

Regulation in evolving markets

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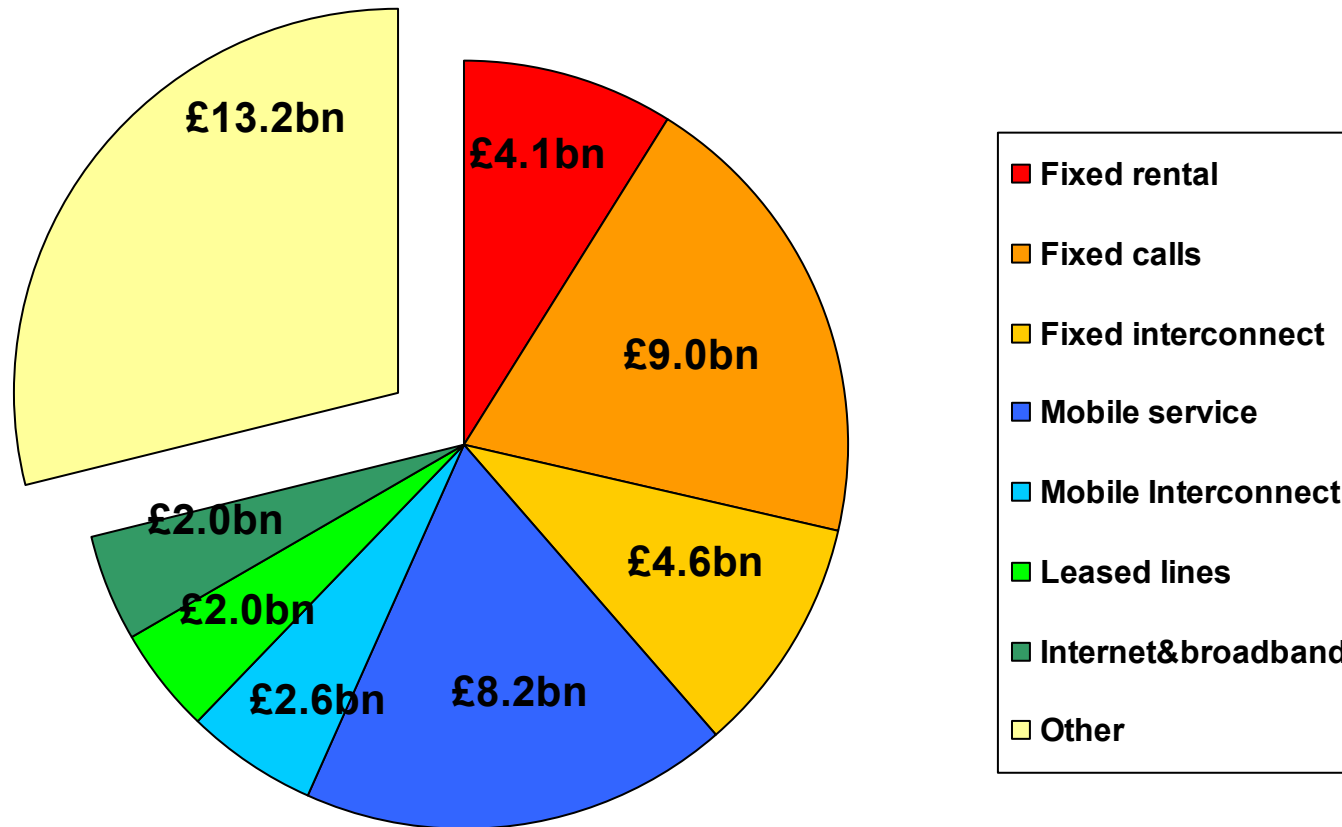
HSBC telecoms conference
3 Dec 2002

