

Thanks Michelle.

Good morning, ladies and gentlemen.

To put my comments into context let me first give you a brief description of Cable & Wireless.

We are a U.K. based company providing services in 70 countries, with current annual revenue of around 9 billion Euros. And unusually in our sector we have been around for 130 years – our founder laid the first successful transatlantic telegraph cable in the 19th century.

In approximately half of the countries we operate in – covering Europe, the United States and Japan – our focus is on the business market and in support of this strategy we have developed advanced IP networks to provide voice and data services.

In the UK Cable & Wireless is the number two communications provider and over the past couple of

years we have built an advanced network across Europe and acquired business-focused Internet Service Providers in a number of member states.

As well as being a Tier One Internet backbone provider in the U.S. we are also the world's largest provider of managed web-hosting services, following the recent acquisition of Digital Island and the purchase of assets from Exodus.

In the other 30 or so countries where we operate, covering the Caribbean, Central America, South East Asia and the Middle East, we provide a full range of fixed and mobile telecommunications services to both the business and residential markets.

And C&W is something of a rarity in the telecommunications industry these days, as we have a very healthy balance sheet and a net cash balance of around 4 billion Euros.

In Europe, where we have recently experienced the local loop unbundling experiment at first hand, it is increasingly apparent to me that regulatory intervention, as a means of promoting competition in the face of incumbent behaviour, is failing. This is especially the case when it comes to preventing dominant players from leveraging market power into emerging markets such as broadband.

The introduction of local loop unbundling in many European jurisdictions has represented a concerted effort on behalf of national regulators to neutralise the incumbents' continued dominance of the local access market.

Despite this considerable effort, national regulatory regimes have been unable to deal effectively with incumbents who have, some would argue, entirely rationally sought to discriminate in favour of their own businesses. In protecting their own downstream businesses in this way, other telecoms players have been systematically prevented from competing. The knock on

effect of this is of course that consumers will not receive the benefit of product and service innovations and price competition.

Some have argued that there are reasons other than incumbent behaviour or ineffective regulation for the lack of progress on unbundling. Let me review and dismiss a couple of these:

- The argument that there is no viable market for broadband. In the UK BT has been able to deploy broadband facilities and customer numbers are rising weekly - this argument therefore seems unfounded.
- Or 2, perhaps that the competition has been ineffective and lacked the capital to make LLU work.

Around 40 companies actively participated in the UK unbundling process. Admittedly it was never likely that so many operators would have been successful but had competing operators been able to enter the market on a broadly equivalent basis to BT then analysis suggests that the UK market could have

supported around 3 or 4 national operators and numerous niche players. And we at C&W certainly don't lack capital – the business plan just did not work. This is not therefore a compelling explanation.

It appears then that there is only one rational explanation for the failure of LLU.

And that is that the vertically integrated structure of the incumbents means that competitors are invariably disadvantaged when it comes to local access.

In the UK, BT remains dominant in the local loop. Today it still provides over 80% of all access lines. As a vertically integrated operator BT has every incentive to exploit its market power in local access to the benefit of its downstream business. Whilst other UK telecoms providers were still facing a protracted and bureaucratic process for gaining access to BT's local exchanges BT was already actively deploying DSL in many of its exchanges.

C&W believed that LLU presented a good investment opportunity in the UK when it was initially examined. The reality is that faced with continued delays and BT's pricing this proved not to be the case. That wasn't critical for C&W. LLU is just one of a range of potential business opportunities - we can move on to the next one. But for many players the outcome is not so positive. Equally at the macro economic level it's not good news for national or European Governments. The lack of competitive investment in LLU means that, for now, many consumers are faced with a choice of one broadband supplier. Or where they have choice, whilst they face the prospect of short term price reductions, there is little or no prospect of new and innovative products and services because without competitive pressure in the last mile there is no incentive on incumbents to invest.

Although the LLU exercise was a failure in the UK, I remain positive about the prospects for competition in the UK and Europe more generally. But, and this is a big but, only if the lessons from LLU are learned. So what

did we learn? For me two big issues arose from the exercise. Firstly there is the painfully persistent problem of discrimination by the incumbents like BT. As a vertically integrated operator that remains dominant in the local access market it always has the temptation and the ability to favour its own business. And dare I say it I might be tempted if C&W were in BT's position.

