competing in the market

Improve marketing and sales

- Sales and service teams for major customers
- Better and more appropriate response for small and medium enterprises
- Better communication with residential customers

Better quality and more innovative products

- differentiated by market and customer segment

Lower prices

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Example of more innovative product

BT Together with national calls

- Aimed at residential customers with family members out during the day
- Unlimited free calls of up to one hour duration to any fixed line in the UK in the evenings and at weekends
- Rental of £18.50 per month(including tax), about 25 (ex tax)

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Some special obligations on BT

Price controls

- Retail - currently RPI-4.5%
- Wholesale- currently RPI - 8%
- Published non-discriminatory, geographically averaged, prices, both wholesale and retail

Universal telephone service

- — anywhere in the UK
- — subsidised service to socially disadvantaged
- — public call offices (phone boxes)

Flat rate Internet access call origination

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Effects of competition on BT

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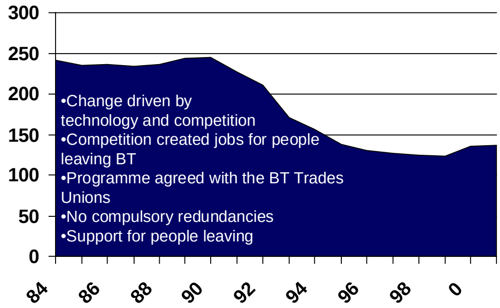
Number of BT employees



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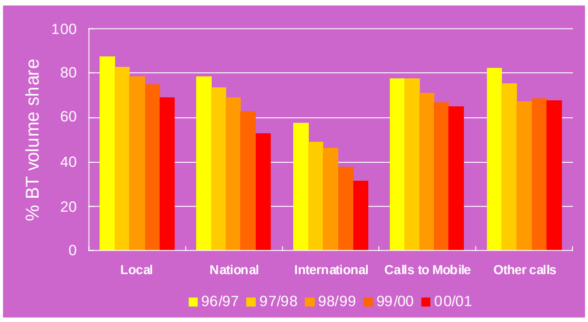
BT's market share has declined



Source Oftel

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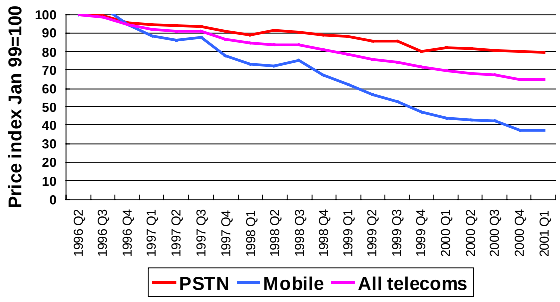
Prices have declined



Source Oftel

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