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10 DOWNING STREET

From the Private Secretary

SIR ROBIN NICHOLSON

ITAP REPORT ON CABLE SYSTEMS

I should be grateful for any comments you may wish to make on the Secretary of State for Trade and Industry's recent minute, a copy of which I attach.

You will recall that we have not so far submitted to the Prime Minister the DTI assessment of the ITAP review as a whole.

MARK ADDISON

23 July 1985

A handwritten signature in dark ink, appearing to be 'M Addison', written in a cursive style.

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PRIME MINISTER

INFORMATION TECHNOLOGY ADVISORY PANEL (ITAP) REPORT ON CABLE SYSTEMS : A REASSESSMENT

When I minuted you on 26 April with my reactions to the report by ITAP on Cable Systems I said that I had asked my officials to discuss with British Telecom the second of the Panel's recommendations. This concerned the making available of British Telecom (and Mercury) ducts and poles for the installation of cables by, or on behalf of, independent cable providers with a view to bringing down the costs of installing cable networks.

2 These discussions have taken place. Predictably these ITAP ideas have drawn a very negative response from British Telecom. They are extremely sceptical of the Panel's starting assumption that access to existing infrastructure gives them significant overall cost advantages compared with other cable system providers. This is at the heart of the matter since unless there are substantial cost benefits which are being unfairly denied to other operators, there is nothing to be gained from pursuing the ITAP proposal. British Telecom's own estimates, based on the very limited evidence currently available, suggest that this is not the case. They say this because, in the interests of effective competition, we have encouraged them to establish arm's length relationships with their cable subsidiary in relation to the provision of the network. In other words the cable subsidiary is expected to pay charges to its parent based on

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fully allocated costs. These charges in turn reflect cost penalties as well as advantages which arise as a result of using an existing infrastructure not developed for cable purposes.

3 A real advantage for those cable operators who are in partnership with British Telecom is that their capital exposure at the outset is significantly reduced by the fact that British Telecom are in effect acting as a banker to the project. However I see no way in which we could compel what is now a private company to take on that role more generally. The discussions that officials have had with British Telecom have confirmed the company's total unwillingness to consider any alternative to the kind of freely negotiated commercial arrangement it currently has in the context of a number of the pilot cable projects. This is because British Telecom take the view that any sharing of their infrastructure would be practicable only if they were to act as the network provider, not only installing and maintaining ducts, cables, and other apparatus, but also retaining full control of the network planning and its day-to-day operation.

4 For the reasons set out in my earlier minute I see no prospect of persuading British Telecom to adopt a different line, nor do I think that we have the powers to force them to do so.

5 As far as I am concerned, therefore, the question is whether or not to accept at face value British Telecom's assertion that the relationship with their cable subsidiary is an arm's length one and that this does not involve significant cost advantages which are denied other operators. Although I have not raised the matter with him, I have considered whether this is an issue that I should ask the

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Director General of Telecommunications to investigate with a view to verifying the facts. On balance I have concluded that it would not be appropriate to do so at present. We are at an early stage of cable development with, as yet, little hard evidence of the true costs of installing individual systems on which the Director could base an assessment. Furthermore I have in mind that OFTEL are currently grappling with a number of complex issues. I am not convinced, in the absence of any ability on our part to take decisive action afterwards, that this would be a worthwhile additional burden to place upon the Director at this stage. But this does not rule out the possibility of involving the Director later if, in due course, it should appear that British Telecom's arrangements are conferring cost benefits which are being unfairly denied to other operators. Indeed it is open to anyone with an interest, at any stage, to raise such a complaint with the Director who is under a duty to consider complaints unless they appear to him to be frivolous.

6 For the time being, therefore, I recommend that no further action is taken by Government in relation to the second of the ITAP recommendations but officials will be monitoring how the position develops as succeeding franchise rounds are initiated.

7 Copies of this minute go to Nigel Lawson, Leon Brittan and David Young.

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23 July 1985



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