



Welcome

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BT Global Services

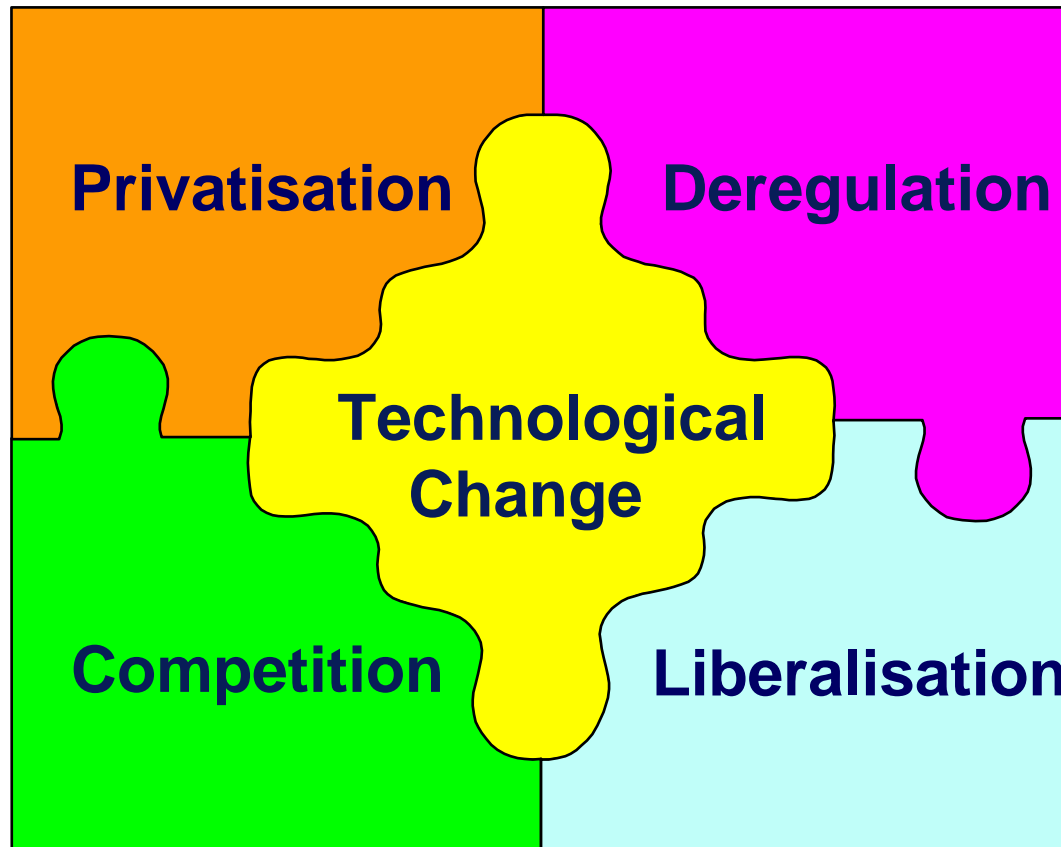


Telecommunications liberalisation

- Introduction
- BT from monopoly to competition
 - How BT's business has adapted
- The Challenges
- Benefits of competition
- Delivering the Benefits of Competition
- Questions



The inter-locking pieces



BT from monopoly to competition: How BT's Business has Adapted



Historical context

- 1912 General Post Office becomes monopoly supplier of telecommunications (except Hull)
- 1969 PO becomes Public Corporation
- 1981 Creation of British Telecom
- 1982/3 Mercury & 2 Cellular Licences
- 1984 Oftel created
- 1984 50% of BT shares sold to public
- 1991 Government ends national duopoly
- 1991 & 1993 Remaining BT shares sold
- 1996 End of international duopoly
- 1998 EU/WTO Competition measures
- 2001 De-merger of O2
- 2003 Ofcom created/new package of EU Directives
- 2006 Review of the EU Framework for Electronic Communications and creation of Openreach

