COMPETITION AND CHOICE IN THE 90s - TELECOMMUNICATIONS DUOPOLY REVIEW

PETER LILLEY SETS OUT PROPOSALS FOR THE FUTURE

The Government proposes to end the present telecommunications duopoly and to consider applications for new licences from companies which want to provide telecommunications services, Peter Lilley, Secretary of State for Trade and Industry, announced today.

He was announcing the publication of the Government's consultative document "Competition and Choice: Telecommunications Policy for the 1990s". The document sets out the basis for the future direction of UK telecommunications policy and proposes ways to increase competition and further liberalise the telecommunications market.

In a foreword, Mr Lilley said: "The conclusions we reach will determine how an important sector of our economy will develop over the next few years. I am confident we can build on our present policies to bring greater benefits to the consumer and to strengthen further the United Kingdom's position in telecommunications."

The document promotes choice, quality, innovation and competitive prices, with a view to enabling new telecommunications operators to offer services which customers want.

Key proposals in the document are:

- to end the present duopoly policy; and therefore to allow new companies to apply for licences to run local, trunk and international services;

- to give existing operators (e.g. mobile and cable operators) greater freedom to provide services;

- to remove restrictions on BT providing entertainment services over its main network, possibly after seven years, but certainly after 10 years;
two steps to bring down the price of international calls, by setting a price cap on BT's international charges and considering allowing companies leasing circuits to re-sell capacity to others;

- to allow firms to install and run networks for their own use under a new class licence.

The consultative document sets out the history of the Government's telecommunications policy and looks at developments in the market in the last decade.

It also examines the international context in which telecommunications policy needs to be addressed, the technological issues which arise and the Government's broad policy aims for the future.

The document identifies in detail the options for future policy which will lead to a competitive telecommunications market in the UK and where appropriate makes clear the preferred view of the Government or the Director General of Telecommunications, Sir Bryan Carsberg.

LOCAL TELECOMMUNICATION NETWORKS - THE PROPOSALS

When a telephone is plugged into the socket supplied by the network operator it is connected in the first instance to the local exchange. When a number is dialled, the local exchange routes the call according to the code which has been dialled. This may be to a trunk exchange. There may be a further connection to an international exchange. The three elements of the fixed telecommunications network are thus the local, trunk and international networks.

- At the local network level, the Government is proposing to allow new operators to come forward to run local telecommunications networks. The possibility of further entry into this market would put pressure on present operators to provide a better service, even if no entry were actually to occur.

- The Director General of Telecommunications proposes to reconsider allowing cable television franchise companies to provide telephony services in their own right in their franchise areas. At present cable companies can provide voice telephony services only as the agent of BT or Mercury. Allowing cable operators this greater freedom would be likely to increase the number of cable operators offering a telephony service - such services are at present provided only on a very limited scale, with about 1,500 (mainly business) lines connected.
The Government would consider sympathetically applications from existing mobile operators to provide fixed services. These services could include links to fixed apparatus like private branch exchanges, computer terminals, telemetry services such as linking remote sensors to a control network or activating machinery remotely, alarm systems, links to Telepoint base stations and a range of temporary services, for example the provision of telephones at conferences. The Government welcomes views on the possible nature and scope of all these services.

The Government welcomes views on the possible expansion of Telepoint or other technical solutions to provide the final link between customers and the fixed network by radio ("Telepoint-to-the-home"). These services could provide a viable alternative to a wired link to the network and could substantially enhance the effectiveness of the existing service offered by the four Telepoint operators. The Government will be particularly interested in views as to the scope and possible take up of such services and the effects such a policy might have on the development of networks using other technologies.

The Director General of Telecommunications would keep under review the possibility of licensing fixed network operators to provide mobile services but for the present there would be no change.

The Director General of Telecommunications seeks views on whether network operators’ licences should be amended to require them to deal on a non-discriminatory basis with retailers selling telecommunications services to consumers. Network operators would still be able to continue to deal directly with customers. Retailers would act as packagers of services, negotiating bulk discounts from operators and offering customers advice and a single point of contact for a range of diverse telecommunications services.

LOCAL NETWORKS AND ENTERTAINMENT SERVICES - THE PROPOSALS

British Telecom and others would be allowed to provide entertainment services over their main networks ten years after the completion of the review. If, however, the Director General advised seven years after the completion of the review that an earlier date would be likely to promote more effective competition, the Government would reconsider bringing forward the 10 year limit. This would give the cable companies at least seven years and possibly longer, to establish themselves. British Telecom would know that there would come a point when they would be allowed to enter the entertainment market.
- In the meantime the Government does not intend to allow existing telecommunications operators to convey entertainment services since this would risk creating a dominant common carrier and prevent the establishment of genuine network competition.

