

EC Telecommunications : Research
for an Advanced Communications
Environment (RACE).

POLICY

March 1985

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19-3-85							
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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 November 1986

Thank you for your minute of
5 November about "Sunrise Europe".
The Prime Minister read your summary
but will not have time to read the full
book which I am returning herewith.

P. A. BEARPARK

J. W. Fairclough, Esq.,
Chief Scientific Adviser,
Cabinet Office.

Prime Minister⁴.

I have the book; but you
may prefer just to glance at this summary
by B Fairclough.

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MR BEARPARK - NO.10

5 November 1986

ppp 25/11

"SUNRISE EUROPE"

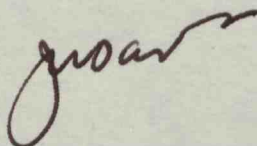
In view of the attention which Ministers are currently giving to the future of telecommunications, the Prime Minister may be interested in the attached book "Sunrise Europe" by Ian Mackintosh, a respected consultant.

2. Whereas others have addressed directly the problem of what telecommunications system will be needed to serve the interests of individuals and firms, and to allow new marketable goods and services to be developed, Dr Mackintosh takes another approach. He starts by looking at the European IT industry and asking what is needed to restore it to full competitiveness with the US and Japan. He concludes that in this area the level of R & D spend is not a critical problem, though there is too much duplication of effort between companies with similar interests. The main need is to stimulate demand for IT goods and services, in a way which will allow economies of scale to be realised, and this requires a demand for standardised IT products and services across several or all European nations. Dr Mackintosh argues that the only part of the IT sector with enough economic weight to provide the main focus of demand stimulation is telecommunications.

3. Dr Mackintosh then looks at telecommunications and concludes that only one project exists which can provide the necessary demand, which is technically and economically viable in its own right, and which would significantly enhance Europe's general commercial and industrial efficiency. This is a new broad-band network, "Eurogrid", based primarily on optical fibres and connected to essentially every home, office and factory. This would stimulate a massive demand, largely for a wide variety of IT terminals to be connected to Eurogrid. Dr Mackintosh argues that investment in Eurogrid, together with some associated

measures which he specifies, would create within 20 years a European industry on a par, in both the production and use of IT products, with its US and Japanese competitors. Europe's trade balance in IT goods and services would be massively positive, and a total of 7-8 million new jobs would have been created of which Britain's share should be 1.5-2 million.

4. I do not accept the whole of Dr Mackintosh's analysis, which strikes me as idealistic at some points. It is also, as I have said, a partial analysis which leaves some important factors out of account. Nevertheless, he makes some valid and stimulating points, and I have no quarrel with his central thesis, that a European broad-band network would provide a massive stimulus to European technology-based industry if it were properly implemented.



JOHN W FAIRCLOUGH
Chief Scientific Adviser



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

21 May 1985

CCND
NBAM
CDP
21/5

Geoffrey Pattie Esq MP
Minister of State for Industry
and Information Technology
Department of Trade and Industry
1 Victoria Street
LONDON SW1H QET

Dear Minister,

EC TELECOMMUNICATIONS: RACE

Thank you for sending me a copy of your letter of 7 May to Peter Rees about the way to handle the RACE proposal at the Research Council on 3/4 June. I have now seen his reply of 13 May to you which offers to discuss any further points you wish to raise.

I am very ready to take up the suggestion in your letter to Peter that I should chair a small group to discuss this. A meeting at 9.00am on 23 May in the FCO would be convenient to me. I hope Sir R Nicholson will be able to join us.

I am copying this letter to the Prime Minister and to other members of EA, Peter Rees, Sir Robert Armstrong, Sir Robin Nicholson and Sir Michael Butler.

Yours sincerely,

Malcolm Rifkind

for Malcolm Rifkind
(approved by Mr Rifkind and
signed in his absence by his
Assistant Private Secretary)

End for March 85

EC Tel.



21 MAY 1985

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Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP
Minister of State for Industry and Information
Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

13 May 1985

EC TELECOMMUNICATIONS: RACE

Thank you for your letter of 7 May, reporting on the outcome of your discussions on RACE at the informal meeting of Research Ministers on 22/23 April.

It is clear that Italian pressure for agreement on a large telecommunications R & D programme is likely to continue up to the end of their Presidency, fortunately now only some six weeks away. With French and German support for the avoidance of any precipitate decision we should I think be able to prevent unwelcome decisions at the June Council.

