

# **'Creating the right regulatory environment for next generation networks'**

speech by

**Paul Reynolds, BT Wholesale, chief executive officer**

at

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Good morning, ladies and gentlemen ...

My name is Paul Reynolds, and I'm the Chief Executive of BT Wholesale. On behalf of BT and my industry, I'm delighted to have the opportunity to participate in today's important discussion and to share with you my observations of the past and a potential vision for the future of a regulated industry in the UK.

I want to refer to the future because the rules of the telecommunications industry are changing radically and irreversibly today at the beginning of the 21<sup>st</sup> century and the regulatory environment needs to change to reflect this, too.

All of us in this room, whether you're from the gas, electricity, water or communications industries, share the same challenge ... of working with other business people who have little understanding of what it is like to deliver customer service, customer value, to remain profitable AND meet the needs of an industry regulator.

BT Wholesale is the part of BT that runs the UK's national communications infrastructure, and the majority of the services that infrastructure supports, to customers. We make services available to all communications providers across the UK, whether they're traditional fixed line operators, mobile phone companies, internet service providers or one of a range of other service providers. Much of BT's regulatory responsibility falls on my part of the business.

There are over 300 significant businesses, including BT, competing and offering a wide range of services to customers in the UK today – whether those customers are consumers in the home or businesses, large and small.

This level of competition is paying real dividends for end user customers, too. In fact, in the last decade alone, the cost of communications has fallen in real terms by up to 80 percent while the range of services has expanded very widely indeed.

Communications today allows people to do considerably more than at any other time in our history. If you think about it, for the first 80 years or so, and

only until about twenty years ago, my industry was characterised by a single service, the traditional telephone and voice calls.

Twenty years ago, mobile communications began. The internet only became a mass market proposition 10 years ago. Broadband started less than five years ago. And today, we're seeing the first major steps towards converged services – the convergence of fixed and mobile communications, of voice and data, of communications and IT – or ICT.

The beat rate of innovation and new service development in communications is remarkable and it is accelerating every year.

So point number one. Regulation has not prohibited the growth of competition, innovation or customer choice in my industry.

In fact, in many ways, the competitive market we have today, which is characterised by customer choice and the delivery of innovative new services, has come about, in part, because of a regulatory environment that has fostered, encouraged and nurtured it. But I also believe that BT has done its part to create a competitive and dynamic market

But now, 20 years on, my industry is having serious discussion about regulatory withdrawal – not departing completely from regulation - but withdrawing from those areas of operations and services that are no longer what we call economic bottlenecks.

These economic bottlenecks are elements of the infrastructure that would be uneconomic for a new entrant to replicate. In essence, we're talking about the access network – the network that connects customers' homes and business premises to the local telephone exchange. Sometimes, it's called the local loop. But we're talking about de-regulation elsewhere.

Easy to say, sometimes more difficult to do but the terms of reference are becoming increasingly clear. And in many ways, the fact that the discussion is now on the table is, I believe, the single most important indicator that the competitive market has reached maturity here in the UK.

Point number two. Markets do not need to remain regulated indefinitely if the market and competitive landscape no longer supports full regulation.

Ofcom, the new regulator, deserves some of the credit for having the tenacity to address the issue. But I think it's also a very clear sign that, despite 20 years of robust regulation, competition and innovation - and the investments that fuel them, have also grown.

And the need for investment isn't about to go away. I said earlier that my industry is changing. Converged services are creating new growth opportunities ... and new risks ... for my industry. BT's strategic response is 21CN, or our 21<sup>st</sup> century network programme. It's a massive investment

required to provide a state of the art network that will allow BT to deliver a considerably better customer experience to all our customers.

It will give them more choice and control over the way the customers choose, buy and use services. It will also allow us to deliver new services more quickly than ever before and will open up the industry to all kinds of new service or applications providers.

21CN will enable us to remove the complexity that decades of technology investments have created, radically simplifying our business and our industry.

We're also building new systems that will give easier control and access to the network to other, non-BT operators.

