

A close-up, profile view of an older man's face, looking towards the right. He is speaking into a silver gooseneck microphone. The lighting is soft, highlighting the texture of his skin and the details of his facial features.

Innovative Regulations for Competition in the BB
Market – fostering the environment for pan-
European services

EU telecoms regulation and the competitiveness of
European business: what changes are needed?

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7 June 2008

“The economic benefits from providing businesses with competitive electronic communications services”

- Study undertaken (Aug 06 – April 07) by BT Global Services together with consultants and academics:
 - Professor Martin Cave, Warwick University
 - Dr Jonathan Cave, Warwick University
 - Nick White, INTUG
 - Dr Anders Henten, Academic, Denmark
 - Dr Roger Steele, Ovum
 - Brian Williamson, Indepen
 - Dr Andrew Davies, Tanaka Business School, Imperial College
 - Bruno Basilico, Tanaka Business School, Imperial College

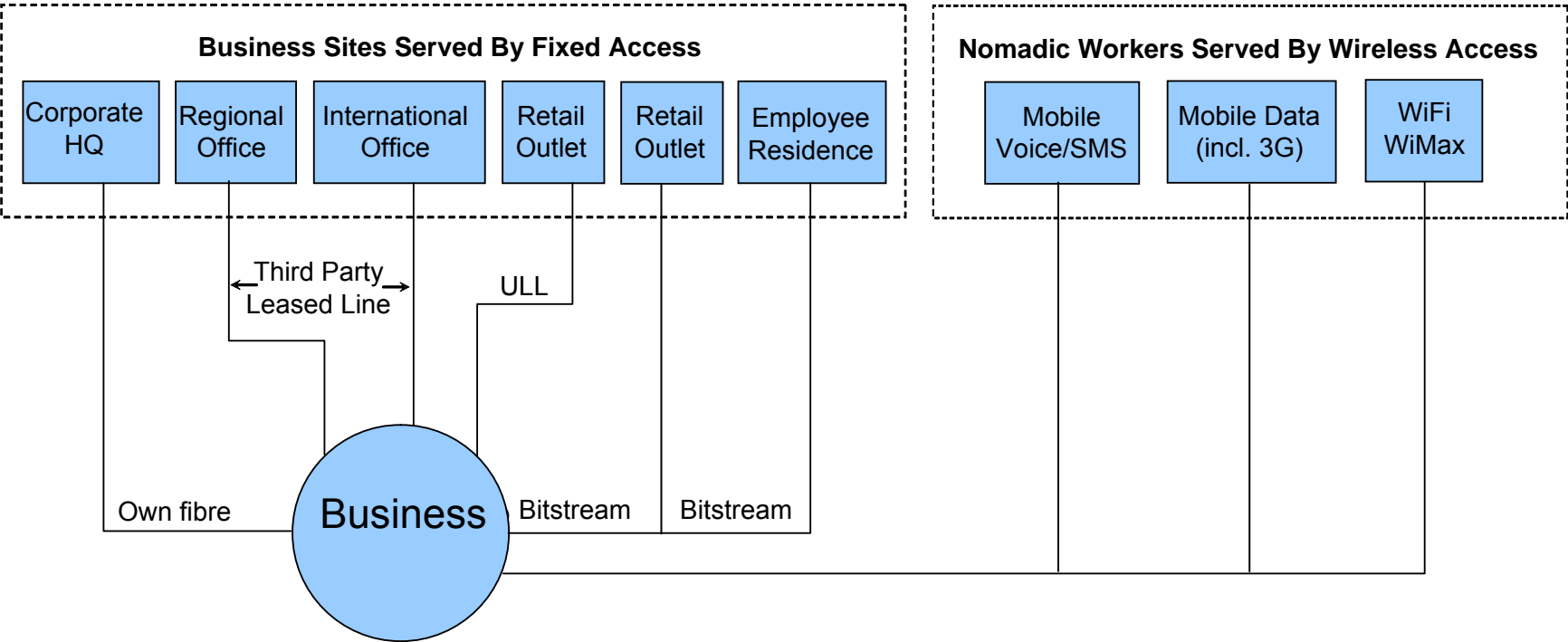
Main conclusions of the study

- Business telecoms markets are different to consumer markets
- Policy makers' lack of attention to needs of business customers has led to unharmonised regulation and poor supply of pan-European communications services
- Poor supply of pan-European services is blocking ability of enterprises to improve productivity and competitiveness.