Topics

- UK telecoms market
- Role of regulation
- Prospects for change

Total UK electronic communications market : c£45bn per year

- Oftel monitoring / regulating £32bn



Market developments

Two stories

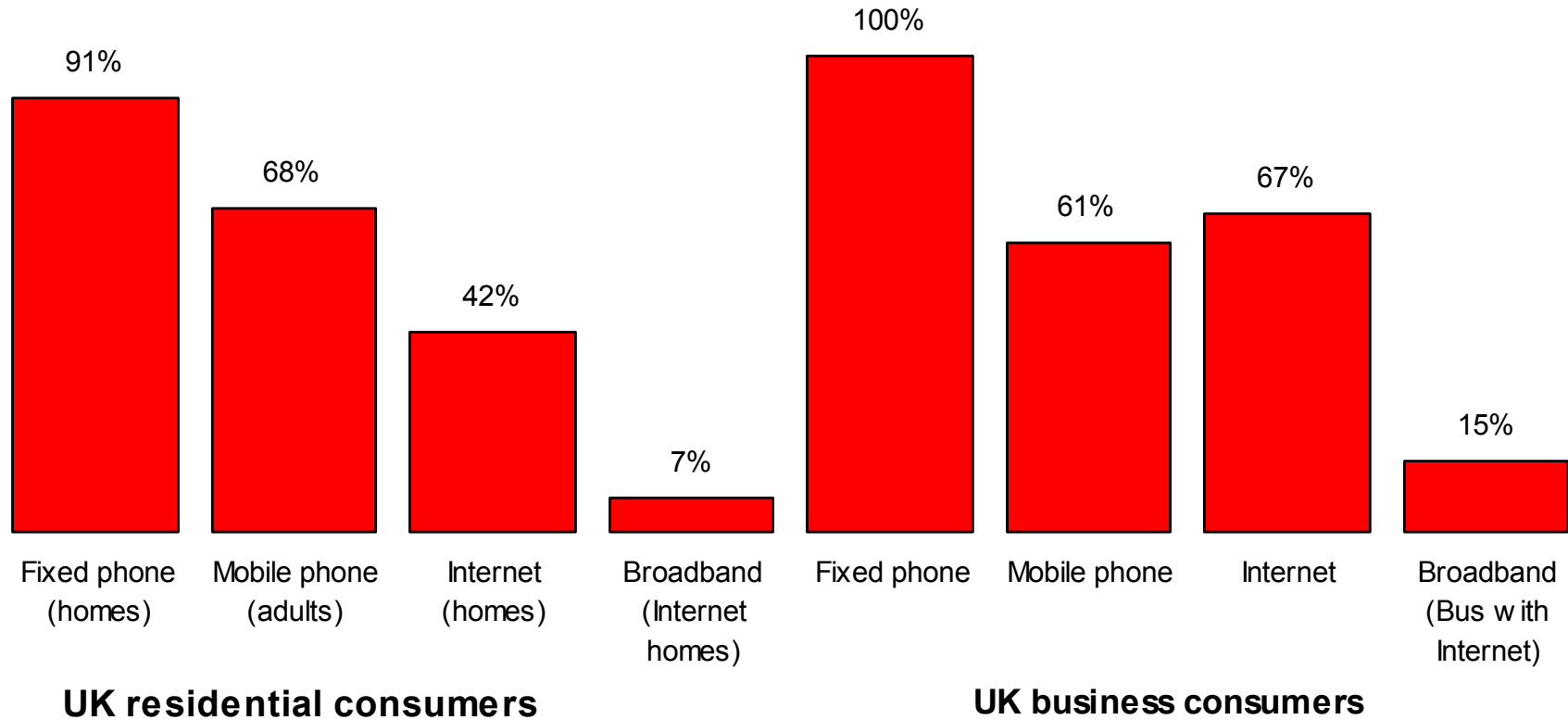
- steadily growing demand
- turbulence for suppliers (but continuity of supply)