Turning to the substance of the RACE proposal I agree with you that further exploration of the technical arguments would not be productive at this stage. The UK's objective remains clear: to push for further liberalisation in the telecommunications market with Commission involvement limited to a co-ordinating role and to avoid any re-opening of the 1225 mecu R & D package agreed in December. A RACE programme on the lines outlined in my 19 April letter remains a realistic and constructive goal; and we must continue to lobby our partners, particularly the Germans, on these lines.

I remain wholly unconvinced of the need for the RACE programme to include any element of Community R & D expenditure. As the Chancellor stated at OD(E), we do not think it is appropriate to attempt to "buy" concessions on opening up the Community market by agreeing to extra spending on R & D. Nor do I accept the view that our own actions in deregulating the telecommunications market

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in the UK was predicated on the assumption of reciprocity elsewhere.

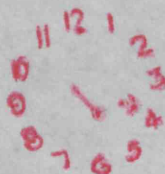
In the circumstances I am not convinced that a further meeting would be likely to assist matters. However if you wish to raise any further points I shall of course be happy to discuss them with you.

I am copying this letter to the Prime Minister and other members of EA, Malcolm Rifkind, Sir Robert Armstrong, Sir Robin Nicholson and to Sir Michael Butler.

Yours sincerely
Peter Rees

PETER REES

14 MAY 1985



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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1

7 May 1985

Dear Peter

EC TELECOMMUNICATIONS: RACE

As you know I attended an informal meeting of Research Ministers in Rome on 22/23 April. The Italian Presidency (Granelli) sought advice on how best to handle the RACE proposal with a view to reaching a positive decision on its adoption at either the Industry or Research Councils scheduled for the first week of June. I think it would be useful if I give you and colleagues a brief account of the discussion and put forward some ideas on how we should now proceed.

After the Commission and the Belgians had both spoken in support of Granelli's call for an early positive decision I thought it right to inject a cautionary note to stop a bandwagon developing. I therefore recalled the United Kingdom's statement at the 19 December 1984 Research Council that there should be a period of consolidation in Community R & D and that no new programmes should be agreed until after the 1986 review of the programmes which were adopted at that Council. I expressed regret that, only four months later, the Commission should have come forward with a new proposal which had not been mentioned at the time we had taken our decisions in December. I then questioned whether the definition phase of the RACE programme could properly be described as such when one of its component consisted of a number of long lead R & D elements and argued that a definition phase should not be the first step towards a more ambitious research programme. But I stressed the importance which we attached to the Community making rapid progress on standards and type approval and argued that the Community's role in any telecommunications programme should be that of coordinating the efforts of the operators and industry. I said that I thought it was unlikely that discussion of the proposal would have advanced sufficiently to make a decision possible at a meeting on 3 or 4 June.

MYL/MYLAHV



The Dutch and the Italians then spoke in support of an early and favourable decision while the French tried to build on the distinction I had made between the two parts of the definition phase. They argued that the work on the reference model could be done via the PTTs whose efforts could be linked through the Conference of European Posts and Telecommunications Administrations (CEPT). As regards the research and development part, they said they were very interested in Community research at pre-competitive levels, rather like ESPRIT but very carefully prepared to avoid any overlap with ESPRIT. This, they thought, was a proper subject for Research Ministers. The Commission then made a further strong statement in defence of the proposal referring to a history of missed opportunities both by companies and by Governments over the past 20 years in high technology areas. Granelli, in summing up, referred to the decision of the European Council on 29/30 March to endorse the objective of achieving a break-through in and reiterated his aim of reaching a decision in June. The Germans did not speak but I established over lunch that their position is very similar to ours.

My conclusion is that the Italians will try to force the pace on this issue. They will have little if anything to show for their Presidency in the R & D area if the RACE programme is not adopted and I can see that both Granelli's own reputation and a certain amount of national prestige will inevitably get drawn into the issue. The Italians can expect to have the support of all of the smaller EC countries for the Commission proposal more or less as it stands. On the other hand it seems clear that German thinking is close to ours on substance and that the French share our wish to avoid any precipitate decision on the proposal in its present form. However, I am not sure that the French objectives are the same as ours. They seem prepared to contemplate some kind of R & D programme and to push the work on the reference model outside the Community framework.

