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10 DOWNING STREET

From the Private Secretary

7 November, 1983

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cc. Mowl
cc. Hunt
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Dear Cathryn.

FUTURE COMPETITION POLICY IN TELECOMMUNICATIONS

The Prime Minister has seen your Secretary of State's minute of 4 November and the draft statement attached to it. She is content that a statement should be made broadly on these lines, to be released in order to meet the dictates of the timetable for the Cable and Wireless flotation.

She has seen the recommendation that the BT/Mercury duopoly should be limited to five years with a review thereafter. She has commented that five years is a short time given the size of the investment which Mercury is making. She has asked therefore whether seven years could be considered. She attaches great importance to the establishment of Mercury and as a result accepts the judgement your Secretary of State has reached that re-sale should proceed in, "a measured way".

She has also asked that a number of other suggestions be considered. The statement refers to the intention for the new Mercury licence to contain specific obligations about installation of the Mercury network on a national basis. Does it make sense to impose this obligation? Should not the expansion of Mercury depend upon its commercial judgement?

On interconnection, 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. Is there not a danger that BT will use their dominant negotiating position to dictate the terms of interconnection, notwithstanding the role of the Director General? Would there be merit in requiring the Director General to lay down general principles for fair terms and conditions for interconnection? The aim would be to ensure that potential new entrants were not discouraged by the prospect of negotiating with BT.

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Could the statement go further in indicating the Government's willingness to ^{consider} specialised network services on a local, regional or national basis? This need not be inconsistent with the duopoly for public switched telephone networks. Finally the statement refers to the radio spectrum as "a limited resource". The statement may be underestimating the scope for allocating radio frequencies and hence the scope for licensing additional regional or national radio networks.

I am sending a copy of this letter to John Kerr (HM Treasury), Hugh Taylor (Home Office), Brian Fall (Foreign and Commonwealth Office) and to Richard Hatfield (Cabinet Office).

*Your sincerely
Andrew Turnbull*

(A. Turnbull)

C. McCarthy, Esq.,
Department of Trade and Industry