British Telecomms:

Still British Telecom's?

The Historical and On-Going Business Practices of the UK's Former Telecommunications Monopoly

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Preface

BT is currently undergoing dramatic changes in an effort to rectify many of the problems addressed in this paper. The changes are happening literally as I finish writing this paper: as I return to BT web pages to retrieve URL's for the Bibliography, I am re-directed to the same content on new pages in the BT Group web site.

This paper describes the history, issues, and influences of BT up to April 28, 2001. Footnotes update pertinent information, including the re-organization of BT as BT Group, as of June 8, 2001.

Introduction

British Telecom (BT), the UK's one-time protected telecommunications monopoly, cripples the market by continuing to guard an overwhelming advantage against their UK competitors in providing industry services to businesses and consumers. Many competitors find the challenge of accessing BT's markets and infrastructure too great to pursue for long, and quit. BT dominates interexchange services, local call and customer services, and most irritating for competitors, the local loop. Prime Minister Tony Blair often touts the UK as a free and growing telecommunications market on the leading edge of technological advancement and opportunity. Mat Hanrahan, an analyst at Bloor Research, decried the PM's boasts. "Blair wants to make the UK a leader in broadband and the net, and the major obstacle to achieving that is BT - it's too old, too slow and has the infrastructure hanging on it," said Hanrahan (Coates, 2001, Feb. 20).

Previous to the UK's Telecommunications Bill of 1981, the British Approvals Board for Telecommunications (BABT) provided regulatory protection and technical direction for the telecommunications half of the GPO (General Post Office). This protected organization later became BT. After the Bill was put into effect, Oftel (Office of Telecommunications, the UK's equivalent to the FCC) was formed to monitor the industry. The UK's practice of creating an agency to monitor a newly privatized industry was not new. It had also done so with gas (Ofgas), water (Ofwat), and electricity (Ofelect).

Even now, after Oftel has begun opening BT's markets and infrastructure to competitors, the exchanges and equipment that BT already has in place saves them the kind of investments required from their likely competitors. Because it is their turf, BT limits or altogether denies rivals access to their facilities. Oftel is partially at fault in denying fair competition by imposing regulatory stipulations upon BT that are lax, vague, or not prosecuted when violated.

Monopolistic business practices continue to keep BT ahead of the competition in what Oftel's chairman and others in government like to call the world's most free and de-regulated telecommunications markets. Throughout BT's history, their regulatory protection and market position has closely paralleled that of the Bell System (and then AT&T) in the US. British Bureaucrats like to make comparisons to the changes recently made in the United States. Claims that the UK began earlier and has progressed further in deregulation are true, but it's nothing to brag about.

Several historical causes have brought BT to their current situation. In many ways, the company still operates like the protected government entity it once was. Businesses, consumers, competitors, and the government are all ready for long overdue change at BT.

I. A Brief History of BT and UK Telecomms

A comprehensive summary of telecommunications history in the UK, from which much of the following was extracted, can be found on Oftel's web site (www.oftel.gov.uk).

A. Previous to the (UK's) Post Office Act 1969

The General Post Office (GPO), the UK's "PTT", was a government department responsible for all operation, equipment, and infrastructure related to telecommunications and postal services. The GPO's technical operations were monitored by the British Approvals Board for Telecommunications (BABT), a subsidiary of the British Electrotechnical Approvals Board. The Post Office Act of 1969 transformed the GPO into a statutory corporation. The UK government began to show an interest in privatizing the telecommunications industry (British Telecom, or BT) in the early 1980's.

B. Telecommunications Bill of 1981

The UK government drafted a Telecommunications Bill in the early 1980's. The bill recommended the sale of a 51% stake in BT and the creation of a regulatory agency to monitor its operation. Private entities were already beginning to enter the UK's telecommunications market. Mercury Communications, a subsidiary of Cable & Wireless, began to offer telecommunications services in the London area (Battle, 1990). Licenses were granted to Vodafone and Cellnet to offer mobile phone services throughout the

UK. The Telecommunications Bill received royal assent in April, 1984. Four months later, BT became a public limited company and Oftel was formed.