Indeed, let's face it, BT has a duty to its shareholders to maximise its returns and it obviously strives to achieve that within the context of a set of regulatory constraints. I think the crucial lesson from LLU to date is that the existing regulatory framework is simply not up to the job of dealing with the issue of discrimination.

The second big issue for me from LLU is the crucial importance of regulation in facilitating and even promoting innovation in the telecoms market. There is a very clear expectation that broadband communications and the digital economy more generally will be a big driver in boosting innovation and productivity in the European economies. I, like most people, believe competition will be vital to the emergence of an

innovative and vibrant broadband market. So if we want to achieve our broader goal of a thriving European economy, first we need to put in place the regulatory conditions for boosting innovation in the telecoms market. And for me that means we have to find a way of neutralising the incumbents' control of the local loop. Because then, and only then, will competition be viable in broadband and new markets more generally. And if you need any more persuading of the importance of innovation then take a look at the new framework directive. National Regulatory Authorities duties will include, and I quote:

“encouraging efficient investment in infrastructure, and promoting innovation”.

And linking back to my first point on discrimination,

“ensuring that there is no distortion or restriction of competition in the electronic communications sector”.

It probably won't come as a big surprise then if I say that I don't see the status quo as an option for regulation. I don't think this is a particularly controversial point. I believe my view of the world is reflected in the new regulatory framework developed by the Commission, but I just think we need to go further. The challenge for regulation is to neutralise dominance and at the same time promote innovation. I see two main options, and let me declare now, I have a favoured option.

One possibility is to go for intensive behavioural regulation. And I don't see that as a bit of mild tinkering. Under this option, I see the need for a substantial rethink about how to control discrimination. The key will be to develop processes that force BT to treat all operators (including its own downstream operations) on an equivalent basis.

And the inevitable outcome of this would be more intrusive regulation of incumbent operators. This may improve the situation in terms of discrimination, but it would be far less successful in promoting innovation.

Forcing regulatory processes on BT to control its ability to discriminate can only serve to diminish its ability to innovate. A detailed scrutiny and compliance procedure, enforced by an NRA, would inevitably slow down the speed with which BT can bring a new product to market. Effectively it will mean all operators will be equally disadvantaged. This is I'm sure not really how we all want to see regulation developing. But we have to be clear, light touch regulation is a non-starter unless we see some other change in the regulatory and market environment. And that's where my second and preferred option comes in. Structural separation of the incumbent. Separate out the local loop assets that create the problems in downstream markets. This new LoopCo, under separate ownership, would then view all competing operators as customers, rather than competitors. It would have the incentive to innovate to serve all of its customers' needs, rather than always having at least one eye on what would benefit its own downstream operations as it does today. LoopCo would obviously need to be regulated tightly, as it would be dominant in the wholesale access market, but not in terms of

discrimination. And the considerable upside would be that light touch regulation would be more viable for BT's residual business. And better still, regulatory withdrawal from these markets really would become a realistic medium-term goal.

It is on the innovation front though, that a separate LoopCo scores so highly. Operators would be able to develop innovative products without having to approach an integrated BT with which it would be simultaneously both a customer and a competitor. When C&W is solely in a customer relationship with LoopCo it is a certainty that it's ability to innovate will improve.

So in conclusion, I am pretty sanguine about C&W's future in Europe. For starters, C&W is a global business and as such has a portfolio of investment opportunities from which it can choose. But, that does not mean we are turning our back on Europe. On the contrary, I see a very bright future in Europe, because the conditions are coming together that will make for an effective competitive environment. The new regulatory

framework sets the direction, all I urge now is that the NRA's and the Commission follow up on this. It is clear that the status quo is not an option if the broader goals for both the European economy and its telecoms markets are to be met. So let's start by undertaking a rigorous review of national markets, and specifically of course, the access markets, and then implement the necessary regulatory changes. For me that will mean a separation of the incumbents' local loop, but of course ultimately that is not my decision.