



Amend  
ms

10 DOWNING STREET

Prime Minister <sup>①</sup>

Attached is the revised Statement on Competition Policy in Telecommunications. It meets your main comment on the earlier draft, that the Mercury/BT duopoly should last 7 years.

DTI have considered the other points we put to them (which were aimed at increasing the competitive slant of the statement) and have moved in the right direction on most of them.

Agree Mr Baker may make the statement?

AT 16/4



CC HMT  
HO  
FCO  
CO

HL

10 DOWNING STREET

*From the Private Secretary*

17 November 1983

Further competition policy in Telecommunications

The Prime Minister has seen your letter to me of 16 November to which was attached a copy of the statement Mr. Baker was proposing to make in the Standing Committee considering the Telecommunications Bill. She was content with the statement which takes adequate account of the points made in my letter of 7 November.

I am copying this letter to John Kerr (H.M. Treasury), Hugh Taylor (Home Office), Brian Fall (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

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

Sub

MR. TURNBULL

FUTURE COMPETITION POLICY IN TELECOMMUNICATIONS

Safeguards for Mercury

The revised statement meets the Prime Minister's principal concern that Mercury <sup>should</sup> have time to justify its investment <sup>and</sup> to establish itself as a viable competitor to BT. No further licences will be issued to operators of national public telecommunications networks until 1990 when the position will be reviewed. Similarly, alternative forms of competition <sup>which could adversely affect Mercury</sup> such as simple resale or satellite services interconnected with the public switched networks will not be allowed before 1989, <sup>a date acceptable to Mercury</sup> L

Obligations on Mercury

The statement now refers to the new Mercury licence containing:

"specific obligations about the installation of the Mercury network on a national basis <sup>having regard to</sup> ~~taking full account~~ of Mercury's commercial plans". P.3.

The Mercury partners have agreed to accept national obligations which take account of their commercial interests. In these circumstances we are content with the revised wording in the statement despite some misgivings about the potential conflict which may arise between Government imposed obligations and Mercury's commercial judgement.

Market Opportunities up to 1990

The statement now refers to the Government:

"exploring the scope for introducing further mobile radio services.... PS keeping under consideration ways of introducing new specialised services by satellite". PS

We would have preferred to see a more positive reference to the Government's willingness to license specialised network services on a local, regional or national basis, but accept the above wording in view of the need to issue the statement as soon as possible.

Thereafter it will be important to ensure that adequate encouragement is given to the development of new technologies to meet unsatisfied market demands. These opportunities are not inconsistent with the duopoly for public switched telephone networks.

DLP

DAVID PASCALL  
16 November 1983



JU956

Secretary of State for Trade and Industry

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16 November 1983

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Andrew,

FURTHER COMPETITION POLICY IN TELECOMMUNICATIONS

I enclose a copy of the statement which Mr Baker proposes to make in the Standing Committee considering the Telecommunications Bill shortly after 10.30 am on Thursday 17 November.

The text represents the outcome of detailed negotiation with BT and the Mercury partners. Following receipt your letter of 7 November my Secretary of State discussed the period of duopoly with Mr Eric Sharp and Mr Malpass of BP. In the light of their representations about the size of the investment they are contemplating he agreed that a period of seven years from the date of the statement is justified. Both Mercury and BT were, however, prepared to contemplate the introduction of unrestricted "resale" from July 1989, which is when the draft BT licence says that the RPI minus x formula will expire. On this basis the Mercury partners are willing to accept an obligation to develop their network on a national basis. The draft statement makes clear that this will take account of Mercury's commercial plans.

On interconnection my Secretary of State does not believe that BT will be able to dictate the terms. The draft BT licence contains tough conditions about interconnect and the Director General of Telecommunications is given clear powers of direction when there is a dispute. Indeed, BT itself is protesting loudly about what is proposed. There will be standard interconnect terms for small operators which will be published for all to see. Unfortunately when it comes to large systems like Mercury it is not possible to think in terms of generally applicable principles; each system is unique and requires different interconnect arrangements. I think all concerned now understand that interconnect will be administered without any undue preference or undue discrimination.

If statement  
delayed,  
it could  
affect  
Cris  
prospects



So far as specialised network services are concerned page five of the statement explains that the Government is following a liberal policy. There is a special reference to specialised services provided by satellite.

