

Conservative Technology Forum Note

TalkTalk: The need for action on competition

Our vision – greater competition

It is an extremely exciting time for the UK's broadband market. With the government already committed to implementing universal broadband across the country, the UK has the opportunity to become a world class and globally competitive market. Indeed it is one of the best broadband markets in the world today. However for this ambition to be realised, we must tackle the real issue of competition and ensure that broadband policy is not about internet speeds alone but also about delivering real choice and value for consumers. Specifically we think there are three main things that need to be done.

1. Effective monopoly regulation of BT in superfast broadband

In telecoms, it is essential for the market to be effectively regulated in order for it to function properly and deliver for consumers and businesses. In a market place where BT are both the monopoly infrastructure provider and the biggest retail provider, effective regulation to underpin stronger competition is critical to a well-functioning market. TalkTalk is concerned that in the race for speed and to get the infrastructure built as quickly as possible, we are at risk of sacrificing competition in the superfast broadband retail market.

TalkTalk believes that greater competition in the superfast broadband market will ensure consumers and businesses receive a fair deal and value for money. At present, we are concerned that BT is exploiting the comparatively weak regulatory regime. We believe there is increasing evidence that BT is using their dominant monopoly position in infrastructure – aided by the BDUK funding – to margin squeeze retail competitors like TalkTalk. This means they are overcharging at a wholesale level and then undercutting on retail margins making it impossible for other providers to price competitively. Given Government is also paying for the third of the network, it is only right that access is regulated to deliver value for money and that BT is not unfairly benefiting to the detriment of other companies. A recent study commissioned by TalkTalk (WIK, March 2013) found that BT is charging twice the wholesale price for superfast broadband. Even on conservative assumptions, they calculated the price should be around £4.30 per customer per month rather than the c. £8 BT is actually charging. TalkTalk has logged a Competition Act Complaint to this effect and BT is currently under investigation.

Bringing more competition to the superfast broadband market, through tighter regulation, would allow BT's competitors to introduce a more affordable offering and result in lower prices for consumers and businesses. Currently the price of superfast broadband is constraining take-up as consumers and businesses are not willing to – or able – to afford the premium pricing. Ofcom's own analysis shows that while our copper pricing is amongst the lowest in Europe, superfast broadband is amongst the highest. If we are to guarantee that every family in the UK has access to broadband, we must ensure that they can actually afford it.

Encouragingly Ofcom have indicated that they intend to introduce price restrictions in the form of an *ex ante* margin squeeze test later this year and we are urging them to follow through on this. We expect that competition would increase and prices would fall as a result, making superfast broadband would be affordable for more people.

2. Focusing on digital inclusion and skills

We believe that policy – and funding – needs to be much more focused on digital inclusion and skills, both for consumers and businesses. Considering that the Government is making considerable investment in building the infrastructure, TalkTalk believes that more needs to be done to ensure people are able to use it. over 7 million adults who have never used the internet, just 33% of SMEs have a digital presence and only 14% sell their products online. This is despite the fact that those SMEs who make use of the internet grow four times faster than those that don't. A recent report by Booz and Co estimated that the total annual turnover of UK SMEs could be boosted by £18.8 billion if all these firms marketed and sold online.

3. Calling for easier switching

TalkTalk believes that securing hassle free switching is at the heart of creating a balanced and truly competitive telecoms market. Easy switching forces providers to push themselves to strive to offer the best deal on the market to their customers. This effectively leads to greater product and quality differentiation. That is why TalkTalk urges Ofcom to resist widespread industry opposition and continue with the reforms of the telecoms sector it has already started, which are backed by consumer groups, and make it easier for consumers to switch providers. This also needs to extend to TV bundles as well as phone and broadband.