Demand

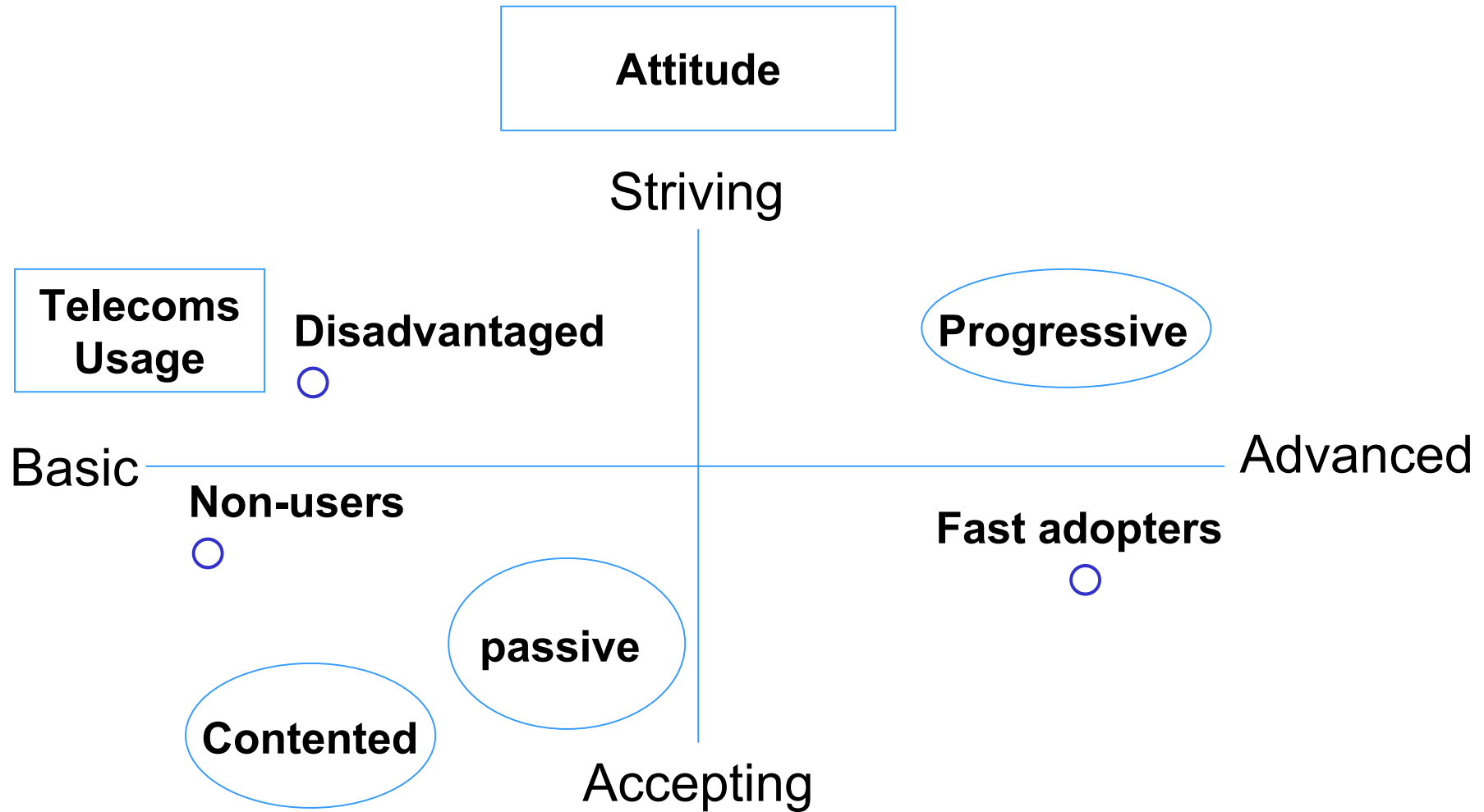
What's happening with consumers

- switching suppliers, using information
- taking up new services
- looking at features (not just price)
- multiple service purchasers