In practical terms consideration of the proposal will now move to the Research Group and my concern is that we should have a clear and agreed objective to guide our representatives in that Group. I do not think it would be very profitable to continue the exchange of correspondence culminating in your letter of 19 April and would like to propose therefore that there should be a small meeting of interested Ministers to resolve our remaining differences. I recall that before the December Research Council Malcolm Rifkind successfully chaired a small group and I would like to propose that we invite him to do so again.

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The aim would not be to go over again the technical arguments which have been well aired in our correspondence, but to concentrate on our political objectives in the telecommunications field and the part a RACE programme can play in achieving them. The UK has taken the lead in deregulating and opening its own markets and I am concerned that we shall be vulnerable to considerable criticism if we can point to no parallel movement by our Community colleagues. This is, of course, why our main efforts are directed towards harmonisation of standards and liberalisation of public procurement policies. But I think that a modified version of the RACE proposal could provide us with very useful leverage in obtaining our overall objectives. We can, of course, make common cause with the Germans to reduce the R & D element as far as possible and to delimit any Community involvement after 1986. But if, at the end of the day, there is still a small price to be paid for embarking on a more limited definition phase, I am inclined to think that it would be a good investment.

If you agree that we should now have a meeting and Malcolm Rifkind is prepared to chair it, perhaps our private offices could be in touch to fix an early date so that we can adopt an effective negotiating stance in Brussels as soon as possible.

I am copying this letter to the Prime Minister and the other members of EA, Malcolm Rifkind, and to Sir Robert Armstrong, Sir Robin Nicholson and Sir Michael Butler.

I think we are also vulnerable politically here at home if we cannot point to examples of reciprocal deregulation in Europe particularly in the field of Telecoms

for en
John

GEOFFREY PATTIE

M12/M12AES

EUR. POL : EC Telecomm : Mar 85.

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
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NBPM

CD

19/4

17 April 1985

Dear Peter

EC TELECOMMUNICATIONS: RACE

We had an exchange of correspondence on RACE before Easter and it was also discussed at the Prime Minister's briefing meeting for the European Council. The subject may well come up again at the informal meeting of Research Ministers in Rome on 22/23 April. I shall, in any case, want to use that opportunity to explore further the attitude of my Community colleagues to the programme, in particular the Definition Phase.

The line I am proposing to take is:-

- (a) to reiterate my statement at the December Research Council that there should be a period of consolidation in Community R & D;
- (b) not to oppose the RACE Definition Phase per se but to suggest it be largely, if not entirely financed by operators and industry with the Community adopting a co-ordinating role;
- (c) to question the inclusion of long-lead R & D in the Definition Phase.

I am uncertain how far this approach, which flows from the constraints we face on finance rather than the technical merits of the proposal, will be acceptable to our European partners. But the informal meeting in Rome will provide me with an opportunity to gauge their attitudes before discussion proper begins in the Council.

AP3/AP3AAP



However, I understand that your officials are not content even with the negative line proposed above and want me to oppose the Definition Phase on industrial grounds in accordance with para 5 of your letter. I had interpreted the latter to refer only to the question of Government financing and to be met by my point on (b) above. To oppose the industrial rationale for RACE would seem to fly in the face of the body of expert European opinion, including the UK major companies, who have participated in drawing up the Definition Phase and are supportive of it. There are valid industrial arguments for RACE. As I explained in my letter of 19 March the European telecommunications industry is very fragmented. Companies have been content to supply their domestic PTTs. However, the cost of the development of modern systems and the speed with which they are overtaken by new ones means that individual European markets are no longer big enough to provide an adequate return. Co-operation is essential if Japanese and US firms, with the inbuilt advantage of large domestic markets, are not to take over the European market and if European firms are to have a solid enough base from which to launch effective competition abroad. RACE is a vehicle to promote that co-operation in the development of the next generation of technology. It provides an environment in which European companies can overcome the insularity of the past and work together on joint R & D contracts. Just as importantly it means that the standards developed in that new technology will be common standards. That, as you acknowledge in your letter, is one of our agreed objectives.

I am also very sceptical of the argument that the industry can be left to solve its own problems in an appropriate timescale. Part of our policy is, of course, to encourage them to do just that. I am already in discussion with my French colleague about this and I will also pursue it in Italy. But I believe RACE would complement this approach and even accelerate it. The sort of agreement you mention (that between Siemens, Alcatel, Italtel and Plessey) is simply not enough. There has been no hint from Plessey that they consider it so: rather the contrary. Granted it is a small step in the right direction. But it is no more than a loose statement of intent aimed at incremental product development for the immediate future. RACE is concerned with a longer term strategic approach.