Clearly, if BT is to make the investments necessary to deliver 21CN, estimated at over £10 billion over the next five years alone, we need to ensure that any returns we achieve on that investment are not regulated away. I think the regulator recognises this. I know that Government and policy makers do.

So we've embarked on a discussion on tighter regulation on regulated parts of our business, and de-regulation elsewhere.

And it's a critical discussion because, as I said at the outset, the foundations of the communications industry are changing radically. The ability to digitise the industry, whether we're talking about voice, data or video and manipulate them on a single platform – an IP or Internet Protocol platform – is changing the rules

Clearly, any regulator considering even partial deregulation needs to be sure that the market offers real and enduring choice and competition. In an industry like telecommunications, which is incredibly investment intensive, it also requires significant infrastructure competition and transparency.

Point number three – partial de-regulation is possible if choice and sustainable competition has been created.

Over recent years, a number of new entrants have built their own infrastructures but generally, this has meant building core networks, the parallel of motorways up and down the country, if you like. If you'll allow me to carry on the analogy, the industry now needs to see greater sustainable competition on the local roads and in local streets across the UK.

This is why BT is committed to offering something called Local Loop Unbundling or LLU. LLU will allow those operators who choose, to invest in putting their own equipment in BT's telephone exchanges and delivering broadband services directly to their customers.

To ensure that LLU is an attractive strategic option for those who choose to invest, BT has reduced the cost of LLU services by up to 70 percent over the

last year and has created product choice and process improvements to help make it easier for LLU operators to invest with certainty.

Like BT, local loop unbundling operators need to be sure that returns can be made on their investments.

BT has re-worked and re-engineered many of its LLU products and processes to ensure that its offering for LLU operators is fit for purpose, and that those companies who choose to invest can do so with confidence.

But the current economics of LLU dictate that it will only ever be an attractive option for operators in densely populated areas, where operators that invest in LLU equipment and services can gain access to large numbers of potential subscribers. It is unlikely, with today's economics, that LLU will be attractive option for operators to consider outside densely populated, metropolitan areas.

Both from its heritage as an incumbent operator, and as a fundamental service provision principle, BT believes that advanced communications services should be available to all customers, whether they live in cities or in the countryside. We're striving to create a world where everybody has access to modern communications, where geography is not the determining factor to innovation or service.

So a balanced market for LLU, where customers have choice, is absolutely key. Too much investment made in cities and towns reduces the industry's ability to invest outside these areas. So balance is necessary.

We are now in the late stages of Ofcom's Strategic Review of Telecommunications.

BT has put a proposal to industry which we believe creates a regulatory settlement that will create the right foundations for our industry for the years to come.

And we're committed to something called equivalence of outcome, so that all competitive operators have equal access to bottlenecks.

We're also prepared to consider setting up a new structure called an Access Services Division which would be independent of other lines of business within BT and would have independent directors on its Board.

It would publish its performance for all operators to see. This level of transparency should give all operators the confidence that BT treats all its customers equally, that we deliver equivalence.

In return, we look for progressive de-regulation in non-bottleneck areas.

It's a radical solution to regulation but, as I've said, these are radical times, challenging but optimistic times, in the telecommunications industry.

My industry does not stand still. Innovation and investment provide the heartbeat for the future. Regulation plays an important part.

We deal with and see big technical and operational challenges every day. As we move towards 21CN, however, I believe the human challenge is even greater. That is why BT is taking a fully transparent, wholly inclusive approach to this new revolution.

We've consulted widely with operators, the Regulator, with vendors, customers and policy makers and we continue to do so.

To ensure these organisations, these stakeholders, have a voice and a forum to understand our plans in detail...and to contribute to them, we created an industry consultation programme which we call Consult21. I believe it is the largest voluntary industry consultation programme of its kind anywhere in the communications world today.

Consult21 supports a range of working groups to produce detailed plans for interconnection, technical standards, timing and commercial arrangements to make 21CN a reality for a whole industry, not just BT.

It's an important element in addressing the human challenge.

This is radical industry and behavioural change.

I absolutely believe that if we get it right, our industry can move with confidence to a truly open future, breaking with the closed traditions of the past. Customers, our society and the UK economy will benefit as a result.

Thank you.