

A public consultation on telecoms services in the UK

Phase 1

A Summary



Issued on 28 April 2004

The deadline for responses is 22 June 2004



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Telecoms services in the UK

We'd like to hear what you think

Ofcom is the independent regulator for the UK communications industries. Our role is to look after television, radio, telecommunications and wireless communication services.

One of our many activities for 2004 is to carry out a strategic review of telecoms. We now want to ask for your opinions about this.

The telecoms sector is at the heart of our economy and society. It includes fixed and mobile services and the internet. It is in everyone's interests, whether we are private citizens or businesses, to have a high-quality, competitively priced telecoms industry to serve us.

Because of this, our review will ask whether there's room for more choice and better value. We will be looking closely at the prospects for more competition, investment and new services. In turn, the conclusions from our review will help shape our approach to encouraging competition and regulating the market.

One of our main aims will be to find out what's most important to you as a telecoms customer. For example, are lower prices more of a priority for you than a quick reply when you dial a customer call centre? We want to hear your views.

Why now?

There are a number of reasons why we need a review now.

- The law says that we must reduce regulation where we can. Telecoms companies have to keep to highly detailed rules which apply on top of the usual laws about competition and protecting customers. These extra rules bring costs as well as benefits, so our first job is to see if these costs are reasonable.
- The telecoms industry has seen incredible change. New services, and the different ways we now behave as customers, mean that some old rules may now be out of date.

- Other countries face similar challenges. We need to know what kind of regulation is considered best in other countries, and see if we can learn from them.

The strategy we develop will not only apply to today's telecoms industry, but also to tomorrow's. So the review will need to look closely at how this market is likely to change. This is driven by new technology and by the way we behave as customers.

What happens next?

The review will feature two consultations, and this is the first. It is very important that we hear from as many different people as possible, representing the widest possible range of views and interests. This will help us to understand:

- how the telecoms industry is likely to look in the future; and
- how we should approach regulating it.

At the end of the year, and following all the opinions we have heard during the review, we will be issuing a statement. This will set out our future approach to regulating the industry, to the end of the decade and beyond.

We have designed this summary document for you if you'd like to give us your opinion but don't have the time – or the technical knowledge – needed to go through the main consultation document. (But if you do, you will find it at: www.ofcom.org.uk/consultations/current/telecoms_review/)

This plain English summary outlines the main issues, and asks for your opinions on the main questions for the review.

How to respond

If you have a view or an experience you'd like to share, we would value your feedback. We are particularly interested in the reasons behind your opinions and, where possible, actual evidence that supports them.

We would also like to hear from interested groups such as consumer organisations and trade associations. If you are representing one of these groups, please let us know which one.

Please send your response to:

dougal.scott@ofcom.org.uk,
marked 'Strategic review of telecoms –
consultation response'.

If possible, we much prefer responses as
e-mail attachments, in MS Word format.
Please also attach the cover sheet which
you can download separately from the
'consultations' section of our website.

You can also post or fax your response to:

Dougal Scott
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Fax: 020 7981 3333

To simplify the process, we do not
usually acknowledge that we have
received responses.

The closing date for responses is:
5pm on 22 June 2004.

We think it is important that anyone
interested in the review can see the
views we have received on our website
(www.ofcom.org.uk). Because of this
we will only treat your contribution as
confidential if you ask us to. We will
put all responses on the website when
the consultation period has ended.

How are telecoms regulated now?

Most of the rules applying to telecoms are designed to promote competition, or to protect consumers if there aren't many choices on offer.

For example, the cable company ntl needs to connect to BT's network so that all its customers can send and receive calls from BT customers. We may need to regulate this to make sure that the price BT charges ntl is fair, and that ntl can still compete with BT in the market for new customers.

Another example could be that customers have some protection by us telling BT to reduce its prices each year for certain services.

But regulation can't always make everything equal. Encouraging more of one thing can result in less of another.

For example, if we told BT to drop its prices, its smaller competitors may find it hard to compete and make a profit. So that can harm competition.

Not all telecoms companies are the same. Some, like cable and mobile phone companies, may own their own networks. Others don't, but use companies such as BT to carry their calls and services, at different prices and under their own

brand. Rules that help a company which doesn't own a network could hinder one which does. So there will always be a trade-off between rules that help different kinds of competitor.