The radio spectrum is, unfortunately, a limited resource. For the immediate future there is no scope for licensing additional networks and there are difficulties in accommodating Mercury's needs. The statement does, however, mention the Government's plans for the future of television Bands I and III and my Secretary of State plans to circulate a consultative document shortly.

I am sending copies of this letter to those who received yours.

*Yours ever*

*Cath McCarthy*

M C McCARTHY  
Private Secretary

2nd Revise: 16 November 1983

JF4745

DRAFT STATEMENT ON FUTURE COMPETITION POLICY FOR TELE-  
COMMUNICATIONS

The Government have been pursuing a consistent policy of seeking to introduce competition into the three main sectors of the telecommunications market: the supply of apparatus for connection to networks, the provision of services over networks and the running of networks themselves. The process has been a gradual one, because we have been determined to avoid market disruption and to give all concerned - BT, its traditional suppliers and new market entrants - an adequate opportunity to adjust as we progress to the competitive environment. Much progress has been made and the Government have been considering the strengthening of competition in the future.

So far as apparatus connected to BT's systems is concerned, we have introduced independent standards-making arrangements under the aegis of the British Standards Institution (BSI) and an independent approvals system under the new British Approvals Board for Telecommunications. BSI is drafting the independent and objective standards which apparatus must meet before connection to the BT networks. This work is expected to be substantially complete by end-1984. My Hon Friend will shortly be announcing revised arrangements for BT approvals of products which it itself sells. Like the USA the UK will shortly enjoy a

completely independent system of approvals for telecommunication apparatus.

I announced in February the Government's intention to introduce competition into the two remaining significant areas of apparatus supply from which it had hitherto been excluded. I can now confirm that from the end of 1984 the BT monopoly of supply and maintenance of the prime telephone instrument connected to the BT systems will end for those customers who have a standard socket fitted by BT. BT have agreed to provide such sockets on demand.

Maintenance of newly-installed call-routing apparatus is being progressively liberalised and will be fully open to competition by February 1987.

In short, in the brief period since the British Telecommunications Act came into force in October 1981 we have moved from a position of almost complete monopoly of apparatus supply to a position where a completely open and competitive market is in sight.

I turn now to services provided over public telecommunications networks. The convergence of computing and telecommunications technology has created an entirely new market for these Value Added Network Services, or VANS. The VANS General Licence authorises anyone who registers with my Department to run telecommunication systems to provide such services over public networks. This is the most liberal VANS regime in the world. The essential condition imposed on those who offer VANS is that they must provide a service over and above the basic telecommunication service of conveying or switching a message. Some

60 VANS providers have registered under the General Licence their proposals for some 200 different services. I expect a continuing rapid development of this sector of the market.

I turn now to the provision of public networks. It is in this area that we have taken the most far-reaching steps towards competition. The provision of the telecommunications infrastructure has traditionally been the preserve of single monopoly operators throughout the world.

In this country, however, we decided on a different course. We encouraged the development of a separate and independent network, Mercury Communications Ltd, which has been licensed to provide every form of digital telecommunication service, including private leased circuits, switched services to business and domestic premises and the full range of international services. We expect Mercury to develop into a national public telecommunication system and we intend the new licence to be granted to Mercury under the Telecommunications Bill to contain specific obligations about the installation of the Mercury network on a national basis having regard to Mercury's commercial plans. Mercury will have a licence similar to BT's.

The creation of a new network requires very large investment, which will mean a long period before the investment can yield a return.

Mercury therefore needs time to install and consolidate its national network. Similarly, British Telecom also needs time to



adjust. Its public telecommunications system was developed as a unitary and integrated network without thought of competition and it needs time to adapt to competition.

Telecommunications can only be provided by means of cables or radio. The installation of cables may have undesirable effects on the environment and disrupt highway surfaces and traffic. The radio spectrum is a limited resource, with many competing demands on it. It would not be right to license a multiplicity of operators in any one area to install overhead wires or to dig up streets nor would it be practicable from a radio spectrum standpoint, at least for some time to come, to license more than two national public telecommunication networks.

Government therefore gave assurances when the Mercury licence was first granted in 1982 that for the foreseeable future we would not license any additional national public telecommunications network.

To avoid uncertainty the Government have now decided to make it clear that we do not intend to licence operators other than BT and Mercury Communications Ltd to provide the basic telecommunication service of conveying messages over fixed links, whether cable, radio or satellite, both domestically and internationally during the seven years following this statement.

The position will then be reviewed. In the Hull area, the City of Kingston upon Hull will continue to exercise the functions of public telecommunication operator.

