The British Experience

by Stewart Fist

You probably think that the Americans were the first to introduce competition into their telephone networks, but that's not really so. However they were the first to privatise telcoms -- in fact, they've never had anything else.

At one time there were 27,000 telephone companies in the USA, but, over time the Bell Company (later AT&T;) bought up most of the profitable urban ones, and then blackmailed the US government into giving them what amounted to monopoly rights.

However, in 1983, Judge Harold Greene of the US District Court, foisted on AT&T what is called the Modification of Final Judgement (MFJ) which broke the company up into seven RBOCs (Regional Bell Operating Companies), leaving AT&T; itself as little more than a long-distance carrier.

In return for being given regional monopoly rights within areas known as LATAs (Local Access Transport Areas), the RBOCs were prohibited from competing in long-distance. If you wanted to phone from one LATA to another, your call had to pass from RBOC to RBOC across the LATA boundary via the network of a long-distance or IXC (Inter-eXchange Carrier).

Today, only a few thousand mum-and-dad, small-town, telephone companies remained outside these local call monopolies, and the market has been opened more under the 1997 Telecommunications Bill. In long distance there are about 300 companies (most point-to-point between two towns), but the only real competition to AT&T; still comes from the two largest, Sprint and MCI.

In Britain, however, way back in 1981, the Thatcher revolution introduced competition across the board in telecommunications. This was, in economic rationalist terms, "The Real Stuff".

A small company called Mercury had long held the rights to run the local service in Hull and, before 1981, it was the sole non-BT-supplied local telephone service in the UK. In 1982 Mercury was acquired by an independent international cable company Cable & Wireless (C&W) which was a historical artefact of the 1800s British Empire telegraphy. And so UK competition was born.

For many years C&W ran the UK's overseas telephone services using cables laid around the world, and it later bought interests in a number of overseas companies, such as Optus and the Hong Kong Telecom.

So with the Mercury/C&W and BT duopoly, competition came to Britain in both local and long-distance services; and today this remains as the only true example of across-the-board, at-all-levels, telephony competition anywhere in the world.

In 1984, British Telecom, the UK government's own ex-monopoly carrier, was then privatised, and this was the first (and still largest) sell-off of public network assets in the world.

Until 1991, this duopoly staggered along, showing much the same problems as Optus has had in Australia. Then the UK government opened the market to other competitors, as ours will be in July.

The main difference between our two countries is that competition in the UK is still tightly regulated by both Oftel (the UK Austel) and the Mergers and Monopolies Commission (the equivalent of our ACCC). They set price caps, arbitrate constantly, take the carriers to court, intrude into every bilateral deal, and complain bitterly that BT's accounts aren't segregated in a way which reveals a true picture of the company's profitability.

Australia, by contrast, believes much more in self-regulation.

The UK also prohibits Mercury and BT from being involved in broadband cable networks or Pay TV delivery -- although apparently BT has done a secret deal with Tony Blair to remove that restriction. Obviously Labour Party traditions are universal!

Privatisation proved to be a boon for the UK telco executives, as it will in Australia from next year. The change in ownership has also substantially improved the life-style of a number of front-bench Conservatives who found places reserved for them both in the new BT and C&W.

Lord Young, the champion of telecommunications privatisation when he was head of the Department of Trade and Industry (DTI) under Thatcher, is now the million-pound-plus chairman of C&W, while Lord Tebbit who took over the DTI from Young and pushed through the privatisation legislation, ended up on British Telecom's board.

This old English tradition of finding jobs for out-of-work politicians is something that Australia sadly lacks. We prefer to insult our politicians with enforced idleness, cushioned only by exorbitant parliamentary pensions and free travel. But in the UK, ex-Tory front-benchers must go cap in hand and humbly ask for a job in the City, often with the companies that they helped to privatise. Fortunately, most of the privatised utilities have shown their compassion generously.

The workforce in BT were not quite so fortunate. From a peak of 244,418 in 1990, the staffing levels dropped to about 130,000 at last count -- close to one in every two jobs disappeared.

For comparison, over roughly the same period, Telstra's staff level rose from 70,000 in 1991, to 80,000 last year, and now, after some serious outsourcing decisions (IBM and Visionstream), it has dropped back again to 74,000.

The British approach to regulating competition is also much more intrusive than Australia. The Bills now passing through our Parliament create a new telecommunications environment based strongly on laissez-faire theories of 'self-regulation' (an oxymoron).

However, if you flick through back issues of the UK newspapers, between1981 and 1995, you'll find weekly stories about Oftel charging BT with "uncompetitive practices"; the Merger and Monopolies Commission threatening to take action; Mercury and BT in fierce legal battles before the Lords; etc. etc.

The last decade in the UK hasn't just been a lawyer's picnic -- this was the whole gutsy gourmet feast.

Oftel warned last year (15 years after competition was introduced) that it has increasingly "found itself working in a more legalistic and adversary atmosphere. The effect may be to slow down the very changes everyone wants to see." And this is not what was supposed to happen with open competition. The invisible hand is also undetectable.

The new 1991 legislation opened the market further, permitting the cable companies (mainly American RBOCs, relaying channels from BSkyB) to offer local telephony. It also bought into the industry some of the newly privatised electrical supply companies. They had the rights to swing telephone and coaxial cable down the streets on their poles, which, as Optus will tell you, is the cheapest, quickest and most attractive way to cable-up a neighbourhood.

Energis, Scottish Telecom, Ionica (wireless local loop), the major regional cable companies, and about 100 other small companies, now all offer telephone services of some kind in the UK. So the British market is clearly the most competitive in the world -- and it has been for a decade and a half.

However BT still has about 85 per cent of the overall telephone business, and possibly 90 per cent of local calls. The cable companies had a brief flash of success with what was called "Siamese cable" (twisted-pair wrapped around coaxial),. But gradually disillusionment set in, and large numbers have churned back to BT despite the 20 percent telephony discounts.

In mid-1995, Mercury had a serious crisis; it was over stretched and no longer able to maintain competition on all fronts. About 2,500 people left, including nearly half the executives, and Mercury sold or closed some of its operating divisions. It dropped completely out of the payphone business.

But while Mercury is still BT's main competitor but with only seven percent of the staff. Mercury concentrated on local business connections and it exists today mainly on its international call profits.

In mid-1995 BT wanted to buy Mercury/C&W's international operation, but the Mergers and Monopoly Commission insisted they sell the local loop operation, and the idea was quietly dropped.

In recent times, Mercury and BT seem to have developed a closer working relationship -- facing a common enemy. When BT matched American transatlantic charges while raising local line rentals to compensate; Mercury quietly made the same price cut, but didn't complain to Oftel.

There are also questions as to how BT and Mercury are able to offer special international tariffs at rates below those of the interconnect fee, which is the price other competitors need to pay to use just one part of BT's network.

In management terms, there's no doubt that BT is a much better company. Over this decade it has managed to pay excellent salaries and dividends, and to stack up retained earnings to the point where it bought MCI, the second largest long-distance carrier in the USA, for nearly $7 billion. It is now busy rapidly expanding the Concert consortium around the world.

So on an international competitive scale, one would have to say that the privatisation of BT was a success.

But how did the public, left at home, fare in all of this?

Well NUS International produces an annual comparative report on call charges, and generally the Oscar winner for "Highest Local Charges" is - you guessed it - British Telecom. The only regular challenge it seems to get is from Australia's Telstra - but maybe the voting's rigged.

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