We also need to remember that although BT may be the biggest player in many areas, it still has to make money, invest in new technology, be attractive to shareholders and give its customers a good service.

How rules have been used to influence what happens

In the 1980s, the Government licensed a single competitor (Mercury) to challenge BT. Regulation also encouraged Mercury to use its own network.

A review followed and, in 1991, more competitors were allowed. From 1994 to 1997, the regulator at that time (OfTel) favoured competition between fixed-line companies that owned their own networks – and particularly those with networks that actually came into homes and offices, such as cable operators.

Ofel also licensed two extra mobile networks, so that there were four network operators competing from the mid-1990s.

However, in the mid-1990s Ofel was less favourable to companies that did not own a network. In fact, it has only been since 1998 that regulation has made it easier for service providers such as Centrica and Carphone Warehouse to launch phone-call services.

As a regulator, we now face a similar situation with broadband internet access. Again, companies might provide their services over their own networks (such as cable), if they have one. Or, regulation might help them to use BT's network instead. There are various ways of 'opening up' BT's network to make this happen.

For example, we could tell BT to provide a service that internet companies could sell on under their own names. Or, competitors could even be allowed to 'move in', putting their own equipment into BT's exchanges and take over the actual wires between those exchanges and the customers.

But it's the same story – regulation that helps one company may well harm another, and its customers. As a result, the review will be looking at all sides, seeing what has changed in recent years and mapping out the best way forward.

How does the future look?

We believe that the big changes we've all seen in telecoms are actually just the beginning. The sector is set for sweeping new changes which could clear the way for new competitors. In the process, there could be less need for some of the current rules that are currently designed to make sure we all have plenty of choice.

We think these changes will include the following.

- **Different kinds of competition in voice services**

There are two reasons for this.

The first is that the competition between fixed-line operators (such as BT) and mobile operators (such as Vodafone) will increase as callers find they can use either type of phone service quite easily. At the moment, there's tight regulation in force partly because there hasn't been much competition between fixed and mobile phone companies.

The second is that fixed-line companies may find competition from a new technology called Voice over IP (VoIP). This system allows you to make phone calls over the internet, instead of a phone network. This is already well

known to business customers and, many people think, it could become commonplace in our homes too – perhaps being sold with broadband services. If so, competition would increase because this could help new suppliers to enter the market.

- **The spread of broadband**

More people are likely to join the move to broadband, and its popularity may encourage companies to find new ways to bring it to them. At the moment, most broadband connections are made either by cable, or through a BT line using a technology known as 'Digital Subscriber Line'(DSL). But if there are new, competing technologies which get used too, this could lead to less regulation.

In the future, people may also want 'broaderband' – faster connections than even cable or DSL can offer. If so, it is very important that regulation does not put off companies that might invest in this next generation of technology. Whether this move forward will happen, and how quickly, will depend partly on whether operators succeed in selling entertainment services to us that are delivered using broadband connections.

- **Changing equipment and the design of networks**

As time goes on, the equipment that we all use to connect us to phone companies' networks – such as telephone handsets and computers – is likely to perform more and more functions. As a result, owning the network that these devices use may not be so important to service providers. So the telecoms companies which compete by using another company's network may have more freedom to develop new services features.

Regulation may need to change, reflecting this new climate. In the past, regulation has looked at issues such as the price that one telecoms company pays to use another's network. In the future, the focus is likely to shift to the technical standards that these devices use, and the rights of one company to use another's technology.

- **Internet protocol technology**

In the future, phone networks will be based more and more on a new kind of technology called internet protocol technology or IP for short. IP networks

replace the old networks based on big banks of electrical switches inside telephone exchanges. We need to understand whether this change will make it easier or harder for companies to compete with each other in providing telephone and internet services.

If this takes place, the numbers of calls on the traditional networks may start to fall and companies could find it no longer makes financial sense to operate them. This could become a problem for customers who rely on these old networks and have not yet moved to the new IP services. We may need regulation to manage the move from old to new technology.

- **Changes to the phone companies themselves**

For some time now, experts have been expecting a lot of changes among the leading phone companies. They think that companies which provide similar services may merge, and that different types of company may team up by forming partnerships.