Business telecoms markets are different to consumer markets

- Major business customers require
 - High levels of reliability and security provided by dedicated, private networks (public internet is not sufficient)
 - One-stop-shop for pan-European needs (lowers administration costs and ensures “seamless” service provision)
 - Simultaneous connection of widely-scattered sites
- Regulatory approaches designed to achieve competition in consumer markets – notably LLU – have little impact in the business sector
 - Even after aggregation of needs of all potential customers, economies of scale will rarely justify investment in local access.
- Operators specialising in the business segment must continue to rely on wholesale inputs from incumbent operators
 - Typically 40% of costs

Business telecoms markets are different to consumer markets



Unharmonised regulation and poor supply of pan-European communications services

■ Problems faced by suppliers of pan-European services include:

- » Prices for wholesale inputs often substantially above competitive levels, and above levels charged to incumbents' retail arms
- » Non-availability of some wholesale access products in certain Member States (despite their availability to incumbents' retail customers)
- » Delivery and repair times substantially above those provided to incumbents' retail arms



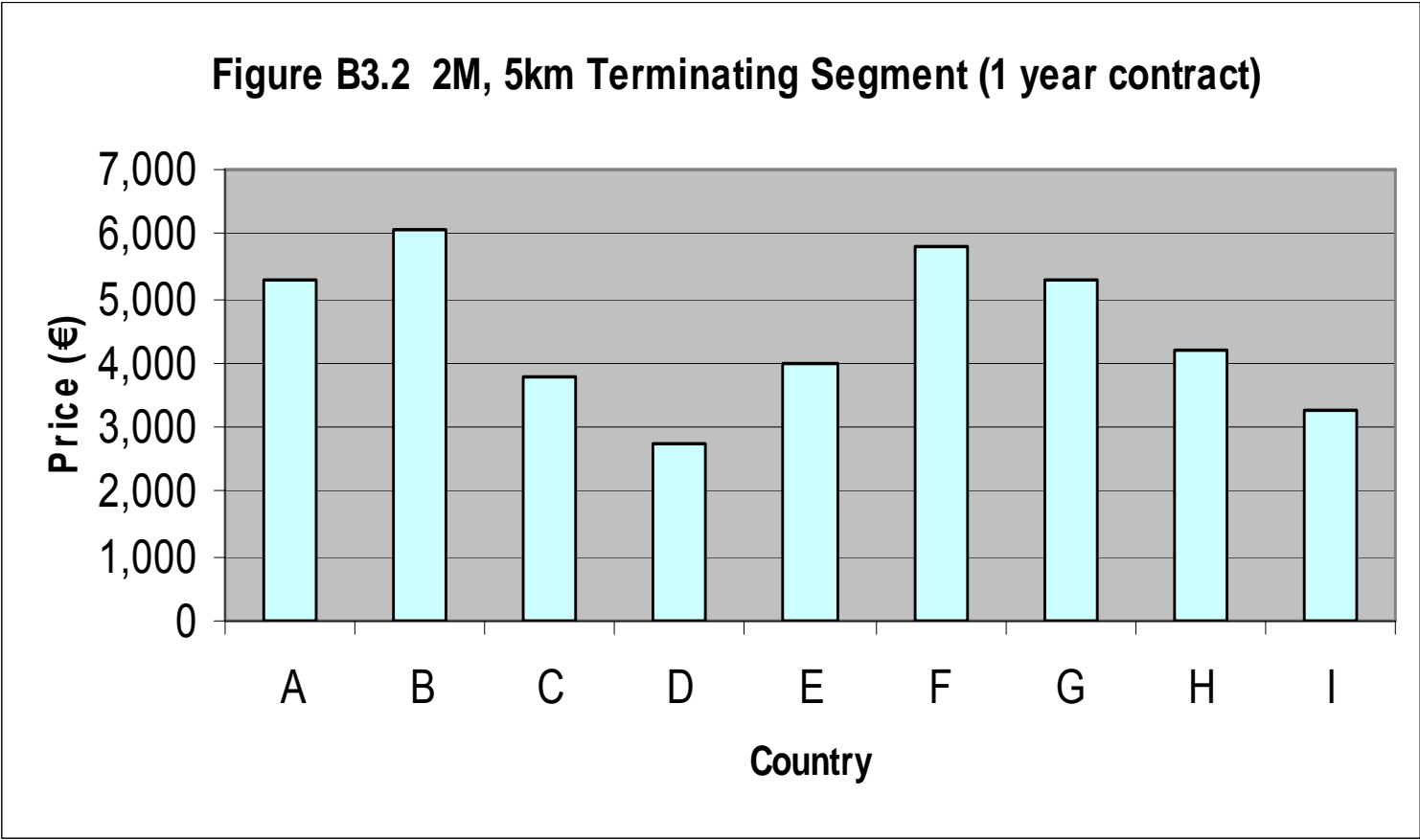
Poor supply of pan-European services is blocking ability of enterprises to improve productivity and competitiveness