Finally can I take up your point about lack of progress on opening up Community markets. Considering the telecommunications initiative is only just over a year old, I think we have made some progress in the following three areas:-

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(i) Standards: a programme for the elaboration of harmonised standards in six priority areas has been agreed;

(ii) type approval: a draft Directive on reciprocal acceptance of test results for terminal equipment is almost ready for presentation to the Council. This will enable UK companies to sell in the EC without having their products subject to retesting in each Member State;

(iii) Procurement: last Autumn the Council agreed a recommendation requiring operators to publish 10% of their calls for tender.

In the light of the above, I trust that you will agree with the line I propose for the informal meeting in Rome.

A handwritten signature in dark ink, appearing to read 'G. Pattie', with a horizontal line underneath.

GEOFFREY PATTIE

M12/M12AES

E40



Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Pattie Esq MP
Minister of State for Industry and
Information Technology
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H 0ET

N3M

25 March 1985

Dear Minister

**EC TELECOMMUNICATIONS RESEARCH FOR AN ADVANCED
COMMUNICATIONS ENVIRONMENT (RACE)**

Thank you for your letter of 19 March explaining your dilemma over RACE.

It was to deal with just this type of issue that Ian Stewart wrote to you and colleagues on 21 December. We had accepted that the limit on the Community R & D programme should be increased by 1225 million ECU, on the basis that no further additional programmes would be agreed until after the 1986 review to be undertaken by the Commission. Having secured agreement to this total in Brussels, we must now accept that additional project proposals which cannot be accommodated within that overall R & D provision will have to be rejected.

Re-allocation of the Euro-PES baseline provision in accordance with the 19 December Research Council decision is being dealt with on the basis of departments' own proposals. But as there is no significant spare capacity within the overall baseline any re-allocation would not release sufficient provision to include even the definition phase of the RACE proposal. Moreover if there were any spare provision it would have to be used to cover the renewal and extension of existing programmes. Without the economic and financial appraisal in the form agreed by PESC(EC) the overall costs and benefits of the new programme cannot be properly assessed at this stage.

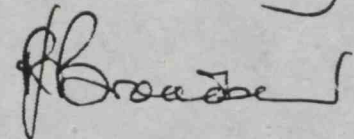
The EURO-PES mechanics are, however, the secondary issue here. The first is, as you acknowledge, the UK statement at the 19 December Research Council that there should be no further programmes until at least 1986. Ian Stewart and I attach great importance to maintaining the credibility of that stance. Agreement to even a project definition phase for RACE could not be passed

ff as a minor concession of no consequence. It would be the thin end (and 40 MECU in all is not so thin) of a very big wedge, and would only encourage the Commission in their ambitions for Community R & D spending in general. We regard with great concern the Commission's proposal which may be before the European Council that R & D's share of the Community budget - which will itself be swollen by new own resources - should rise from the present 3 per cent to 4 or even 6 per cent after 1986. If we agreed to exceed 1225 mecu now our chances of resisting this pressure would be much reduced.

I do not agree that resisting RACE cannot be convincingly defended. The expenditure arguments are in themselves wholly valid. But the case for RACE is also not proven on industrial grounds. The UK line on Telecommunications in Europe as agreed with your department has indeed been strongly supportive of Community initiatives - but in the area of harmonisation and liberalisation. Our agreed line has been that given progress with such market measures, the PTTs and the industry will themselves be able to bear the cost of the technological research needed for them to compete in the 1990s. That view is supported by reports of the recent accord between four of Europe's leading telecommunications companies (including Plessey in the UK) on technical cooperation which may lead to the industry itself engaging in collaborative research and even establishing a common research centre. We have not been given any evidence that this view should change. So far there has been little or no progress on our main objective of opening up the telecommunications market to competition through open tendering requirements for public procurement.

Having made the declaration against further programmes in December, it was always likely that we would sooner or later find ourselves threatened with isolation. You will gather that Ian and I think it essential to resist such pressures. If we can point to the wider implications of agreeing to RACE, we might find some sympathy from other quarters. You will be aware of the German's statement for the final Council minutes on the R&D programme re-iterating the Council's commitment to only a gradual increase in R & D spending and the need to avoid any steep rise after 1986. To those who would argue that RACE should have higher priority than some existing programmes it might be suggested that we would be prepared for something - the Joint Research Centres perhaps - to make way for RACE. Otherwise, we shall have to stand by what we said in December.