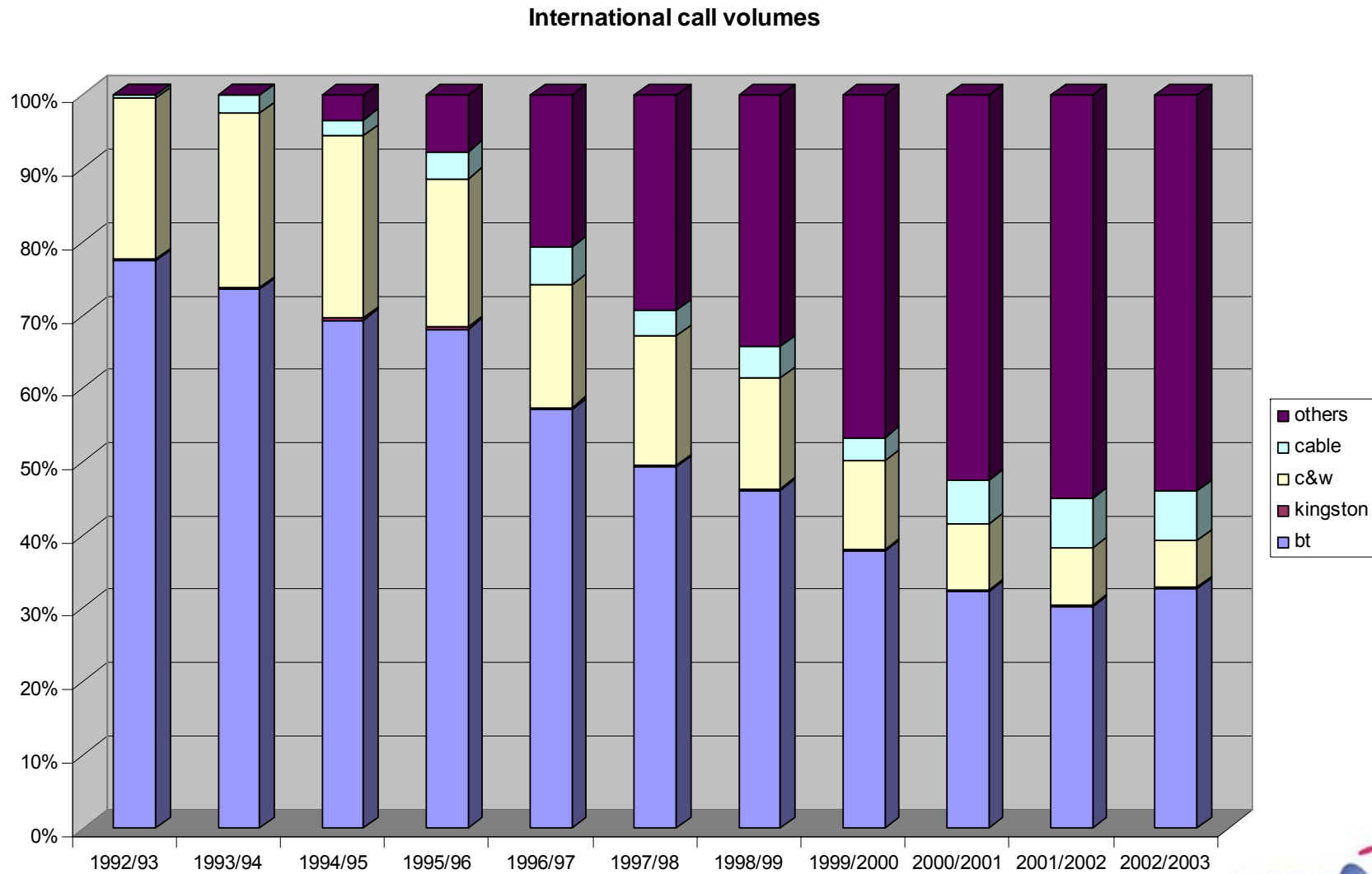


UK privatisation - it began cautiously

- Enable a strong competitor to develop
- Enable BT to rebalance tariffs and stay profitable
- Enable UK market to adjust
- Prevent chaos to existing networks
- Stimulate the telecommunications market
- Attempt to broaden share ownership
- In 2003 decision to embrace new wave



UK calls - market share by volume



Source: OfTel



How BT's business has adapted

- 2003 – two big bets – meeting the needs of global organisations and broadband expansion
- Go where our customers are – 19 acquisitions in last 2 years and a presence in more than 170 countries
- UK – 21st Century Network (21CN)
- Openreach – LLU – functional separation
- Mobility – Wifi – Fusion – Vision
- UK Government
- Global customers – 20% of workforce outside UK
- Global Sourcing
- To meet customer needs barriers of entry need to be removed and equality of treatment necessary



Global Customer Requirements

- Quality services to enhance customer services
- Competitive – rigorous competitive process – granular pricing
- TCO evaluation – entire end to end cost labour and bandwidth
- Security – outsource function not responsibility SOX, FSA,
- Understand the supply chain
- Central billing
- One throat to choke – local agents v global
- Win/Win/Win for the customer, BT and local access providers: the more that is sold the more that is bought!



The Challenges

- Typically access elements approximately 40% of cost base – High prices stem from lack of competition – acts as a competitive disadvantage
- Access margins low, excessive access prices make bids uneconomic
- Lack of fit for purpose access products prevent bids which meet customer needs
- Global ICT services are key enablers to business productivity
- Lack of effective access products prevents business from rationalising their processes at enterprise scale
- JV's structures
- But its not just about a reducing revenues and margins – total spend is increasing!