Consumers using an expanding range of communication channels

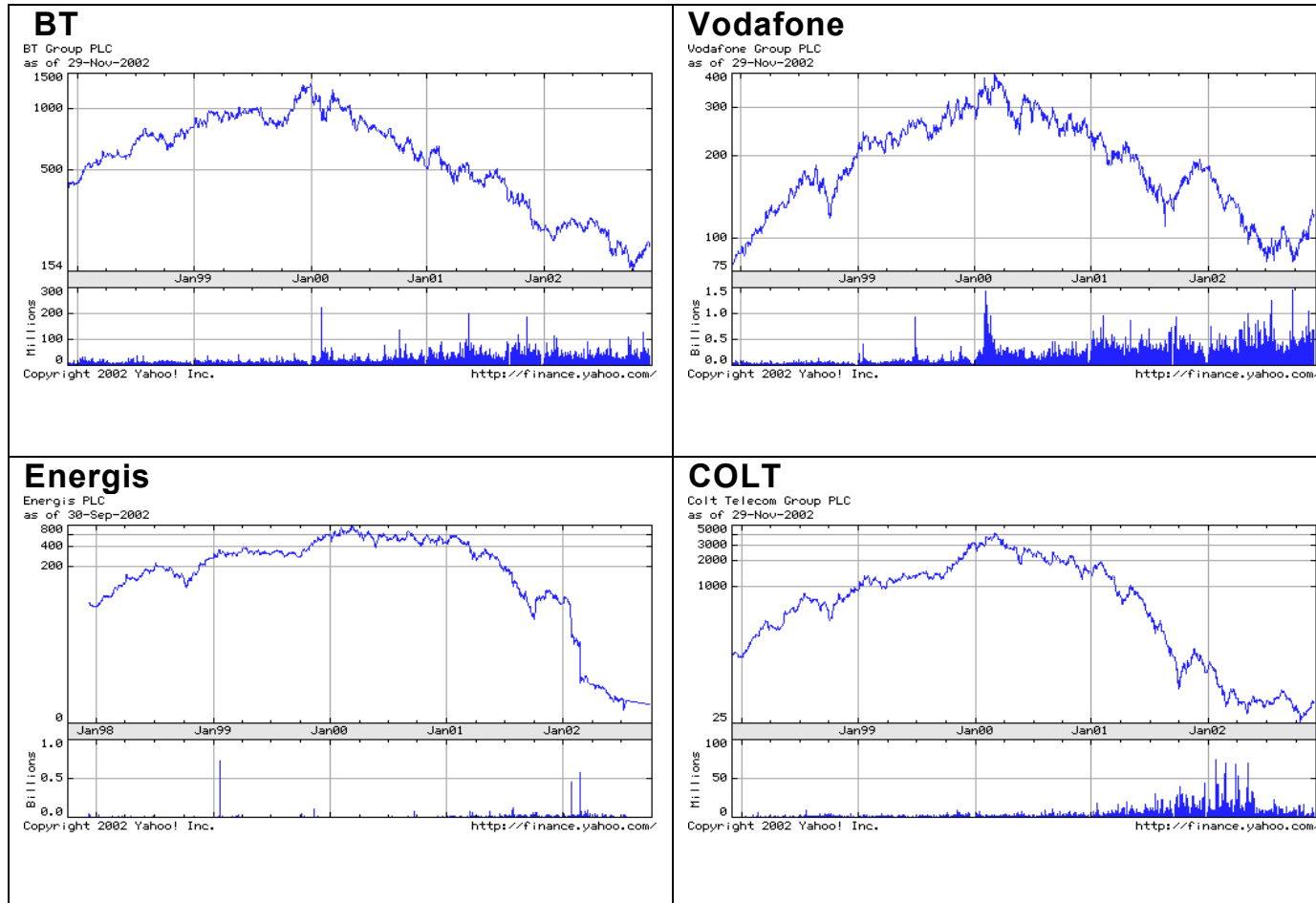


Consumer profiles

