

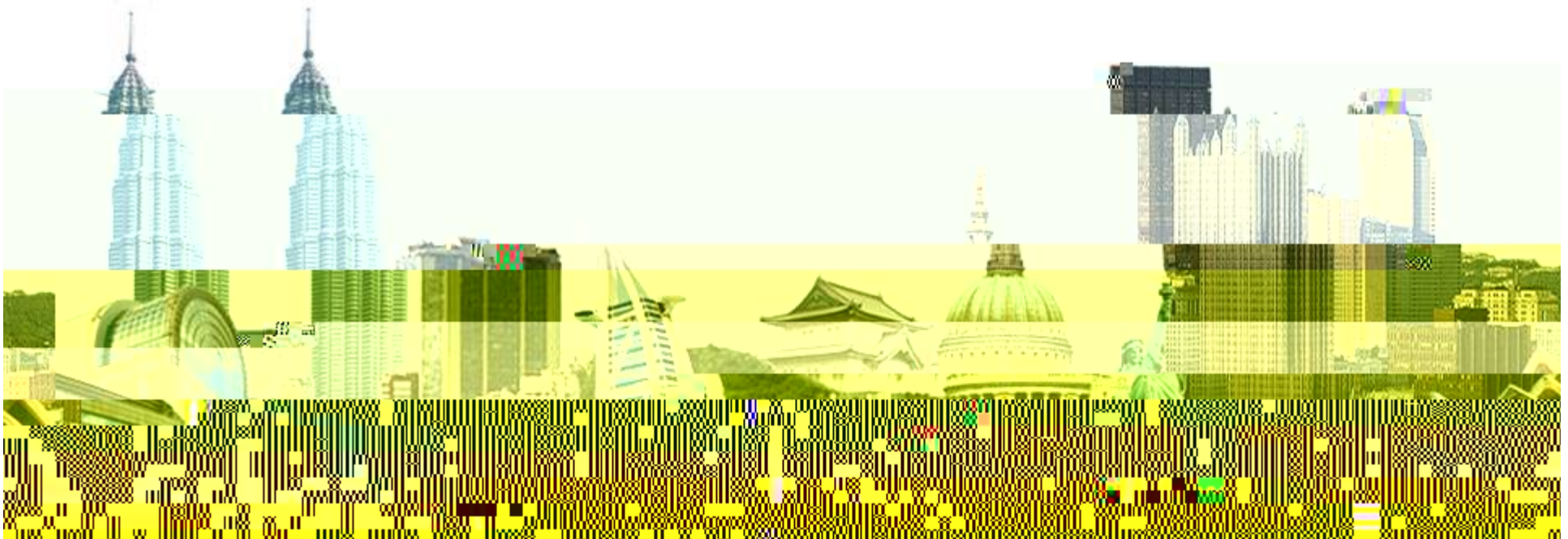


BT perspectives on the 10th anniversary of the WTO telecoms agreement

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Alfonso X, King of Castile, 1252-84

“Had I been present at the creation, I would have given some useful hints for the better ordering of the universe.”



BT in 1998

- February 1998: enthusiastic welcome for WTO agreement
- Chairman to shareholders: *“It is the competitive nature of the global market that spurs innovation and delivers customer benefits....it is the rapid change that generates opportunities we are determined to seize.”*
- May 1998: £1 bn network modernisation and expansion announced to support anticipated growth in worldwide traffic

BT Global Services in 2008

- Ten years of growth. Customers looking for ever more seamless, cross border services
- BT focus on provision of networked IT services to multisite organisations worldwide:
 - Unilever, FIAT, Philips, Credit Suisse, Microsoft, UK National Health Service, Bristol-Myers Squibb,

So what hints can we offer for “better ordering of the universe”?

- Progress has been good (more signatories for Reference Paper, more commitments by existing signatories)
- Where liberalisation has progressed, innovation has increased and customers have benefited - both business and residential
- Need further commitments and enforcement of those commitments already

So what hints can we offer for “better ordering of the universe”?

■ More attention is needed to:-

- Further moves to remove foreign ownership rules and to ensure market access and transparent, clear enforcement of rules protecting against abuses by dominant operators
- Different nature of business markets must be recognised
- Significance of non-price discrimination needs to be addressed
- Role of business telecoms as key facilitator for rest of WTO agenda
- Regulatory solutions to guarantee “equivalence of inputs”
- More harmonisation of regulatory solutions across borders
- Proportionate national security based rules
- Customers want more seamless services
- BTGS still often feels like a freight forwarder which has to unpack its shipping containers at the national frontier but business is getting more international

Business markets are different

- Major business customers require:-
 - High levels of reliability and security (public internet is not sufficient)
 - Simultaneous connection of widely-scattered global sites
 - One-stop-shop for global needs

- Regulatory approaches designed to achieve competition in consumer markets – notably, local loop unbundling (LLU) – have little impact in the business sector. Even after aggregation of needs of all potential customers, economies of scale will rarely justify nation-wide investment in local access.