Oftel controls BT's retail prices using the formula RPI-minus-x. Using the formula, price increases are limited to a fixed percentage ("x") below the rate of inflation (RPI) (Can, 1991). For example, Oftel's current rate is RPI-4.5% for BT's price increases. If this year's inflation rate is 6%, BT can raise its retail prices by 1.5%. Price changes in other regulated UK industries have been controlled the same way.

Argument exists against using RPI-minus-x in an industry that is not "technologically mature" (Can, 1991). In comparison, the "technologically mature" industries of gas, water, and electric will have predictable changes in costs in the foreseeable future. Their retail price controls can be comfortably set with the knowledge that they will generate a desirable return on investment. Not so for BT. Telecommunications is a technologically dynamic and mutating environment like includes several unpredictable variables that influence costs and prices have them

In BT's early days as a public company, Oftel refrained from interfering with their business practices and quality level. During the 1980's, Oftel had conducted quality of service surveys. It had found several points of dissatisfaction, such as a high rate of public phone booths out of service. BT countered with its own surveys that reflected greater overall satisfaction.

The 1990's began with huge profits for BT--$5.7 billion, or over 20% of their overall annual sales (Can, 1991). The government sold nearly half its interest in BT, reducing its ownership to 25% and a "Golden Share" that gave them key decision-making authority. At the time, Oftel was directing BT to end the cross-subsidies to its equipment division, which sold and rented phone equipment. In 1994, both the US and the UK considered each other's businesses as "equivalent for international simple resale". This encouraged the presence of US firms in the UK market. It was closely followed by the issue of licenses to AT&T and Concert (an attempted joint venture between BT and MCI) for services in the UK.

Oftel ended 1995 with recommendations that some BT price restrictions be relaxed or removed, and that they should be given more flexibility in providing varied services. BT created a compliance department, whose director was responsible for ensuring harmony with Oftel's directives.

C. Oftel's watch of competitiveness since 1995

The friendly spirit shared by Oftel and BT in 1995 soon came to an end. In 1996, for example, Oftel began looking into allegations that BT misused its customer information. BT had been using its directory service to make unsolicited sales calls. The calls in question were to former customers who had switched their local service to cable companies. BT's license to operate was amended with a requirement to abstain from uncompetitive practices. Oftel attempted a new form of more lax regulation by encouraging BT to "develop imaginative solutions" to spread the appeal and installation of ISDN using competitive pricing. They were "extremely" disappointed by the lack of results. Oftel reduced the standard interconnect charges payable by competitors to BT. BT was ordered to stop cross-subsidizing its charge card business. In November, Oftel's director general gave a speech to UK businesses, telling them there were "big opportunities" for better telecoms deal. In 1998, Oftel launched an investigation into practices of BT's Click Internet services. Sales staff members were allegedly using customer information to identify regular Internet users, which violated BT's operating license.

The 1990's ended with Oftel continually directing BT to cut prices on various services that were becoming less expensive to provide. The current decade began with a new fight. In July 2000, Oftel published the report, "Access to Bandwidth: Proposals for Action". In the report, Oftel outlined a one-year plan to have BT open up "local loop" and exchange infrastructure to its competitors. Such access would loosen BT's grip on local service and allow other providers to offer DSL (Oftel, 2001).

II. BT's Partners and Competitors

A. BT's proposed merger partners

Understanding BT's stubbornness to change and accept competition requires a view from their perspective. "To the managers of the regulated firms, the issue is simple," states a 1991 article in the Economist magazine. "Their companies have started life in the private sector as monopolies, and they have a duty to their shareholders to keep it that way" (Open, 1991). BT's retail operation dominates all decision making. Its director has the most de facto authority at board meetings. For example, wholesale operations have many incentives to grant unbundled DSL services to other carriers. However, the retail division sees only the potential loss of customers who lease dedicated lines. They believe competitors will steal this highly profitable business (Slow, 2001).

The leadership at BT understands that, given Oftel's watchdog stance and BT's incumbent dominance, there are no easy ways for BT to grow in the domestic UK market. They have therefore turned their guns overseas in the form of attempted acquisitions and mergers of foreign telecommunications companies (Slow, 2001). A summary follows of major partners, past and present.