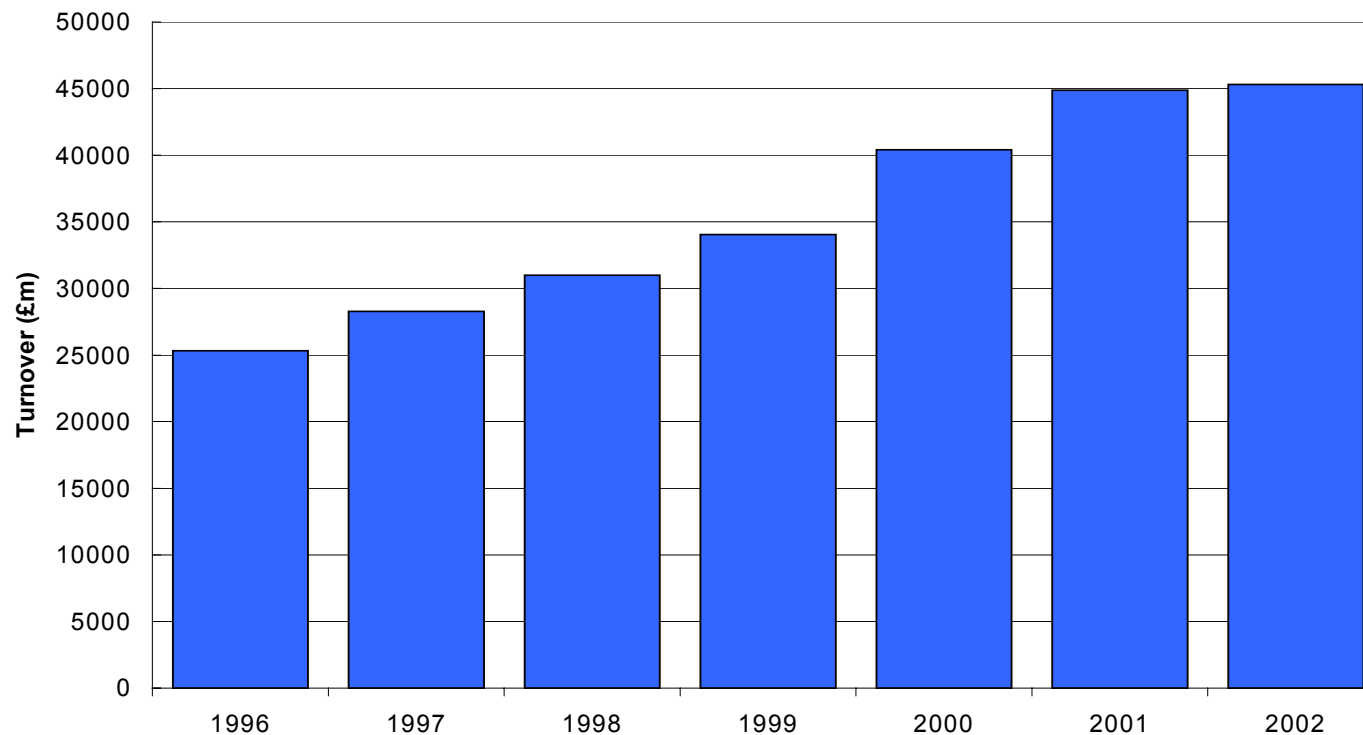


Telecom share prices

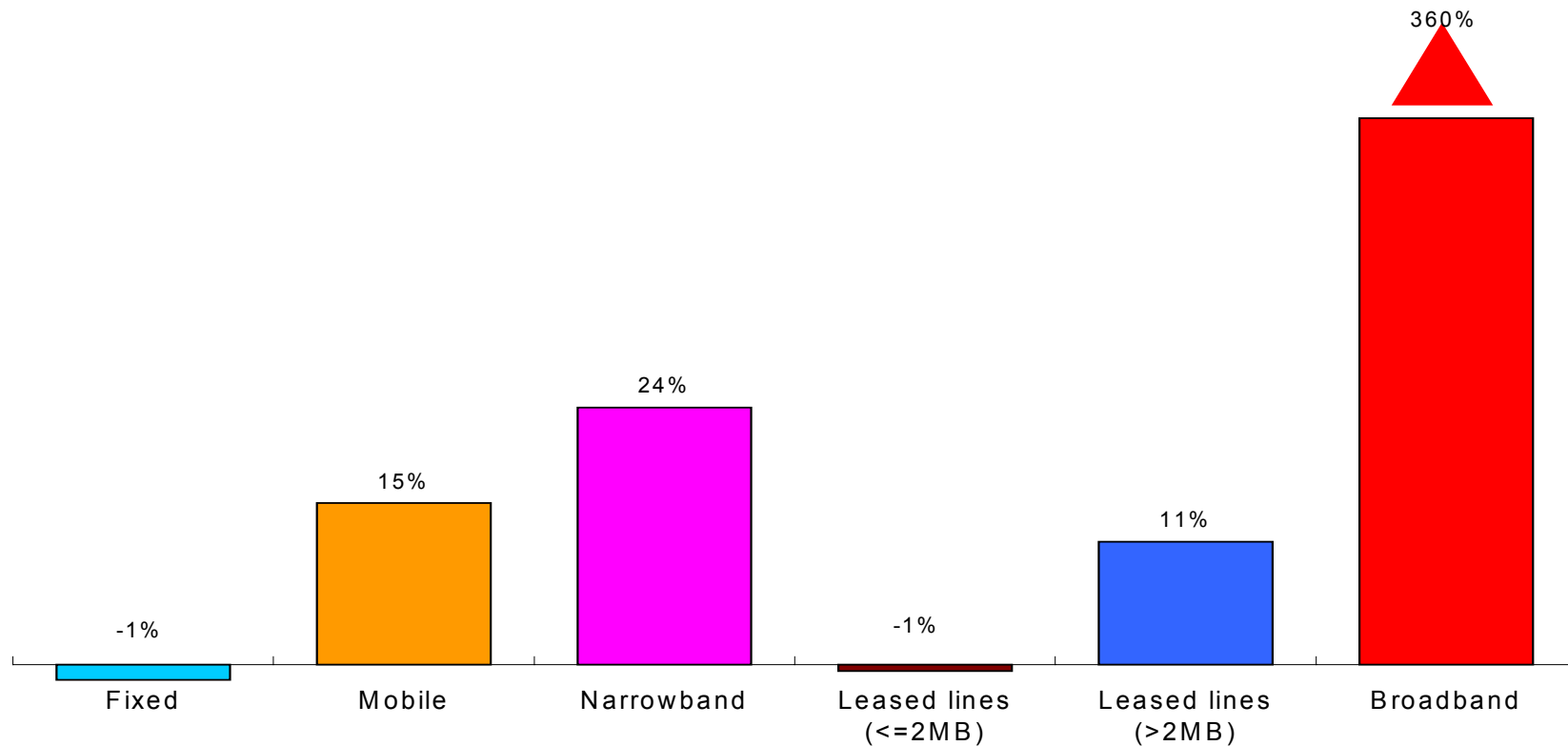