- In comparison to competitors in other blocs, EU enterprises find it more difficult to restructure and re-engineer business processes on a continent-wide basis.
- Productivity impact of ICT investment has consequently been much lower in EU than in US.
 - Investment in computers is not alone sufficient. They must also be linked effectively together.
- Impact is particularly significant for knowledge-intensive services: design, finance, purchasing, IT, legal advice, logistics management, marketing etc
 - These account for high portion of the value of most manufactured products and, in theory, are easily tradeable across borders.
- Services account for 70% of EU employment and value-added but only 20% of intra-EU trade, so large part of potential Single Market benefits are being lost.

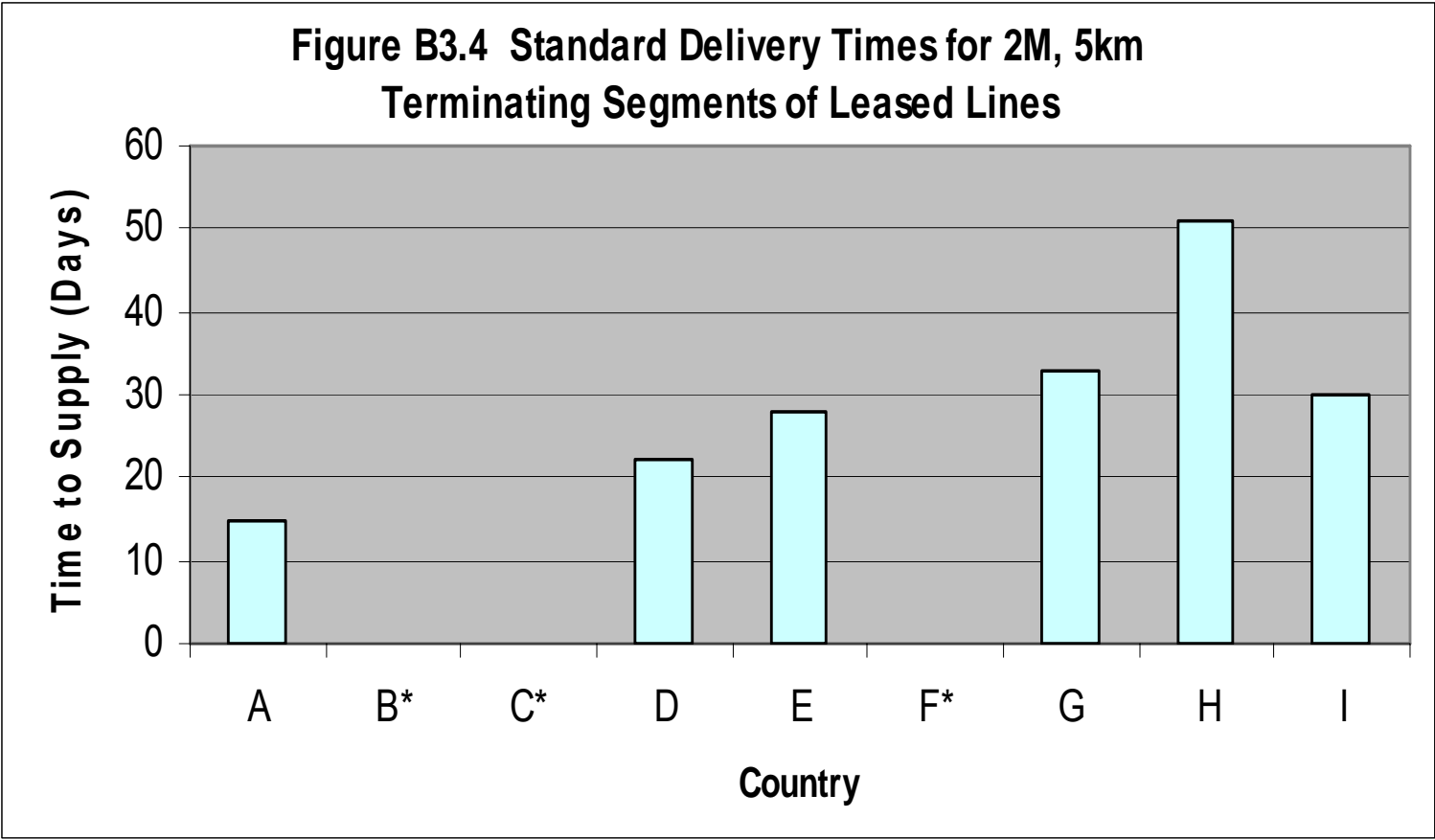
Follow-up study September 07 to February 08

- Undertaken by Indepen consultants
- Sponsored jointly by BT Global Services, International Telecoms Users' Group and European Virtual Network Users' Association.
- Includes:
 - More details illustrating fragmentation of European market and significance of price and non-price discrimination by dominant operators
 - Case studies illustrating productivity benefits of better pan-European telecoms
 - Quantification of benefits for EU economy if current problems are resolved.

