Assessment of European Initiatives

In the area of telecommunications policy and regulation, the European Community is playing "catch-up" to the existing Canadian and U.S. environment. Ownership of most of the Canadian industry has been in private hands for many years and, in areas under federal jurisdiction (70% of the Canadian market), our liberalization and competition policies for services and equipment have for several years reflected policies similar to those now being adopted in Europe. Our infrastructure is relatively sophisticated and efficient and, in areas under federal jurisdiction, there are no regulatory obstacles to effective competition in the areas of terminal equipment or value-added and enhanced services. However, there have been regulatory barriers in some provincial jurisdictions which impeded competition in these markets in certain parts of the country. The differences in federal-provincial regulatory approaches will be addressed in the future following the recent Supreme Court Decision in the Alberta Government Telephone (AGT) case. To maintain the international competitiveness of Canadian industry, a national approach to Canada's telecommunications sector becomes increasingly important. Otherwise, we could be bypassed by the Europeans and their market of 320 million people sometime after 1992.

The Europeans face extremely difficult political decisions. Liberalization and competition policies could jeopardize the domestic and European positions of some national players as competition for market share heats up within the Community. At the same time, the policies will open new doors to highly competitive foreign interests (e.g., U.S., Japan, Canada/Northern Telecom), especially those established within the Community. In their adjustments towards increased competition, the Member States have approved and encouraged consortia, mergers and acquisitions among European and foreign players, or joint ventures with foreign companies, that re-position European-based companies.

The object has been to capture sufficient market share to succeed internationally. Examples include: a) the CGE/ITT agreement which merged ITT's telecommunications interests with CGE's Alcatel-Thomson to create the world's second largest telecommunications manufacturer; b) AT&T's purchase of 22% of Olivetti; c) the 1988 merger of GEC's and Plessey's telecommunications interests which placed the new company among the top ten producers of telephone exchanges; d) Siemens and Philips co-operation in advanced microchips (the Megaproject); e) Northern Telecom's participation in STC (UK) and numerous other corporate arrangements. Domestically, the Europeans have privatized and restructured some PTTs, encouraged them to diversify into new services, and have continued to use them to shore up European manufacturers through procurement policies.

The motives for this extensive restructuring of the public and private sectors are founded in the industry's economics. Development costs for major telecommunications products - like central office switches - have accelerated rapidly. Without a unified European market, European suppliers will be unable to offset or recoup rising product development costs in the world markets of the 1990s.

Given the complexity and breadth of the corporate and public policy adjustments underway, some of the milestones for Europe 1992 have been missed and others will be delayed by one or more years. For example, despite considerable progress on national procurement policies, national markets are considered by some as unlikely to be fully open to competition by the end of 1992. In another case, the Commission's power to issue the 1988 Directive on Competition in the Telecommunications Terminal Equipment Market was based upon Article 90 of the Treaty of Rome. This legislative approach was challenged successfully before the European Court of Justice by some of the leading Member States, which, as a consequence, will slow the introduction of competition in this ECU 9.5 billion market. The goal of a single market will require Member States to transfer elements of their sovereignty to the Community and force difficult economic adjustments on their industries and economies; this will include some short-term losses for some countries and their key companies. Such an effort requires tremendous political will. Given these developments, the unified market is unlikely to be achieved in the telecommunications sector by the end of 1992, but is more likely to be attained closer to 1994 or 1995.