1. MCI

The US's Telecommunications Act of 1996 allowed foreign companies to operate industry services in the US. This tempted BT to completely extend its ownership of MCI and form a new telecommunications giant named Concert Global Communications. This would let it compete directly against AT&T as a long-distance carrier, and would accelerate MCI's installation of fiber-optic networks needed to aggressively compete in the local-access loop with the regional Bell operating companies and GTE Corp (Kotelly, 1996). In a December 1996 article in Lightwave, George Kotelly described the full scope of the merger. "With combined annual revenues of nearly $42 billion and serving 43 million customers in 72 countries with an integrated set of local, long-distance, and international services -- including voice, data, wireless, Internet and intranet, information technology, and outsourcing--Concert will become the third-largest telecommunications company in the world" behind Nippon Telegraph & Telephone and AT&T (Kotelly, 1996).

Though the BT's buyout would have made MCI rich enough to extend their infrastructure into local networks, MCI said they would focus on services marketing. The timing was bad, though. The FCC, at the time, had frozen interconnection pricing guidelines. This made it difficult for MCI to determine whether it would be more profitable to buy wholesale services from other providers or build their own facilities. The good news, at least for MCI, was that their competition was suffering the same dilemma. David Roddy, chief telecommunications economist at the Deloitte and Touche consulting firm, summed up the problem. "Local competition in the United States is now a function of the FCC, the Supreme Court and the Court of Appeals," said Roddy (Rockwell, 1996).

The proposed combination of BT's and MCI's forces faced serious opposition from competitors. They expressed their concern in the form of petitions and lawsuits in an attempt to prevent the merger. The first salvo was fired by Bell Atlantic, which petitioned the FCC in February 1997 to stop the merger (Guy, 1997). Many of the parties concerned hoped that the mere attempts of a foreign entity to enter the US market in such a big way would raise flags of concern at the FCC. However, the Commission reacted in the opposite manner. In June, the FCC indicated an easing of regulations regarding just the type of activity BT was engaged in—foreign telecommunications carriers entering the US market. The FCC ruling followed an agreement by the World Trade Organization. The agreement, adhered to by 95 percent of the global telecomms market, would open markets to international competition (Schwarz, 1997). Though this mostly benefited US players, the FCC's decision implicitly approved BT's desired MCI takeover.

British Telecom's desires were soon made moot by lower bidders. GTE and WorldCom entered a bidding war that left BT out of the running (Gillin, 1997).

2. AT&T

Intent on continuing to pursue a greater international presence, BT set out to join forces with AT&T. In October 1998, talks were publicly underway for the two telecommunications giants to combine their international operations (Flanagan, 1998). BT revived the plans it had made previously with MCI to form a "Concert" alliance, this time joining forces with MCI's greatest rival, AT&T. The joint venture offers services targeted toward multinational corporations outside of the US and the UK (AT&T, 2001, March 27).

As of February 2001, as BT was attempting to float BT wireless and sell Yell.com, their "Concert" alliance with AT&T was falling apart, due in part to BT's overwhelming debt (Coates, 2001, Feb. 20). Rumors abounded throughout February that AT&T and BT would sell their Concert operations, valued at $30 billion (Gold, 2001, February 8). However, the sale has not taken place. AT&T still wants to pursue the joint venture. They are even considering expanding it to encompass a combination of the two companies' entire business service operations (AT&T, 2001, March 27).

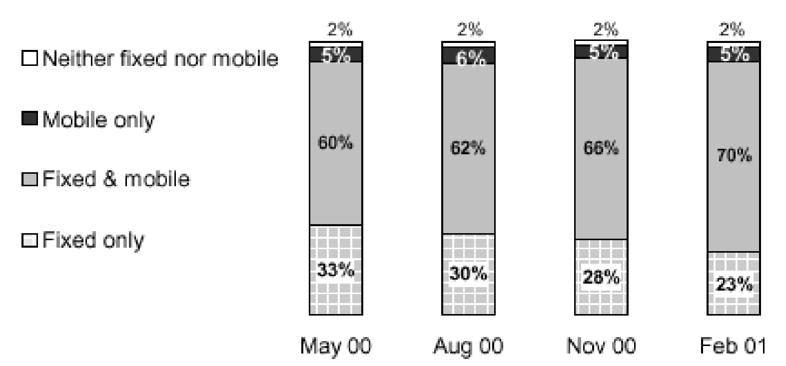
3. Cellnet

BT entered the mobile phone service market in 1985 when Cellnet launched service. From the cellular network's onset, BT had a 60% stake in until 1999, when it purchased the remainder from Securicor. BT paid $5 billion for the remainder of the shares and renamed the company BT Cellnet. The purchase was made primarily with cash, just before BT was to enter bidding for one of the UK's 3G mobile services license (Gold, 1999).