- Operators specialising in the business segment must continue to rely of wholesale inputs from incumbent operators (typically 40% of costs)

- Effective regulation of these inputs is critical to innovation and competitiveness

Non-discrimination is not enforced and must be:-

| Country | Key Performance Indicators (KPIs) | KPIs published | KPIs measure conditions of internal supply against those to third parties |
|---------|-----------------------------------|----------------|---|
| A | I | I | I |
| B | J | J | I |
| C | I | I | I |
| D | J | J | I |
| E | J | J | I |
| F | I | I | I |
| G | J | I | I |
| H | J | I | J |
| I | J | J | J |

Research conducted with global customers and local experts

Anonymised country data

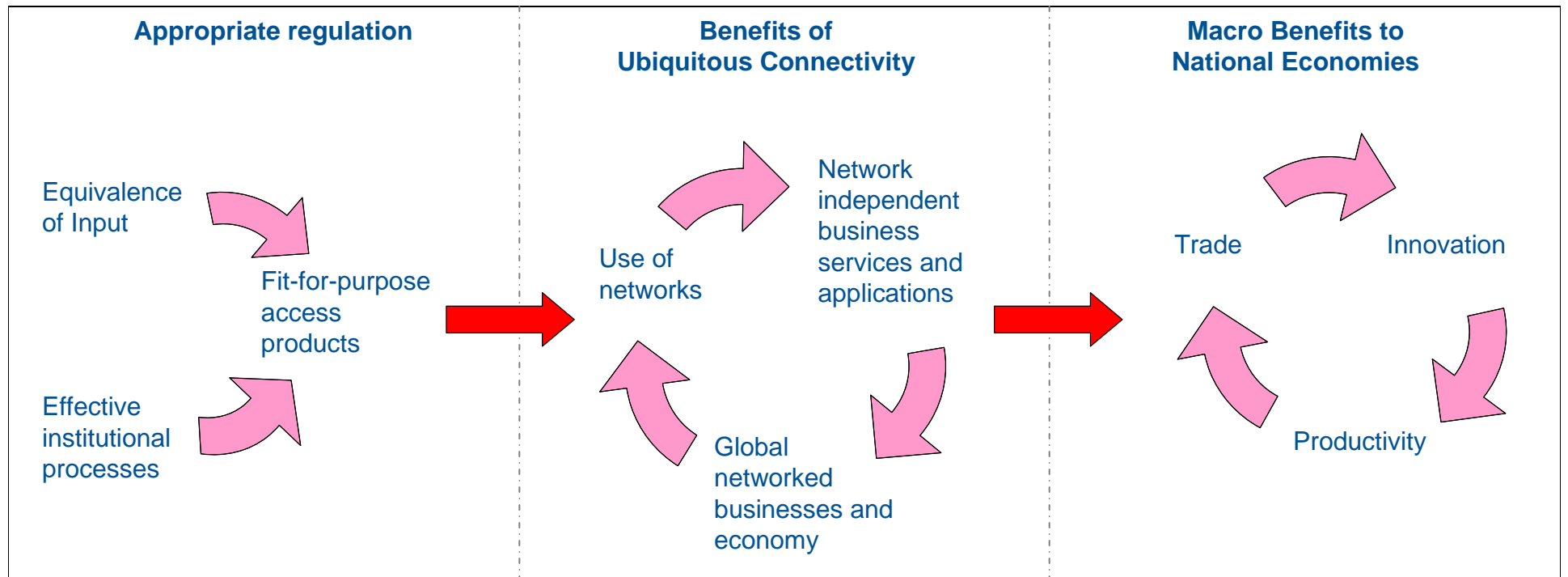


Competitive business services will boost the global economy

- Investment in computers does not in itself increase productivity. Computers must be linked effectively together to allow business process innovation.
- Interworking of IT applications in different geographic sites promotes a new business paradigm:
 - Rationalisation of corporate functions in most appropriate geographic sites
 - Outsourcing to concentrate on core competencies
 - From “command and control” to “flat” organisations
 - From vertical integration to long-term collaboration between multiple entities
- New business paradigm promises to boost international trade and investment but supply of “ubiquitous connectivity” remains slower, less comprehensive, and more costly than it needs to be.
- Governments and regulators need to revise almost exclusiv



Competitive business telecoms are key facilitator for rest of WTO agenda



Obligation for Equivalence of Input (EOI) is one solution

Provision of monopolised access and backhaul products to competitors on same basis for both incumbent operators' downstream arms and incumbents' wholesale customers:

- Same products
- Same supply times and terms and conditions (including price and service levels)
- Use of the same systems and processes
-

Functional separation is potentially the best EOI guarantee

- How to incentivise equivalence without constant regulatory review?

- An upstream business unit (clearly separate from the incumbents' other business units) with:
 - Transparent, forceful obligations (published and monitored)
 - Separate staff, management and remuneration incentives
 - Specific obligations with respect to confidential commercial and customer information
 - Monitoring and oversight by an independent Equality of Access Board
 - Governed by an independent management Board

- Effective regulation to ensure enforcement, including the following penalties for breach:-
 - Directions from the NRA or a court
 - Threat of competition law action
 - Third party actions for damages

Thank you