What can we learn from experiences so far?

The companies you now know for supplying mobile services may start to offer fixed services as well. And the traditional roles of phone companies and, for example, entertainment providers, may start to overlap. It's very likely that in the future it will be common for us to watch more videos and movies, play games and listen to music that have all been brought to us over a phone network.

All these trends raise important questions when it comes to making fair rules to control them. As companies and services chop, change and even blur together, they may encourage competition – or create new areas that regulation needs to tackle for the first time.

The aim of this review is to achieve the right balance for regulation, bearing in mind the changes that are widely expected to take place in the future.

In our view, a successful result will be a telecoms market that functions well by benefiting us all as citizens and consumers.

Is this true today? We have taken a detailed look at the market now and, in general, we believe customers receive a good balance of benefits. For example, the prices we pay for our fixed lines at home are cheaper than in many other countries. We can also choose from a very wide selection of mobile services and tariffs.

However, not everything is perfect.

- Small businesses here pay slightly more for their fixed lines than some other countries.
- For some time, we lagged behind when it came to broadband services. Prices tended to be higher, too. This is no longer the case, and although the percentage of people in the UK with broadband is lower than some European countries, it is now rising very quickly.

- The cost of leased lines (a type of business service) is higher here than the average in the EU.

Competition is alive and well in some sectors, but less available in others. For example, if you want a mobile phone service, you have one of the most competitive markets in Europe fighting for your business. There are five network operators, plus others which offer services by using another company's network.

On the other hand, look at home phone lines. BT has an 80% share of the market, and supplies most business lines as well. If you want access to the internet, it seems at first glance that there's a whole variety of internet service providers (such as AOL and Freeserve) supplying narrowband and broadband services to homes and offices. However, almost all of them use just one of two networks to bring those services to you – the cable networks, upgraded with cable modems, or DSL, provided by BT.

So competition has not been as strong in some parts of the market as in others. In this review, we will want to assess how strong competition will be in the future, and how best to measure whether markets are delivering the best deal for us as citizens and consumers.

To do this, the review needs to hear from you. We must understand what is important to you and, for that matter, what isn't. For example, which of these matters to you most: a market with the lowest prices? Or lots of choice? Or one that is always first in the world with cutting-edge products?

The rules and you

Most of our rules are focused on telecoms companies and on making sure the market works properly.

However, some concentrate directly on the interest of the customer. But are we getting this right? We would particularly like to hear from you on two subjects.

• Protecting you from ‘sharp practices’

We have a duty to protect you from unscrupulous companies. But what looks like fair play to one person can sometimes look like ‘sharp’ (or unfair) practice to another. We have to strike a careful balance with our rules.

If they’re too tight, we’ll put off phone companies from launching services, and as a result competition will suffer. If they’re too flimsy, you could be caught out by a less honest service provider.

Premium-rate phone lines are one area where we brought in firm rules to protect people from running up big bills without their knowledge.

We want to hear whether you think there are other areas that need, or do not need, regulation.

• Easy access to information

Can you get the information you want about products and prices? Or is clear and complete information hard to find when you’re trying to compare one service against another?

Our early research tells us that some customers feel confused about prices and the details of packages offered by phone companies. If you’re one of them, please tell us why. Are products sold in an open way, or is further regulation needed to make sure customers can make fully informed choices?

Some questions for you

We're keen to hear any views you may have on any issue relating to telecoms. We are particularly interested in how you would answer the questions below. We've identified them as the five main questions for our review.

- 1. In relation to the interests of consumers, what are the main attributes of a telecoms market which is working well?**
- 2. Where can we achieve effective, long-term competition in the UK telecoms market?**
- 3. Can we and should we look at reducing regulation in telecoms? Or are the major companies too powerful for us to consider that at this point?**
- 4. How can we provide incentives for efficient and timely investment in future generation networks?**
- 5. Over the years, people have argued that the regulator should somehow break up BT in order to increase other companies' ability to compete with it. Do you think those are still relevant questions now?**

If you're interested, you will also find more questions which particularly reflect phase 1 of our review, as well as technical issues and a much wider discussion in our main consultation document.

Please visit
www.ofcom.org.uk/consultations/current/telecoms_review/

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