

g/c DP.

MR TURNBULL

4 November 1983

STATEMENT ON FUTURE COMPETITION POLICY IN TELECOMMUNICATIONS

The proposed statement is intended to confirm our commitment to continued liberalisation and to remove uncertainty in the market about our future intentions.

We acknowledge the considerable progress which has already been made in introducing competition into the telecommunications market. We support much of the statement but consider that certain crucial changes are desirable.

The Duopoly

The Government has been criticised for our policy of licensing only Mercury as a provider of an alternative telecommunications network to BT. The statement attempts to strike a balance between a need to protect Mercury in its early years and to broaden the possibilities for competition into all sectors of the telecommunications market. In view of the assurances given to Mercury that additional national networks would not be licensed for the foreseeable future, our policy now should be to define the duration of the duopoly.

The statement refers to the Government having now decided to make it clear that it will not license other operators during the next five years. The position will then be reviewed. We consider that this is acceptable. Five years is long enough for Mercury to establish itself. The Government should not, however give in to pressure from Mercury's partners to extend the period of the duopoly, beyond five years.

Obligations on Mercury

I think 5 years is too short - to justify the large investment involved - 7m?

The statement refers to the intention for the new Mercury licence to

"contain specific obligations about the installation of the Mercury network on a national basis".

In practice this obligation is meaningless as commercial reality will dictate Mercury's ability to develop and expand. There are already some doubts about Mercury's future business prospects and the best that Government can do is hope and encourage Mercury to take advantage of the protection offered by the duopoly.

X We suggest that the statement should refer only to the intention of removing current restrictions from the Mercury licence. This would give the company scope to develop into a national network, depending upon Mercury's commercial judgement.

Resale

The statement rules out resale of leased BT circuits for five years. We consider that resale should be permitted as soon as possible. This would quickly stimulate competition without requiring investment in network infrastructure. It is also unlikely to affect BT's revenues significantly (perhaps 2% at worst) and it is possible that BT could benefit from resale through increased utilisation of spare capacity.

Resale is unlikely to be damaging to Mercury. On the contrary, the opportunity for improving capacity utilisation in the early years could be an advantage. A general licence for resale will enable the Government to retain control where necessary.

? We suggest that the statement should not close off the possibilities for immediate resale.

Interconnect

The obligation on BT and Mercury to interconnect with other licensed operators is essential for increased competition. The statement refers to terms and conditions being left to commercial negotiations, with the Director General of OFTEL as a final arbitrator in the case of disagreement. There is a strong possibility that BT will use their dominant negotiating position to dictate the terms of interconnect, notwithstanding the role of the Director General.

X We suggest that the statement should invite the Director General of OFTEL to lay down the general principles for fair terms and conditions for interconnect. This will ensure that potential new entrants are not discouraged by the prospect of negotiating with BT.

Competition up to 1988

The statement does not give sufficient attention to the scope for competition up to 1988. The next five years will be important for new technological developments which will stimulate competition and benefit the economy as a whole. There is considerable scope for developing particular market segments.

X We suggest that the statement should refer to our willingness to consider licences for specialised network services on a local, regional or national basis. The criterion would be the application of new technologies to meet an unsatisfied market demand.

This would not be inconsistent with the duopoly for public switched telephone networks and is likely to stimulate interest in satellite technology and radio for data, mobile radio and video services amongst others.

We suggest the current radio reference

X "the radio spectrum is a limited resource, with many competing demands on it... nor would it be practicable, at least for some time to come, to license more than two national telecommunication operators using radio"

should be revised. It is misleading. The scope for allocating radio frequencies is considerable and there are no technical reasons why additional regional or national radio networks could not be licensed. The Merriman Report has for example recommended the allocation of additional frequencies for mobile radio from 1984 onwards.

DLP.

DAVID PASCALL