EU market fragmentation and discrimination

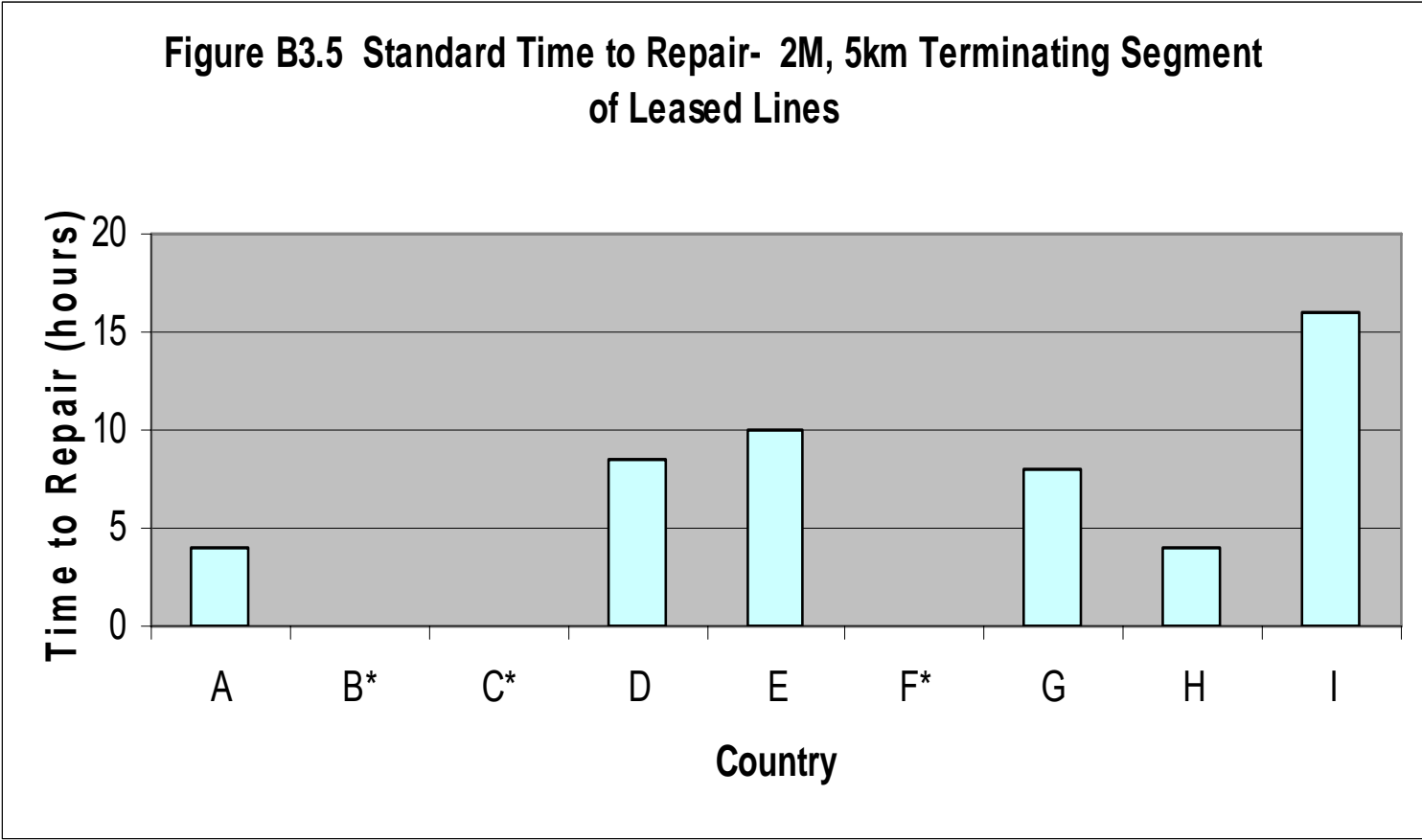


EU market fragmentation and discrimination



* Standard times not available in all cases

EU market fragmentation and discrimination



* Standard times not available in all cases

Quantification of benefits

- If providers of pan-European communications services (PECS) are allowed access to wholesale access products **under same conditions** as dominant local operators:
 - PEC prices would decrease significantly (>15%)
 - PEC providers would increase both functionality and speed of service provision
 - Choice of PECs available to enterprises will expand significantly (existing providers could bid for higher portion of contracts and new firms would enter the market)
 - Enterprises will be better able to restructure on an EU wide basis, boosting their productivity and intra-EU trade.
- Effective regulation consequently promises to boost EU GDP by 1.6% to 2%
 - Estimated improvement over no-change scenario in tenth year following market reform, and in each subsequent year.

What is to be done? What regulatory “innovation” is needed across all EU countries?

- Ensure genuine “equivalence of inputs” :
 - Pricing
 - Ordering systems
 - Delivery and repair times
 - This means access to wholesale access products **under same conditions** as the dominant local operators
- Achieve higher level of regulatory harmonisation, while still taking account of local circumstances.

European Commission proposals in these areas are therefore crucial

- Independence of NRAs from political interference
- Clarification of NRA powers and responsibilities
- Harmonisation mechanisms
- **Option for NRAs to require Functional Separation**