I am copying this letter to the Prime Minister and the other members of E(A), Sir Robert Armstrong, Sir Robin Nicholson and Sir Michael Butler.

Yours sincerely


(for PETER REES

[Approved by the Chief Secretary]



From the Minister of State
for Industry and Information Technology

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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NBPM

Rt Hon Peter Rees, QC, MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1

19 March 1985

Dear Peter

EC TELECOMMUNICATIONS: RESEARCH FOR AN ADVANCED COMMUNICATIONS
ENVIRONMENT (RACE)

I expect shortly to be faced - either in the Research Council or in the Industry Council - with a proposal from the Commission for the "Definition Phase" of a large telecommunications R & D Programme called "RACE". It is also possible that the proposal will be tabled by the Commission at the meeting of Heads of Government at the end of this month. I need to consider with you and other colleagues what line I take in the Council and how the Prime Minister should be briefed if the subject is raised in the European Council.

My starting point is Ian Stewart's letter to me of 21 December in which he said that, following the agreement reached in the Research Council on 19 December to a 1225 mecu R & D programme, there could be no question of approval being given to any further Community projects, until the Commission's review of their overall expenditure in this field had been completed in Autumn 1986.

It is unlikely however that we will have much support from our Community partners for a total moratorium on any new R & D projects. In particular, there is a good deal of interest in co-operation in telecommunications. It is a priority we ourselves have strongly endorsed. You will also recall that the European Councils held in Stuttgart, Athens and Fontainebleau have all emphasised the importance of telecommunications as a major source of economic growth and social development.

The Industry Council has set in hand a number of welcome measures to harmonise standards and liberalise the market. Alongside this, the Commission produced a 10 year R & D programme (RACE) designed to make the Community industry competitive in the broadband digital technology likely to be required for the installation of new

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networks from 1995 onwards. The first 5 year phase of the programme was to cost 200 mecu plus. The proposal was that the cost would be borne jointly by industry, operators and the Community's own budget. In the light of the present budgetary situation and the reaction from Member States, particularly the UK, and our statement at the December Research Council, the Commission have been brought to acknowledge that it would be inappropriate to embark on the full programme without considerable further preparation and refinement. They have therefore proposed a Definition Phase aimed at ensuring the programme is correctly focussed and incorporating the identification of very long-lead R & D needed to enable the programme to proceed in a synchronised way. The precise nature and size of the main programme will not therefore depend on the outcome of the Definition Phase. The latter would start in July-September 1985 and last 12-18 months. The Commission's estimates of the cost are given in the attached annex. The cost to the UK would be of the order of 4.85 mecu spread over the 1985/6 and 1986/7 financial years (i.e. 22% of the total Community contribution). If our rebate is taken into account, the figure would of course be much less. We need, of course, to press for the programme to be accommodated as far as practicable within the existing R&D ceilings and for economies and savings to be found elsewhere.

We have not attempted to undertake any written appraisal of the project Definition Phase itself. We regard its purpose as precisely to help an informed appraisal to be made of the full programme. We have, however, consulted the industry and our operators. They warmly support the concept and are prepared to contribute to its funding and provide manpower resources. Other Member States are also in favour, and seem prepared to contemplate a Community contribution of up to 50%. My general view too is that telecommunications is an obvious area for European co-operation. The industry is badly fragmented in Europe at present. Only by pooling our strengths and resources are we likely to combat successfully the US and Japanese competition.

It is against this background we need to consider what line should be taken at the Heads of Government and the Council meetings. There are two Treasury impediments to my forming a final view; first, Ian Stewart's general embargo on new R & D projects until late 1986 and, second, the fact that the reallocation of EUROPEs baselines between Departments affected by the 19 December decision has not yet taken place. It is not therefore possible to judge whether or not there is headroom within our DTI EUROPEs provision to cover the costs of the Definition Phase. Beyond this, however, there is the more substantial issue of whether we should embark on the project Definition Phase for a programme which would involve significant costs going well beyond what we could contain within either our EUROPEs provision or the totals we envisage for Community R&D spending. I recognise that if we try to hold out

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against approval of the project Definition Phase we will almost certainly find ourselves isolated and have difficulty in producing a wholly convincing defence of our stand. But I would be reluctant to recommend embarking even on the Definition Phase when I knew that this Department was most unlikely to have the resources to cover the costs of participating in the main programme, if such a programme were in due course to secure strong support from the rest of the Community.