B. BT's Competitors

"Anti-competitive practices are endemic within BT," lamented a competitor who had to quit broadband trials early on (Slow, 2001). BT's blockade of broadband rollout is the latest chapter in a history of battles against their rivals. Nevertheless, competitors continue to fight in the market areas they can access. In anticipation of an Oftel requirement to unbundled the local loop, Torch Telecom is expanding its services across the UK. They are part of the Kingston Communications Group, which has offered competitive voice services in Hull since before BT was privatized (Coates, 2001). Another independent carrier, RSL Communications, is investing heavily in its own fiber-optic cable infrastructure in anticipation of the business that will come from the increased competition (August, 2000).

The most successful area for telecommunications competitors is cellular networks. The GSM system and networks were developed, built, and sold long after the days of government protected monopolies. Vodaphone and Orange have built viable alternatives to BT's Cellnet service. Even while expanding



Penetration of fixed and mobile telephony in UK homes (Consumers, 2001).

foreign operations, BT must protect its domestic stronghold against several rivals. Three examples of its competition are introduced here: Vodaphone, Orange, and Cable & Wireless (NTL).

1. Vodafone

Vodafone Group Plc, based in Newbury, UK, is the world's largest mobile network operator. BT sees Vodafone as its main domestic wireless rival, and extends its definition of "domestic" to Ireland. A head-to-head fight against Vodafone in Ireland means relieving Telenor of its 49.5 percent stake in Esat Digifone there. BT is willing to increase its debt by over $1 Billion for the privilege of competing with Vodafone in Ireland. BT expects to recover the costs in an IPO of its wireless division later this year. The sale of BT Wireless, projected for the third quarter of 2001, is expected to raise over $10 Billion for BT (Gold, 2001).

The rivalry with Vodafone extends as far as Japan. In February, AT&T announced its plans to sell its $1.4 billion stake in Japan Telecom Co. to either BT or Vodafone[1] (AT&T, 2001). AT&T's willingness to support BT's foe was further evidence of a deterioration of the Concert alliance. The American giant would rather improve Vodafone's stake in the Japanese telecomms market than wait out BT's debt crisis (BT's debt caused them to be disqualified from pursuing the purchase).

[1] *In another effort to relieve itself of debt, BT finalized the sale of its share of Japan Telecom Co. to Vodaphone on June 1, 2001, for $5.2 billion (BT Announces, 2001).*

2. Orange

France Telecom owns Orange, another of the major cellular network service providers in the UK. In an attempt to lower its €60 billion ($ 55 billion) debt, the French company plans to float Orange. Though rating agencies recently lowered Orange's IPO pricing range, they still believe Orange's balance sheet is in keeping with its successful rivals (Orange, 2001).

3. Cable & Wireless (NTL)

Cable & Wireless Communications Inc. was born from the remainder of the UK's government telecommunications concern that did not become BT. C&W was awarded a huge contract in 1997 to provide voice, data and mobile services for the UK government (Telecom, 1997). National Transcommunications Limited (NTL), the UK's leading cable company, eventually bought much of C&W. As of 1993, long before Oftel's current crackdown on BT'S uncompetitive practices, cable companies such as NTL were the telephone service provider for more than 100,000 customers (Pedersen, 1993). That number has grown considerably since NTL's investment in C&W. NTL is now a leading competitor to BT for terrestrial voice services.

NTL intends to gain serious ground. Unlike many other UK competitors, NTL has (through its acquisition of much local C&W infrastructure) its own local lines in some locations to supplement the wholesale access it buys from BT in others. The provider offers a wildly popular bundled package of unmetered dial-up internet access and voice services. It offers similar packages to business users. In areas where they already provide digital cable services, NTL offers broadband internet access via cable modems. This is the only widely available independent broadband alternative to BT's DSL (August, 2000, June).