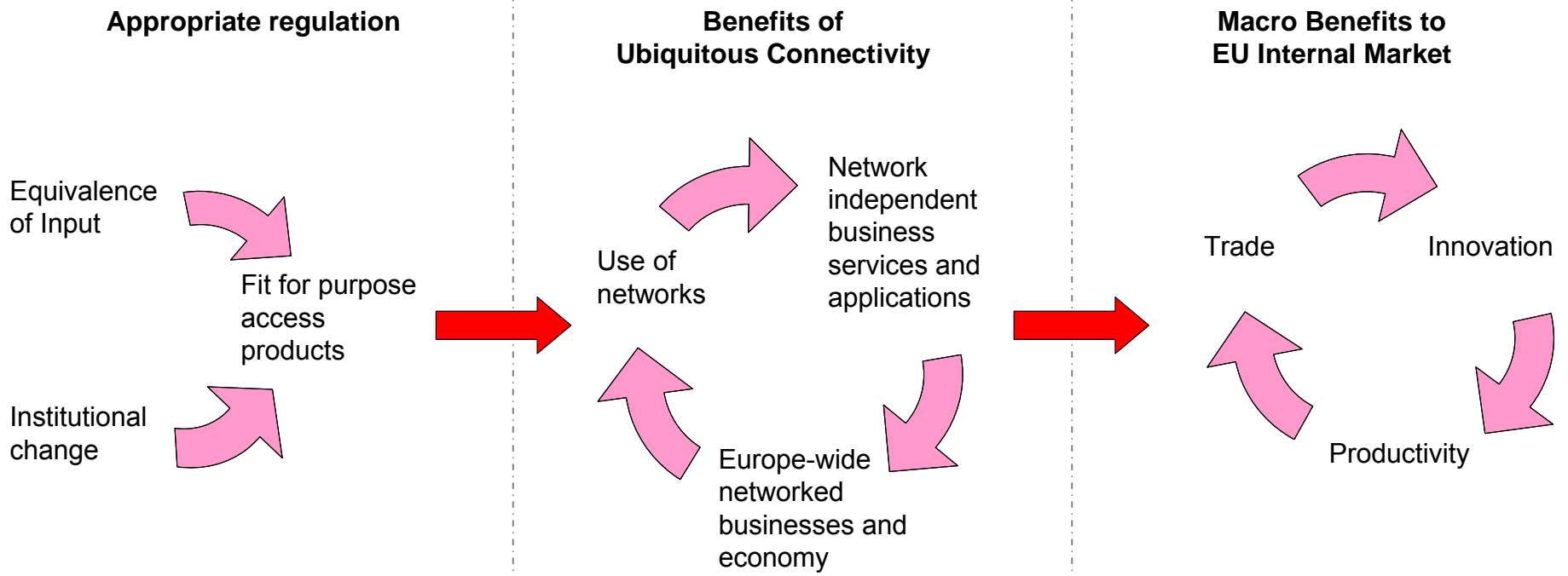
Arguments against inclusion of functional separation are unfounded

- *“Blocks benefits of vertical integration”*
 - Argument is often based on deliberate confusion of FS and structural separation
 - FS simply provides transparency to ensure effective application of other remedies already found in Access Directive. Many objections to FS are really an objection to compliance with existing EU rules.
- *“Deters investment in fibre access”*
 - Investment decisions depend on anticipated return on investment, which in turn depends partly on price regulation. But FS is designed primarily to deal with non-price discrimination. Pricing issue arises whether or not FS is implemented.
 - FS provides new entrants with greater certainty regarding their ability to achieve “critical mass” in the market. If anything, therefore, new entrant investment will be encouraged.

Arguments against inclusion of functional separation are unfounded

- *“Consolidates monopoly”*
 - Argument distorts rationale for FS which should only be applied where *enduring* bottlenecks are identified. At least some such bottlenecks will be found since sufficient capital will never be available to build alternative access networks in all parts of all Member States so. NRAs in question should not be denied tools they need to deal with this situation.
- *“Duct access obligation is better alternative”*
 - Will be simply impracticable in many areas
 - Does not alter access investors’ need for scale economies so little help for business sector operators
 - Even where duct access is only enduring bottleneck, need to guarantee equal access still arises so FS needs to be applied to this part of the dominant operators’ business
- *“Destroys shareholder value and eliminates jobs”*
 - BT’s experience has been the opposite

... in summary...



Thank you

Offices worldwide

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