- sector ups and downs- some examples



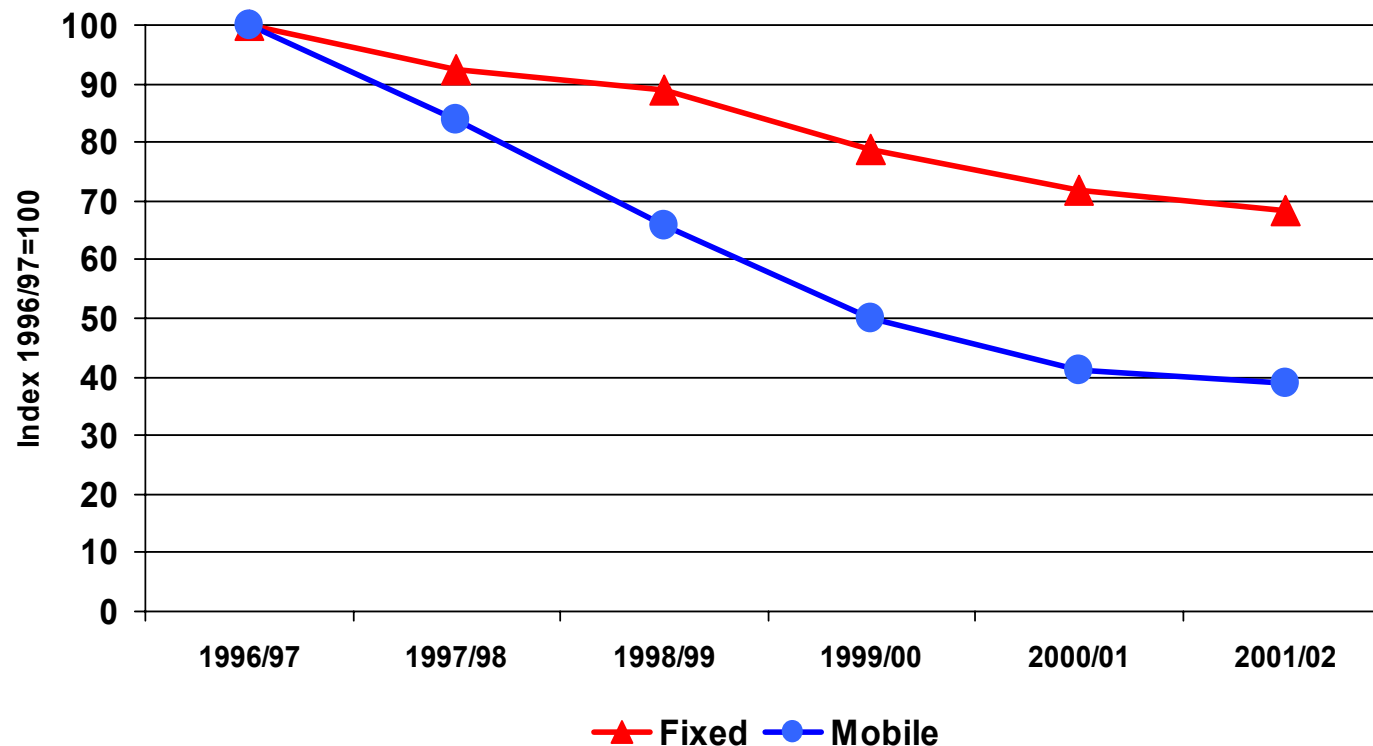
Growth of telecoms market revenues (£ bn) (real terms)