I would be grateful to know your views.

I am copying this letter to the Prime Minister and the other members of E(A) Committee, and to Sir Robert Armstrong, Sir Robin Nicholson and Sir Michael Butler.

A handwritten signature in dark ink, appearing to read 'G. Pattie', with a stylized flourish below it.

GEOFFREY PATTIE

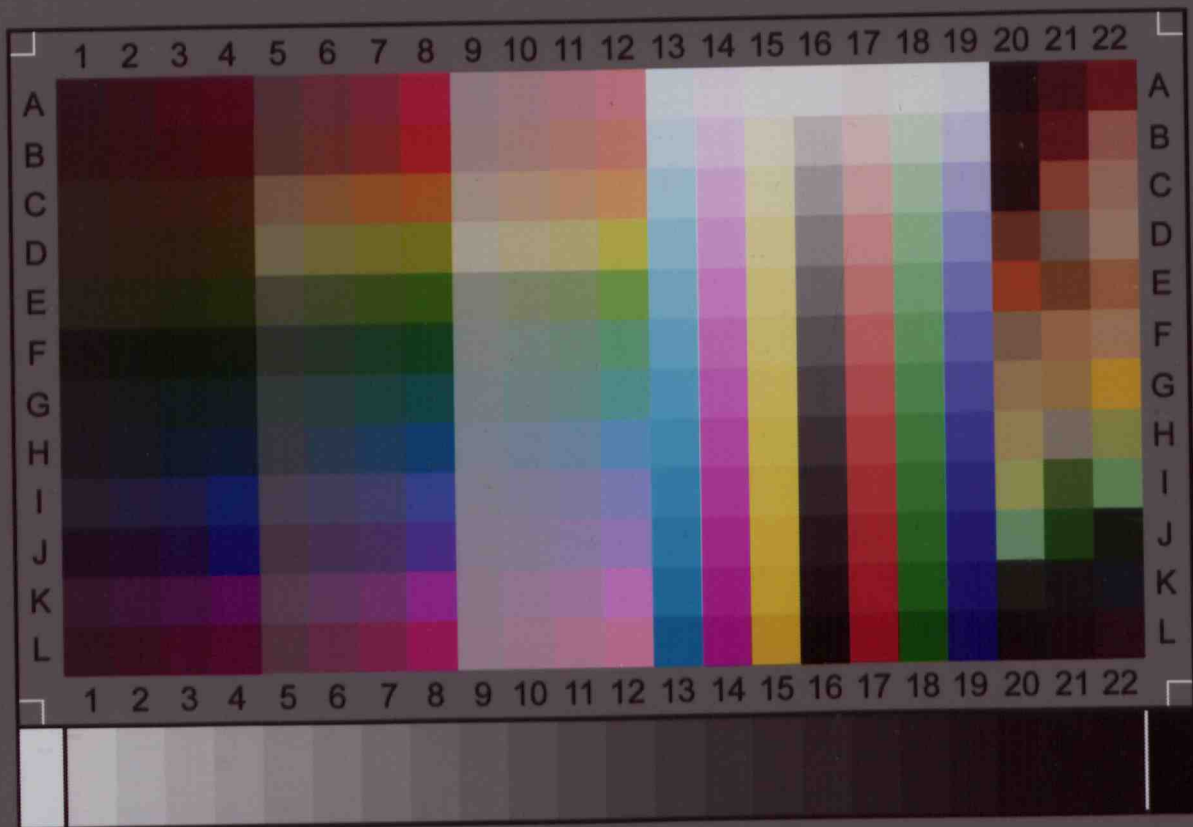
1	Total cost	42.9 mecu
	of which EC Budget	(22.1)
	other (operators/industry)	(20.8)

Commitment Appropriations	1985	1986	1987 and later	TOTAL
Contracts	14.86	5.95		20.82
Personnel Costs	0.11	0.88		0.99
Administrative Costs	0.03	0.22		0.25
TOTAL	15.00	7.06	pm	22.06

Payment Appropriations	1985	1986	1987 and later	TOTAL
Contracts	4.86	15.96		20.82
Personnel Costs	0.11	0.88		0.99
Administrative Costs	0.03	0.22		0.25
TOTAL	5.00	17.06	pm	22.06



19 MAR 1985



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