For telecommunication systems serving specialized market segments, Government policy is as liberal as practicable. The Government has already licensed two national cellular mobile radio telephone networks. They will provide increasing alternatives to BT and Mercury at the local level but their role will be limited to providing mobile radio telecommunication services. The Government will shortly be licensing the first new broadband cable networks; and as the Cable White Paper made clear cable companies will be licensed to offer a full range of telecommunication services within their licensed areas but only BT or Mercury will be permitted to offer voice telephony services on cable systems either alone or in partnership with the cable companies. The Government will also be exploring the scope for introducing further mobile radio services when the Bands I and III frequencies become available in 1985. Moreover, the Government will keep under consideration ways of introducing new specialized services by satellite. The cellular radio companies, the cable operators and other operators, including private mobile radio, will be required to obtain the fixed links connecting their systems to other systems only from BT, Hull and Mercury.

Arrangements for interconnecting different telecommunication systems are particularly important. The Government intends that any subscriber to one public telecommunication system should be able to call any subscriber to other public telecommunication systems. The Telecommunications Bill and the licences to be granted under it will provide Mercury with a right to compete

equally, and to interconnect with, BT. The draft British Telecom licence published on 25 October contains an obligation requiring BT to connect or to permit the connection of its systems to any other system where the operator of the other system is licensed to connect and requires the connection. A similar obligation will be contained in the new Mercury and Hull licences. It will be for BT, Mercury and Hull to negotiate the technical and commercial terms for the connections both between their systems and between their systems and other systems. Connection may be on standard published terms where applicable or by agreement between the operators. Where there is no agreement, those concerned will be obliged to carry out connections on terms and conditions laid down by the Director General of Telecommunications. The methods and arrangements by which connection can be effected are complex and will be the subject of future discussions with the relevant parties.

The BT licence leaves open the possibility of the future introduction of various forms of "resale" of leased circuits. So will the new Mercury and Hull licences. The Government have decided to explore the scope for reducing some of the restrictions currently imposed on the use of circuits leased from BT and Mercury. We are therefore discussing the possibility of allowing group use of inland leased circuits, including the sharing of spare capacity on such circuits, and some easing of the current restrictions on the interconnection of leased circuits and the public switched networks. The Government expects to reach conclusions on these issues in the New Year. So far as "resale" of international circuits is concerned the Government

stands by current international agreements. We are also considering whether appropriate terms and safeguards can be devised to allow BT and Mercury to bring into public use in their networks spare capacity which may be available on privately owned networks.

Some forms of "resale" and satellite services, combined with interconnection with the public switched networks, could develop the characteristics of an additional network. The Government wishes to emphasise that any developments in policy on "resale" or satellite services will be consistent with the policy I have outlined today which is not to licence anyone other than BT and Mercury to run national public telecommunication networks until November 1990 at the earliest. Other forms of resale than those I have just described will not be licensed in the period before July 1989 which corresponds to the period in the BT licence for the RPI minus x formula.

Our liberalisation policy aims to increase consumer choice and to stimulate both greater efficiency in the use of national resources and encourage growth and innovation. The competitive framework I have outlined will enable those aims to be achieved and will allow BT, Mercury and all the other companies in this rapidly expanding industry every opportunity to prosper through fair competition to the benefit of consumers and their workforces and the economy generally.



JH 136

PS/Secretary of State for Trade and Industry

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15 November 1983

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Private Secretary to the  
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Prime Minister

Dear Andrew

FUTURE COMPETITION POLICY IN TELECOMMUNICATIONS

Thank you for your letter of 7 November <sup>with AT</sup> recording the Prime Minister's views on the draft statement sent by my Secretary of State on 4 November.

2 My Secretary of State has been guided by the views set out in your letter. He met the Mercury partners on 10 November, when they made clear that provided there was an appropriate period of duopoly and provided the national obligations they would agree to take on took account of their commercial interests, they would be content. On this basis, the Secretary of State believes that a satisfactory solution can be met on both timing and the national network, which is fully in accord with the Prime Minister's comments.

3 He is also considering possible changes in the arrangements for enforcing interconnection in light of requests from the Mercury partners. He accepts the point made about specialised services, particularly mobile radio and will amend the statement accordingly.

4 I am copying this to the recipients of your letter.

Yours ever

Callum McCarthy

M C McCARTHY  
Private Secretary

Poster to  
Future  
Pt 7

CONDOR

15 NOV 1985