Financial Services Sector: Worldwide Total ICT Spending by Budget Component

Component	2004	2005	2006	2007	2008	2009
External Spending	339,671	360,046	378,012	396,799	416,742	435,117
Hardware	55,000	56,140	56,770	56,457	57,343	58,593
IT Services	137,334	147,285	155,165	164,772	174,663	185,107
Software	20,989	22,290	23,730	25,243	27,050	28,819
Telecommunications	126,349	134,331	142,347	150,327	157,687	162,599
Internal Services	92,334	91,167	90,903	91,241	91,798	92,671
Total (USD Millions)	432,005	451,213	468,915	488,040	508,540	527,789

Source: Gartner (August 2005)



The Benefits of Liberalisation



The world is changing...

- Everyone wants more for less – businesses and consumers
- Global market and 24x7 society creates new challenges and opportunities
- Technology pervades almost every interaction
- Customers want faster, higher quality, broader range of services
- Convergence – ICT
- Global competition is intensifying: new economic and political orders are evolving, e.g. India and China
- ICT investment, supported by process change and skills enhancement, is a key driver of productivity gains
- ICT critical to efficiency in energy, transport, health, security, retail and services sectors
- These challenges can't be met doing what has always been done!
Competition is needed to drive the efficiency and innovation required.



Benefits of Liberalisation

- “A monopolist will traditionally not be incentivized to introduce and offer new technologies or services as this increases operational cost and risk, which is typically not profit maximising for the monopolist” [*Telecoms Liberalisation*, ICC]
- FDI brings much needed funds for the capital intensive telecoms industry and access to capital is key to ensuring the deployment and expansion networks.
- Liberalization leads to the creation of new jobs – particularly with competitive carriers
- OECD working paper 2004 – 1% faster growth with liberalisation
 - Competition in India’s mobile sector result in a increase from 3 million to 80 million mobile phone users since 2001
- Competition drives efficiency both in the telecoms sector and the suppliers they buy from
- Positive impact on sustainability and USO - Countries that have made formal liberalization commitments tend to have higher levels of fixed line and mobile penetration, and also have higher telecoms sector revenues. [World Bank]
- Liberalisation, Competition and Effective Regulation are key to developing an outsourcing strategy



ICT and outsourcing

- ICT can:-
 - Promote/enable significant benefits in excess of base investment
 - Act as a catalyst for general business change to promote productivity
 - Process change, skills enhancement, improved supply chains, etc.
- But to maximise these benefits:-
 - Needs to be business service competition to deliver the best ICT services and supporting market driven changes
 - Regulatory framework must promote competition at both the business service level and residential level – not just residential



Summary of the benefits and challenges of telecoms liberalization

Benefits of telecoms liberalization

Lower prices, particularly on long distance/international calls.

New and innovative services with better reliability and greater capacity, enabling overall economic growth.

Foreign direct investment (FDI) in the telecoms sector, accompanying spending in the local economy and transfer of technology, skills and business methods.

FDI increases as a whole – improved facilities and infrastructure attract FDI and liberalization commitments send a positive signal to potential investors.

Increased user access and the opportunity to deploy more affordable universal access.

Concrete step to boost ICTs and allow citizens to join the global information society.

Challenges of telecoms liberalization

Higher prices of local calls, as tariff re-balancing occurs. (short term)

Potential initial loss of jobs at incumbent as it becomes more streamlined and competitive.

Incumbent can no longer act as a 'cash cow' for the national budget.

SOURCE:

ICC: Telecoms Liberalisation



Delivering the Benefits of Liberalisation



How regulation can deliver liberalisation benefits

- An effective regulatory regime has a positive impact on investment
 - Regulatory certainty plays key role in investment decisions
- Independent regulatory body is essential to promote competition and prevent abuse dominance and/or discriminatory practices
- Market entrants need access to incumbents networks to reach their customers
 - Regulation should focus on bottlenecks
- Fair and transparent licensing regimes and processes for allocation of scarce resources like spectrum are also critical to a decision to invest in a particular market



Key Aspects of an Effective Regulatory Regime

- Regulation targeted at those areas that are barriers to competition developing (ie economic bottlenecks)
- Simple and Transparent Licensing Regimes: overly complex and burdensome processes and terms stifles competition before it starts
- Independent and adequately resourced Regulator
- Enforced Non-Discriminatory Treatment by dominant operators i.e. Requirement to treat all customers including their own downstream (Retail) arm(s) equally
 - One way to achieve true non-discrimination is functional separation (identical systems, processes, prices, service levels)
- Effective enforcement against anti-competitive behaviours



Summary

- ICT is key to promoting productivity - business need access to competitive communications services to exploit the ICT
- Conditions must permit business to use ICT as a genuinely enabling technology
- Regulation can be an effective enabler of liberalisation and the benefits it brings
- It is possible for Incumbents and Competitive Carriers to thrive!



THANK YOU

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