III. Activities in the Current UK Market

A. Oftel

1. Consumer Advocate?

"Though BT's monopoly has been broken in law, it still owns nearly all of the wires, switches and other equipment linking Britain's homes and businesses." This self-evident truth appeared in an Economist magazine article in 1990 (Battle). The author offered the opinion that successful competition could only exist if BT provided rivals' access to its infrastructure and services at prices that would allow the customer a fair choice.

It seems at times as though Oftel is the only entity that remembers the consumer. Service providers demand more freedom to operate, but do so primarily to immediately benefit their bottom line rather than increase customer services or satisfaction. BT consistently lobbies for further deregulation to eliminate price caps and legally-imposed market barriers. Their competitors want the freedom to hide prices, costs, and operational matters from the customers. Paul Jankel, director of price comparison company Ocean Solutions, sees an obvious problem with those practices. "How can the new operators demand further deregulation on the one hand from Oftel - such as with the local loop - when they are not willing to be open when it's not to their advantage?" asked Jankel. "We should remember that deregulation is for the end user, not for the new market entrant" (Gardiner, 2001).

Understanding the competition in the UK's local voice markets has historically been anything but simple. Providers obfuscated their tariff structures to make direct comparisons impossible. Small- to medium-sized enterprises are the victims who would have the most to gain from clear price comparisons. Based on its own research, Oftel has recently changed its stance on the issue by investigating the local service providers "policy of price confusion" (Gardiner, 2001).

Richard Feasey directs regulatory affairs for WorldCom in the UK. WorldCom pulled out from Local Loop Unbundling trials earlier this year. Feasey did not blame Oftel for WorldCom's inability to get a piece of BT's market. "No regulator", he said, "can adequately restrain the commercial imperatives of a vertically integrated incumbent." Feasey believes that Dave Edmonds, Oftel's current director, has taken a more aggressive stance towards BT in recent months. WorldCom's set back is only temporary, believes Feasey. He cited BT's readying more of its exchanges for co-location (Slow, 2001).

2. BT Puppet?

Oftel doesn't always escape blame for slow development of competitive telecommunications markets. In 1999, BT was still testing ADSL before deploying it. Oftel did not allow third party carriers to access BT's local loop circuits for similar testing during that time. Actually, BT had already been testing it on their local loop circuits for two years. "This will severely inhibit competition and delay the rollout of high-speed services to the customer. Two years is a very long time in today's telecommunications market," said Fibernet's CEO, Charles McGregor. Fibernet was interested in rolling out ADSL, but was denied access to BT exchanges to test it. McGregor joined forces with the director of Norweb to lobby Oftel. Both directors saw an opportunity for fair trade being monopolized by BT. They pointed to BT's desire to initially install ADSL in only 400 exchanges across the UK. "There are 5,500 local exchanges in the UK - 400 will barely scratch the surface," pined McGregory (Dennis, 1999).

Dave Edmonds, Chairman of Oftel, has the authority under the UK's Competition Act to prosecute BT for unfair trade practices. However, Edmonds has repeatedly stated that he will not prosecute unless his legal advisers believe that there is at least a 70% chance of success. Many legal experts believe that gives BT too much leeway (Slow, 2001).

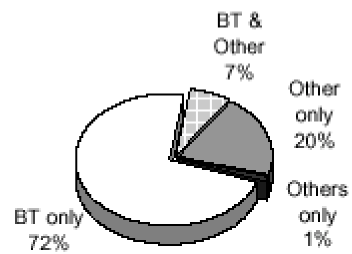
B. The Local Loop

1. Competition in the UK Voice Market

On October 12, 1998, headlines across the UK read, "BT Opens Up Local Loop To Competitors" (Gold, 1998). BT made this unilateral move as a response to growing pressure from Oftel to open up the last mile to competition. For the first time, competitors would be allowed to retail BT's wholesale local loop voice services as if they were their own. Other forms of local loop voice service had begun to spring up. Wireless local loop (WiLL) and local loops installed by cable companies were just starting to penetrate the market. Nevertheless, BT maintained over 80% of local loop customers (Coates, 2001, March 29). BT maintained complete ownership and control of all infrastructures—circuits, switches, and exchanges. Also, the arrangement did not affect BT's monopoly on leased lines.

