

The fixed market

The majority of consumers still use fixed telephone services as their main method of making and receiving calls. This is despite the increasing popularity of other communications services such as mobile phones.

In 2001, consumers continued to take advantage of increasing competition in the fixed market.

Consumer satisfaction was high. At the end of 2001, 93 per cent of residential customers were satisfied with their fixed telecoms service at home.

UK consumers also benefited from competitive prices (see figures 11 and 12). Oftel's research showed that in February 2001:

- for residential consumers, UK prices were lower than those in the USA, Germany and France; and
- for business consumers, UK prices were broadly comparable with these countries.

In a year when over 20 per cent of subscribers switched to an alternative supplier in the fixed market, Oftel's focus was to ensure that balanced regulation allowed this competition to develop further still.

As set out below, some regulation was still necessary to ensure that consumer

interests were safeguarded, but this was only implemented where competition was not yet sufficient to deliver the best deal for the consumer.

BT price control review

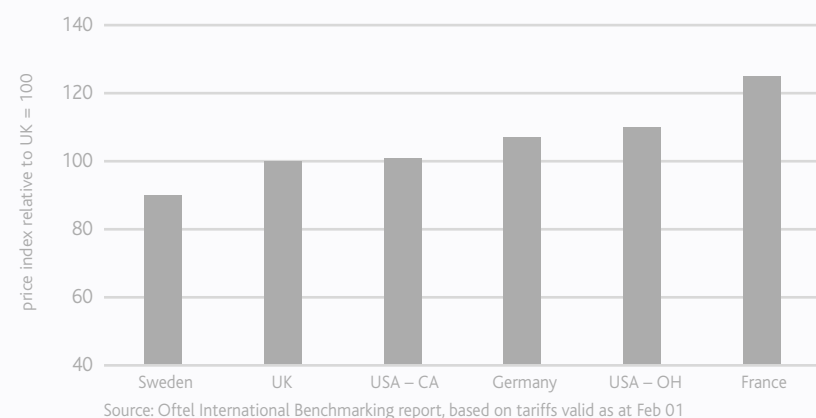
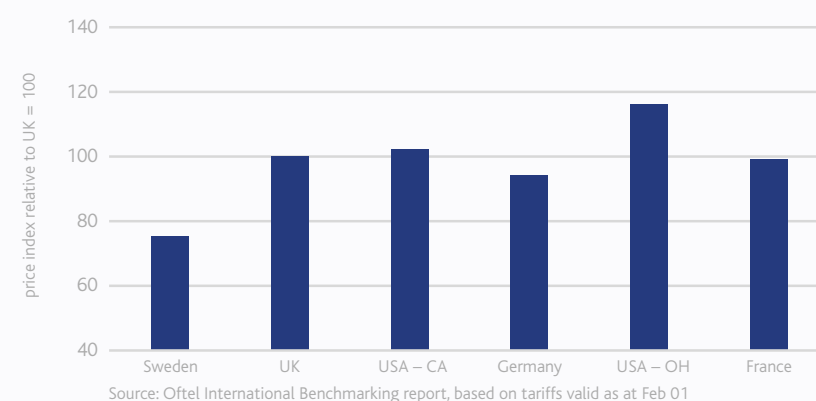
Oftel continued its review of BT price controls during 2001.

Controls on BT's prices are applied only where competition is ineffective and is likely to remain that way. In an effectively competitive market, prices would be driven down towards costs through competition without the need for price regulation.

Network charge controls

In February 2001, Oftel confirmed that, because operators still relied on BT to provide connection to and conveyance over its network, the price controls on BT's wholesale network charges would continue. Oftel set charge controls ranging from RPI-13 per cent to RPI-7.5 per cent for a further four years from October 2001.



Figure 11: Residential price comparisons for fixed services**Figure 12: Business price comparisons for fixed services**

"UK consumers benefited from competitive prices for fixed services during 2001."

Retail price controls

Of tel also concluded that retail price controls should not end in July 2001. However, because of increasing competition, and the introduction of new services such as carrier pre-selection, it was not clear what level of price controls, if any, would be necessary beyond 2002.

Of tel therefore extended the retail controls of RPI-4.5 per cent for one year to July 2002 to allow Of tel 12 months to carry out a review of the retail market (see annex 6 for BT's price changes and private circuit prices during the price control year 2001-02).

In July 2001, Of tel published an initial consultation document which invited views on market definitions and key competition indicators. Taking account of these responses, Of tel published a further

consultation document in January 2002 in which it set out its specific proposals for future controls.

Of tel's conclusions were that competition is increasing in all fixed telephony markets, but is not yet effective.

Of tel also found that the current terms of access to BT's network deter new service providers and so restrict innovation in pricing and products in the calls market.

Of tel set out proposals to replace the current retail price controls on BT with measures to encourage competition through the introduction of a wholesale line rental product, combined with an RPI-RPI control to protect lower spending consumers. This control would be removed when call prices had fallen by a significant predetermined amount. Low user schemes and other measures would continue to

provide ongoing protection for vulnerable consumers.

Of tel will set out its final conclusions on the future of BT price controls in the summer of 2002.

Competition in international markets

In 2001, Of tel undertook a review of competition in retail and wholesale international markets.

Of tel wanted to ensure that regulatory controls did not prevent BT and Concert from competing fully in these markets.

During 2000, Of tel reviewed competition on the top 26 international routes. The review in 2001 focused on the next 42 most popular international routes. Together, these routes represent 90 per cent of all international traffic.

In the wholesale market, Of tel found that there were up to 18 competitors on the routes examined, and that competition was higher on routes to countries that had liberalised their home telecoms markets.

Concert was found to have low market shares on some routes and overall, Of tel believed that 20 of the 42 routes considered were effectively competitive.

In the retail market, Of tel estimated that there were just under 200 operators offering retail international calls. However, BT's share of the residential market remained high at 61 per cent, although its share of the business market was much lower at 37 per cent.

The level of competition varied from route to route, but overall, BT's profits on international calls continued to be very high.

Nevertheless, Of tel believed that a further 23 retail routes in the business market could now be considered to be effectively competitive.

In November 2001, Of tel issued a consultation document which proposed to reduce regulation on these competitive routes. A statement was published in March 2002 which confirmed that these 20 wholesale and 23 retail business routes were effectively competitive. In line with Of tel's strategy, regulatory controls on these routes were relaxed accordingly.

Carrier pre-selection

Carrier pre-selection (CPS) has given consumers greater choice over which company carries their telephone calls without the need to change their current telephone line or number.

Indirect access allows consumers to use a different telephone company over their existing BT telephone line by either dialling extra digits in front of the number they wish to call, or by using a dialler box fitted to their phone line. CPS does away with dialler boxes and extra digits and means that consumers

who have a BT phone line (or a Kingston line in Hull) can choose to have their calls automatically carried by the phone company of their choice.

Originally launched in 2000 to cover national and international calls, CPS services have now been extended to include an 'all calls' option that includes national, international and local calls, as well as calls to mobile, paging, personal, premium rate and special tariff numbers.

Of tel expects that with the availability of the new 'all calls' option, CPS will further consumer choice and value for money for calls during 2002.

Of tel's CPS consumer guide is a useful resource for consumers. Updated in 2001 to reflect the developments in CPS, it is available on the consumer information section of Of tel's website.

A total of ten operators are now offering CPS. A list of these operators is available on the industry section of Of tel's website.

"Of tel expects that carrier pre-selection will further consumer choice and value for money during 2002."

