



# The UK experience: competition spurs innovation

When British Telecom was privatised in 1984, a new regulator, OFTEL, was born. OFTEL's director-general, Don Cruickshank discusses the results of privatisation in the UK

**T**he privatisation of British Telecom (BT) in 1984 is now a rather distant memory. Privatisation was actually only the first step on the road to creating a dynamic, innovative telecommunications industry in the UK driven by the needs of its customers. A competitive telecoms market was our aim. How far have we travelled along the road, how far have we still to go, and what are the issues which face the UK telecoms industry now?

OFTEL's goal is to achieve the best possible deal for customers in terms of quality, choice and value for money. We consider that the way to achieve this is through effective competition in all sectors of the telecommunications market. Competition spurs innovation and drives down costs. Competitors want to differentiate - they provide choice of new services, new approaches, new uses of rapidly developing technology.

What sort of deal do UK customers get and how competitive is the UK telecommunications industry now?

Key facts are:

- advanced telecoms infrastructure across the UK;
- networks competing with BT's in the long distance and local markets, competition too - although restricted for the moment - in international;
- over 150 operators fully licensed to provide network services to customers and a host of other serv-

ice providers offering a diverse range of services;

- vigorous competition between four operators in the mobile market;
- price reductions across a basket of regulated BT services of around 42 per cent in real terms since privatisation;
- over 92 per cent of households on the telephone, compared to 78 per cent in 1984;
- increases in BT efficiency of around 3.5 per cent a year in real terms since privatisation.

The UK now has the most competitive telecoms market in the world. Competitors are building up their businesses and will become firmly established over the coming years but BT still dominates some sectors of the market and clearly, some benefits have been won wholly or partially through regulation, not competition.

We are now at a stage when the challenge for the industry and the regulator is to build on what has already been achieved - to encourage and develop further effective competition in all market sectors so that regulation can withdraw.

This challenge is evident in a number of key issues which OFTEL and the industry are presently facing. These need to be seen though in the context of the development of competition to date.

## Competition

The Telecommunications Act of 1984, which privatised BT and established OFTEL, also created a duopoly in the provision of fixed link networks throughout almost all the UK between BT and Mercury. Mercury competed with BT mainly through direct connection to businesses in city centres and indirect connection (via BT exchange lines) to residential customers.

There was also a duopoly in mobile telephony between Cellnet (part-owned by BT) and Vodafone.

In 1991, the Government published its White Paper on telecommunications policy for the 1990s. This set out the policy of opening UK fixed link telephony markets to further competition. Over 150 operators now have Public Telecommunications Operator Licences and there is now vigorous four-way competition in the mobile sector.

OFTEL has been working with the industry to create an environment in which new operators can compete effectively with BT.

The biggest issue has undoubtedly been interconnection - BT still has by far and away the biggest and most ubiquitous network in the UK and so, for other operators to compete, it is vital that they can interconnect with BT's network on fair and transparent terms.

This has been achieved through the development of a new interconnection framework which has established specified standard interconnection services which BT must provide and which we charged at stand-



ard rates set annually by OFTEL.

Accounting separation between BT's Network, Access and various Retail businesses, is now required under BT's licence. This enables competing operators to be confident that what they pay for interconnecting is properly based on underlying costs and that they are paying the same as BT's Retail operation for the use of the network. The Accounting Separation framework also provides OFTEL with stronger powers to investigate allegations of unfair cross-subsidy.

Another key issue we have had to crack has been number portability - enabling customers to retain the same number when they switch operators. This has been an issue which OFTEL referred to the Monopolies and Mergers Commission in 1995.

In the light of the Commission's findings OFTEL is now pursuing amendments to operators' licence to give effect to number portability with charging arrangements which OFTEL and the MMC consider appropriate.

Fair access to numbers is also a key issue in a competitive market. OFTEL in 1994 accordingly took over from BT the administration of the numbering scheme in the UK.

In local networks, BT faces competition from cable TV operators. Other operators are competing with BT and Mercury in the provision of high bandwidth advanced services to business users through their networks in London and other cities.

### The future

So, what are the issues facing us now?

Regulation is only needed where there is no effective competition. As competition develops further and becomes established in different segments of the market, detailed regulation must withdraw to enable competition to operate properly. OFTEL is conscious that, in the complex,

multi-operator market we have in the UK now and with rapid technological developments bringing constant change, our powers need to change to match the demands of the market. It is no longer possible to rely on detailed, specific licence conditions if we want to take effective, speedy action against anti-competitive practices.

Broader based powers are necessary. OFTEL is proposing significant modifications to BT's licence which will mean far less specific and detailed regulatory functions, and a far more general remit to police anti-competitive behaviour.

### International developments

Telecommunications is more and more a global business. Large telecoms companies across the world are looking to alliances and joint ventures to compete in a world market. This is increasingly so as privatisation and competition spreads internationally.

In Europe, the telecoms infrastructure of most European Union countries will be liberalised by 1998. Increasing competition in European and world markets is a major opportunity for UK operators already accustomed to operating competitively.

Since privatisation, the UK telecommunications industry has travelled a long way on the road to quality, choice and value for money delivered to customers by competition.

It now faces the challenge of ensuring that effective competition is fully established.

It must also look to the future and face up to global competition and the convergence of communications technologies.

OFTEL looks forward to working further with the industry and consumers in finding the right answers to the questions raised by these issues. □

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