According to Lars Goddell, an analyst at Forrester Research, businesses that use third-party voice services bought wholesale from BT need to pay particular attention to quality of service. "The US has spent the past three years ironing out technical issues following the unbundling of its local loop and is only just getting it all on track," he says. "Many businesses that move to newer voice providers may still find that BT controls their fate because their telcos need to work with the incumbent to ensure that their service operates effectively," said Goddell (Gold, 1998).

The UK voice market continues to be largely unavailable to competitors due to BT's stranglehold on the local loop infrastructure. Scott Moore, senior research analyst with IDC, reflects the attitude that most hold regarding BT's current position. "Until the local loop is opened up to competitors, BT is still able to control much of the UK voice market," said Moore. "When it is forced to open the doors to the local exchange, we will finally see more competitive voice services in the UK." (August, June 2000).



Use of fixed telecoms suppliers (Consumers, 2001).

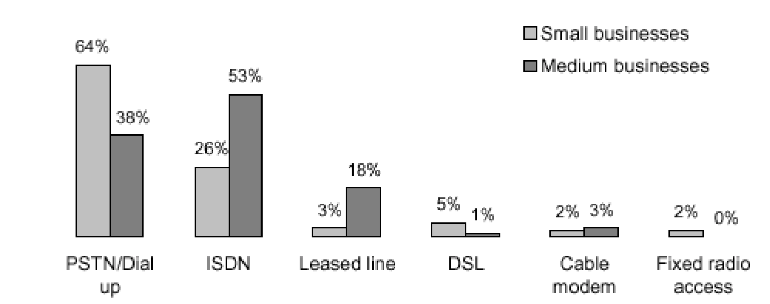
2. Broadband and Co-location

Kingston Communications of Yorkshire has built its own local broadband network and has been a leader in video-on-demand services. Steve Maine, Kingston CEO, has listened to the government's enthusiastic proclamations of the future of UK broadband. He believes that their attitude is "incongruous", and does not reflect the current reality (Slow, 2001). He thinks the enthusiasm is unwarranted. Broadband availability will not become widespread until competitors can install their own equipment in BT exchanges (co-location).

Maine does not believe that BT is making room in key exchanges cheap enough to create a competitive market.

As of February of this year, BT was surveying 700 exchanges for co-location. However, Maine claimed that the ones that have been chosen do not create a large enough number of potential customers in any one area to make it economically viable to offer a service (Slow, 2001).

The UK has a largely untapped DSL market. It is more a potential market than a current constituency because BT has hindered its growth. They have engineered several obstacles to prevent competitors from entering the market. The best case most competitors can hope for is to retail BT DSL services they themselves have bought wholesale. Carriers interested in directly competing against BT must be able to afford installing their own equipment in BT exchanges, closely guarded territory.



Methods used by businesses to access the Internet (Business, 2001).

Earlier this year, Oftel and BT worked together to offer competitive trails of unbundled services at the local loop. Their primary goal was to test the delivery of broadband services from exchanges owned by BT. Initially, thirty service providers eagerly participated in the trials. The players included WorldCom, Kingston Communications, Thus (formerly Scottish Telecom), Cable & Wireless, Energis and Colt. The government is interested in broadband growth as part of its "UK Online" project. Their strategy is to make Britain the most extensive and most competitive broadband market in the G7 by 2005 (Slow, 2001).

Nearly all the companies who fell out of LLU trials cited high costs as the reason (Slow, 2001). Though BT is required to allow competitors access to their exchanges, BT can set the price of such access and define it. Currently, BT plans to cordon off areas in current exchanges or build annexes. Carriers wishing to install equipment in these "hostels" are required to pay up to $360,000 for access to each major switch area (Dennis, 2001). This high price has caught the attention of Oftel, which has ordered an inquiry into the matter.

Perhaps as a diversion from its reluctance to allow co-location, BT recently began allowing the wholesale purchase of their leased line services by other carriers. Initially, ten other UK ISP's, including Thus and Energis, can buy and re-sell the cheaper leased line services. However, even this concession was made by BT reluctantly. They procrastinated as long as possible before regulatory pressure forced their hand. Oftel had sent a draft directive to BT last December to make this provision, and BT ignored it. Oftel followed up in March with a full directive and a deadline of June, 2001 (Coates, March 29).