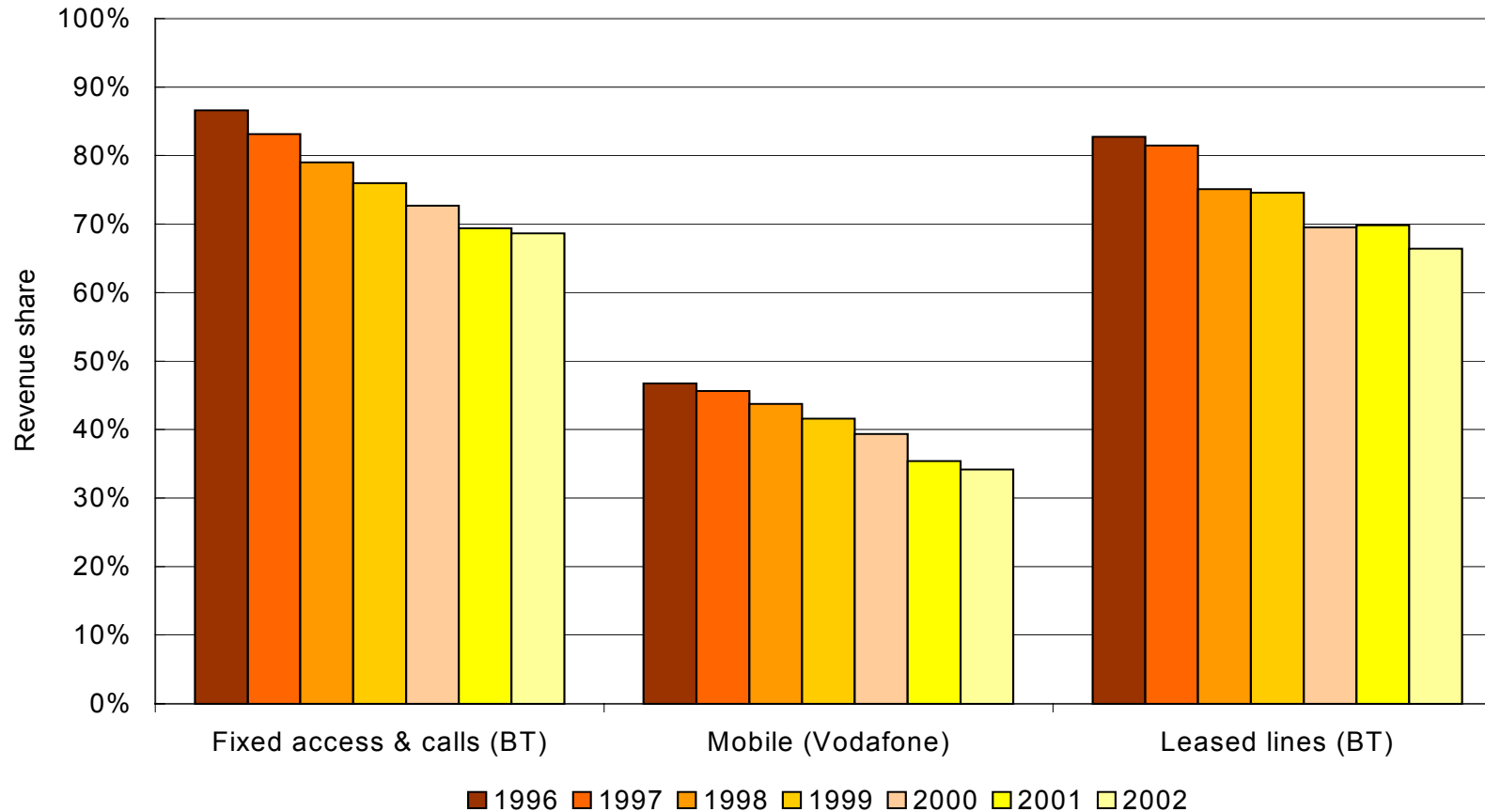
Growth rates in main telecoms markets



Fixed and mobile prices continue to fall, although trend is slowing

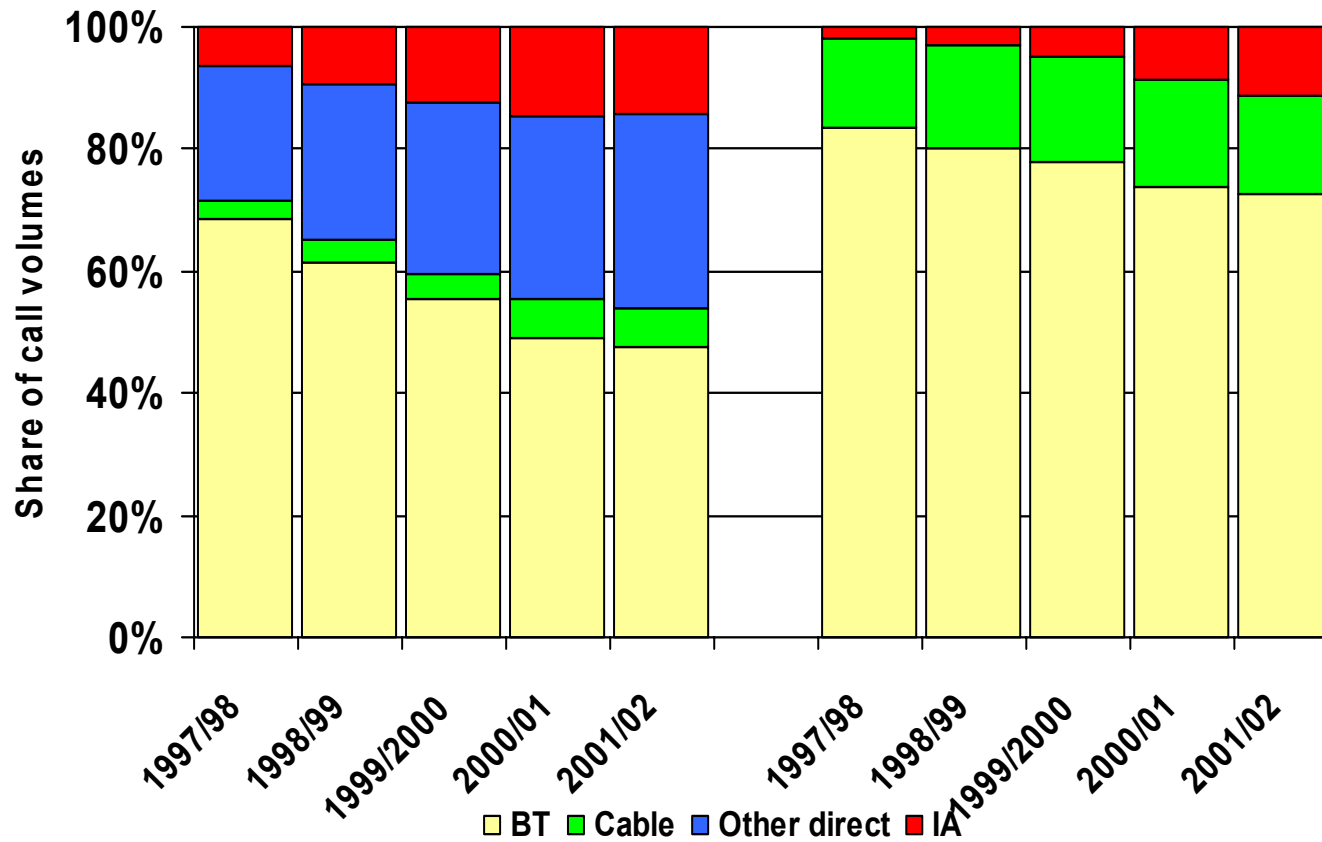


Market shares of main players

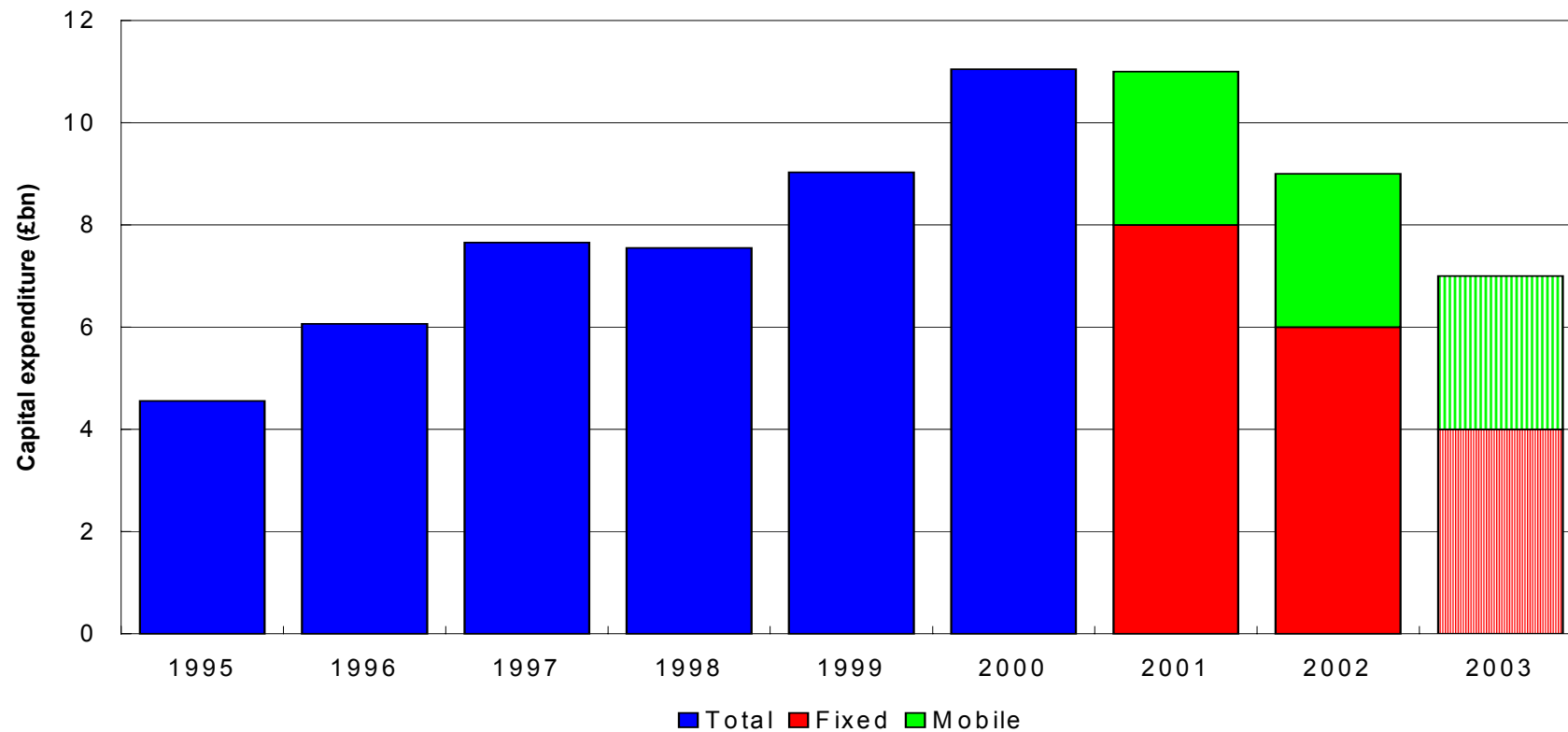


More competition in business.....than..... residential

Share of switched call volumes



Capital Expenditure by UK Telecoms Industry



Market summary

Growth prospects

- lower in mature markets, higher in newer markets

Competition prospects

- varies by market

Regulatory approach

- encouraging competition in all markets
- a clear strategy in broadband

Role of regulator

- Goal - best deal for consumers
- achieve through
 - effective competition
 - well informed consumers
 - adequately protected consumers
 - prevention of anti competitive practice

Promoting competition

- Control behaviour of players with market power
- reduce barriers to entry
- Balance
 - incentives to invest
 - demand for access to networks
- through pricing of access

Creating incentives

- Scope to relax retail price control
if
- BT delivers wholesale line rental
product to achieve competitive
retail market

Focusing regulation

- new dispute resolution proposals:
 - cases must meet clear set of criteria or won't be accepted
 - investigate agreed scope of dispute
 - obtain info using formal powers

OfTel's strategy for broadband

- Establishing a framework for competition in broadband
- cable modem and DSL and other technologies (eg satellite) competing
- over one million broadband connections

Regulatory approach

- **Proportionate**
- **transparent**
- **timely**
- **evidence based**
- **inclusive**

EU regulatory framework

- UK regulation fits with EU framework
- market review approach to implementation
- licences to be replaced by authorisations
- on course for summer 2003 implementation

Ofcom

- New single regulator for whole communications sector
- the prospects from digitalisation
- scope encompasses competition and content
- policy issues - economic regulation in converging markets, spectrum trading, PSB and competition

Ofcom progress

- Chairman and Board appointed
- embryonic organisation up and running to create main Ofcom
- Communications Bill 2nd reading
- Autumn 2003 launch ?

Summary

- Market developments - feed into regulatory analysis
- Role of regulation - promote competition to reflect short and long term opportunities
- Prospects for change - potential for further competition