- Parent, subsidiary or associate companies of national telecommunications operators will be able to tender for local delivery franchises advertised by the Independent Television Commission (ITC).

**TRUNK NETWORK SERVICES - THE PROPOSALS**

The trunk system carries calls both between local exchanges and from local exchanges to international ones. Calls are routed through the trunk system by trunk exchanges.

- The Government is proposing to consider favourably applications for new licences in all or part of the trunk market.

- The Director General of Telecommunications would keep interconnection arrangements under review to ensure there are no barriers to effective competition.

- The Director General of Telecommunications is inclined to support the progressive introduction of equal access provided that it would in practice promote more effective competition in the local and trunk markets. Equal access would give the customers of a local network the opportunity, without any bias, to use the trunk carrier of their choice. It is used in the United States and a form of it is used in the UK by Kingston Communications in Hull.

- The Director General of Telecommunications is inclined to seek to amend the licences of fixed network operators to oblige them to provide services to other public telecommunications operators (PTOs) even where the other PTO is itself authorised to provide the circuit. This would facilitate the entry of new operators who would thus be able to rely on leased lines while their own networks were being built.
INTERNATIONAL TELECOMMUNICATIONS SERVICES - THE PROPOSALS

- In his recent study of international pricing the Director General of Telecommunications found that BT still has clear monopoly power in this area and that the profits have increased sharply since his price control review in 1988. Charges are high in relation to the costs of providing service and competition between BT and Mercury has not led to keener pricing. The Director General of Telecommunications has announced his intention to seek a price cap on BT's international prices.

- He has also recommended that the Government should authorise international simple resale with those countries offering equivalent treatment.

- The Government is proposing to consider favourably applications for new licences for the provision of the full range of international services and for more limited direct links. The assessment of any applications would, however, need to take account of the possible impact on competition and prices, the effect on BT and Mercury and the prospects of the relevant agreements with foreign operators being established.

- The liberalisation of the full range of two-way satellite services, both domestic and international on a worldwide basis, where there is no interconnection to the public switched network is also proposed. Comments are invited on whether such interconnection should be authorised, and if so on what basis.

BRITISH TELECOM'S TARIFF STRUCTURE - THE PROPOSALS

- The Director General of Telecommunications is proposing not to change the existing price caps on BT's domestic tariffs before they end in 1993.

- The Director General of Telecommunications would be prepared to consider proposals from BT which would enable it to offer discounts to certain customers.

GENERAL CROSS MARKET ISSUES - THE PROPOSALS

- The Government is proposing a class licence for self-provided circuits. Companies wishing to provide telecommunications circuits for their own internal use would be allowed to do so and also to interconnect them to the public network if they wished. However, if companies wished to resell capacity on such circuits to others, this would fall to be considered under the proposals for network operation described above.

- No amendments are being proposed to the Telecommunications Act 1984.
The Government has invited comments on its proposals by 14 January 1991 and, in the light of comments and any further information, aims to announce its conclusions as soon as feasible thereafter.

NOTES TO EDITORS

1. In November 1983 the Government announced that it did not intend to license operators other than British Telecommunications plc (BT) and Mercury Communications Ltd (Mercury) to provide the basic telecommunication service of conveying messages over fixed links, whether cable, radio or satellite, both domestically and internationally, during the following seven years. The Government said that the position would then be reviewed. The full statement is reproduced at Appendix 1 of the consultative document. The policy of licensing only BT and Mercury subsequently became known as the duopoly policy.

2. In its July 1986 report on "Financing the BBC" (Cmnd 9824), the Peacock Committee recommended that national telecommunication systems (i.e. BT, Mercury and any subsequent entrants) should be permitted to act as common carriers (extracts of the report are at Appendix 2 of the consultative document). In its November 1988 Broadcasting White Paper (Cm 517), the Government said that, while it saw the attraction in the underlying idea as a route to additional competition in the entertainment services market, implementation of the recommendation in its original form would be impracticable and could inhibit the growth of competition in telecommunication networks. The Government therefore announced that it proposed to examine the recommendation further at the time the duopoly policy was reviewed.

3. Implementation of the proposals would be by issuing new licences and by amending existing licences. Appropriate consultation would be needed, as required by the Telecommunications Act 1984.

4. Comments should be sent to Telecommunications and Posts Division, Department of Trade and Industry, Room 407, Kingsgate House, 66-74 Victoria street, London SW1E 6SW and copied to the Office of Telecommunications, Room 229, Export House, 50 Ludgate Hill, London EC4M 7JJ.

ENDS
Press Enquiries: 071-215 5067/4465
(Out of Hours: 071-2154657/8)
Public Enquiries: 071-215 5000