The UK could learn a great deal from the US about the commercial benefits of broadband. American consumers with broadband Internet access spend over 4 hours online for every hour of their dial-up counterparts, and participate in a wider variety of e-commerce activities. Small businesses are twice as likely to trade online if they have a high-bandwidth connection (Slow, 2001). Rather than taking lessons from American broadband providers, BT learns delaying tactics from America's Baby Bells (less than 2% of American lines have been unbundled, and many broadband service competitors have given up) (Slow, 2001).

IV. Conclusion

British Telecom is deep in debt and continues to operate like a government-operated utility company. It needs to raise funds immediately, and find ways to operate more competitively. BT is seriously considering dividing its retail and wholesale operations[2]. The wholesale division would continue to control the infrastructure (and continue to be scrutinized by Oftel). BT's independent retail operation could "escape the micro-regulation that has sapped its capacity for innovation and entrepreneurship: it would be subject only to standard competition laws" (Slow, 2001). "BT-Retail" could compete with other telecommunications retailers, and leave the price controls behind with "BT-Wholesale". Some believe that the RPI-minus-x retail price control is a deterrent against efficiency. The fear is that as BT improves its business and increases its profit, Oftel could, without carefully determining the causes, react to the higher profit by increasing the "x" rate (Can, 1991).

BT continues to struggle under an increasingly large mountain of debt, which is now estimated at $45 billion. The cash-strapped company continues to spend in an attempt to grow its way out of trouble. They will inevitably raise funds through an already delayed IPO of BT Wireless. The sale of BT's Yell directory

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[2] *On May 10, 2001, BT announced a demerger of its operations into eight entities, known collectively as "BT Group". The newly independent operations were: BT Wholesale; BT Retail; BT Wireless; BT Openworld, providing broadband Internet service to UK retail customers; BT Exact Technologies, developing telecommunications technology; BT Ignite, providing international corporate Internet solutions; Concert, BT's cooperative operations with AT&T; and Yell, BT's former directory service, before its sale (BT's Structure, 2001).*

services operation would bring in additional cash estimated at $7.5 billion[3] (Gold, 2001, February 8). Cathia Lawson, high grade telecoms analyst at SG, was quoted in Euroweek magazine as believing that BT still has the core strength necessary for an overall recovery. "BT could raise €20 billion ($18 billion) from the disposal of noncore assets," claimed Lawson (Orange, 2001).

Better marketing may help BT's image and domestic sales. At least that seems to be indicated by their recent investments. The company went on a search throughout Great Britain for an ad agency that could provide the "group-wide cause related marketing strategy" necessary to improve their situation (Kleinman, 2001). BT is also heavily marketing the web site of its directories operation, Yell Group, called Yell.com. Partners BDDH developed a series of catchy TV adverts to promote the site to consumers (Rosier, 2001). A more accurate description of the target audience may be potential buyers. The service, as well as the directory itself, are certainly appealing investments and would provide BT with some desperately needed loan payment funds.

The European Commission is applying pressure to European Union members in an attempt to open up local loop infrastructure to competition. Along with eight other member nations, the UK has not complied with the EC's non-binding recommendation. The commission has threatened anti-trust lawsuits against members who did not meet a deadline of the end of 2000 (Dennis, 2000). Though Oftel is interested in breaking BT's monopoly, it wants to progress on its own timeline rather than one set by Brussels.

[3] *BT sold Yell operations to a newly formed investment company on May 26, 2001, for $3 billion (BT, 2001).*

The Economist magazine published an article 10 years ago begging the UK government to open up the UK's privatized monopolies to competition, and identifying weaknesses in the regulatory system. Many of the weakness identified then still exist. "[Oftel's] specific legal powers are mostly confined to operational remedies, designed to counter a particular abuse that needs only a boardroom directive to correct it," stated the article (Open, 1991). The regulators' failure after several years to foster more competition was evidence that a new approach was necessary. The article recommended that an upcoming review of the then duopoly (BT and Mercury Communications) result in policy changes providing incentives to likely competitors. The recommendations went unheeded. The call to increase competition in the UK telecommunications industry is still valid. Such an act must be initiated by the government and enforced by Oftel. Any move to do so will benefit BT by making it operate more competitively worldwide. Their competitors will finally be allowed access to markets, and consumers will choose from a wider variety of cheaper services.

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