

Chapter 13

Telecommunications policy in France

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The French telecommunications system was of extremely low quality until the 1960s. At that time, most provinces had manual telephone exchanges. It was almost impossible for a new subscriber, say a newly married couple, to get a telephone line without being on a waiting list for about two years. There were 8 million lines in the public sector in 1973 with very poor service, and now we have the 'Minitel'.

By 1980 the French network had been upgraded to modern standards, and most users have received the telephone set that they had been expecting for quite a long time. Full, automatic dialing was in operation by 1978, and we now have 25 million main lines in the country. Most trunk lines are fully digital, and about 50 percent of the subscribers can access within a few days or a few weeks a full digital service; this figure will soon be over 90 percent of the network.

The change was clearly drastic. It had been planned by the state with strong involvement of the government, and the decisive decision was made in 1974 when President Giscard d'Estaing determined that modernizing the French telephone network was a national priority; but he also said that this priority should be met without a single penny coming from the budget. So from that day, which in my opinion was the first step in deregulating the system, the people who were in charge of the Telecom network and its modernization had to cope with using just the revenue from the telephone system and by borrowing money on the international market. It happened, and the result has been good enough to pay off the investment, despite the major economic changes we experienced between 1978 and today, including the shifts in inflation rates worldwide and the fluctuations in exchange rates.

The first characteristic of the French network is its remarkable level of digital equipment in front lines and switches. It is one of the most

advanced digitalized networks in the world, fully ready for any type of narrow band digital application. ISDN's eventual developments, which were under test in Britain, are based on this high level of digital equipment.

The second characteristic is the flexible French regulatory system, which is not new. Our basic rule in telecommunications was established in 1837, when it was enacted as the legal rule to start the first telegraph, which was an optical telegraph. This regulation allows any communication system to be installed or operated either by the state or by a person authorized by a responsible member of the government. This has supported a competitive market already in two major fields which have been more recently deregulated abroad. One is PBX sales and installation of private networks within private premises, on development grounds, for instance; and the second field is terminal equipment provisions, which have been very liberal in the past twenty-five years, particularly with respect to computer systems, modems, and similar devices. This was different from major European countries, and was extended as well to the first telephone sets.

There are also some drawbacks in the system. The telecommunications service, the DGT, is state administered and serves the public. Even though it is extremely satisfactory within the new competitive international environment that we are facing, the profits made by the system, particularly on telephone use, are high enough to be very tempting when the state budget is tight. From 1983 onwards, the treasury has siphoned away large shares of this revenue. The amounts siphoned off in the last few years have been around 20 percent of total revenue, which is much too high to permit sufficient reinvestment.

A second drawback is the pricing structure used by the state administration. This undermines, in my opinion, the competitive edge of our telecommunications system in many sectors where the technical capability of the network is unbeatable. Revision of telephone pricing is underway, but much remains to be done because the system is still bound by the constraints of public service provided by the state. This means that to create a price or a new pricing arrangement requires an official decree.

The third drawback is the relationship to users, whether professional or residential. This relationship has to be fully reviewed to introduce a consumer-driven marketing system in place of the traditional engineering and administrative type of organization that characterizes the telephone story in our country.

Despite these drawbacks, it appears that a significant change in the telecommunications economy will alter our organizational structure, our pricing structure, and also the way the state behaves with respect to the public. In response, we have initiated an experimental method of deregulation by introducing competition in four fields.

The first is mobile communications. The public radio telephone system in France served about 35,000 cars at the end of 1987, and this was far short of demand, somewhere between one-eighth and one-tenth of the total demand according to market research. We decided in 1987 to issue a call for proposals to operate a national radio telephone system, fully cellular in the 450 MHz band, which was the only place where we could eventually have frequencies available for that experiment. The winning consortium was announced as a new operating company that was formed by a water-supply company known under the name *Compagnie Generale des Eaux*, and its associates. The first units patched to the network are portable systems called NMT (a nordic mobile telecommunications system), and this system is provided on common ground by the Finnish Company NOKIA, and the French Company ALCATEL. The whole country will be covered by 1991, and the system will be fully competitive with the existing system operated by the state. We foresee 120,000 subscribers with the frequency band available, which is small in comparison with what the state (DGT) is using. The DGT will probably serve 150,000 users, which demonstrates the ability of the market system when called on to cope with such problems. This opens a significant breach in the monopoly of the DGT and creates a new radio infrastructure that competes with the existing one. It will operate the system on a completely modern base, including an unregulated pricing system. It will do whatever the market says; it is up to the market to decide.

The second field is radio paging. This, too, had been released to the market and has led to authorization of a French broadcasting company that operates on radio and television bandwidths. Since 1987, they have been selling a system based on the RDS technique. The forecast is that they will take on about 20,000 new subscribers every year, at least for the initial years; our goal is to have 100,000 subscribers by the early 1990s.

The third field is resale of telematic services. This was made possible from a network of leased lines from the DGT, because we have no other provider since we issued a decree in 1987. This whole field was set up in a year. The decree allows private companies of any kind (whether

banks, insurance companies, service companies, or whatever), either French or international, to provide a service from networks of leased lines, and to offer any kind of telecommunications service of that sort, provided that certain conditions are met: no voice traffic; and standards will be as far as possible publicly available. In the long run we hope that there might be international standardized protocols. This is set up today as an objective and not as an obligation. Small operators will have only to register, but no prior examination will be asked for and no license is necessary. You simply register and then build up the process just as you like. Large operations, which we have set up first to test this hypothesis, will have to get their license renewed annually. The idea is not to control everything but just to test the first phase and after a few years all controls will be lifted.

The fourth field is cable networks, which had not been fully developed in France. This field had been part of the public monopoly according to a 1982 national plan on cable distribution, which stated ambitious objectives to develop fiber optics. But the new law of telecommunications enacted in 1986 ended the monopoly of the DGT in this sector, opening cable distribution network to private operators. Several utilities companies have invested in the field and we now have five major competitors in this market. The public broadcasting company, as I mentioned, was privatized in 1987 and is now going into that field on a fully competitive basis. Meanwhile, the DGT has consolidated its share of the market at a costly investment. Though they are trying to compete, I think that they will learn from that segment of the market what competition means.

I will conclude by reviewing the thinking behind the newly implemented telecommunications law. In preparing the bill we sought to maintain the infrastructure of the network as a regulated sector of the industry. Included in this infrastructure are the basic lines and the public switches, as would be done in placing a value on what it costs to create an airport, a canal, or a highway. The service sector, aside from residential telephones which, for political reasons, are said to be lent to the user, was considered as competitive by nature and operated by companies that might have nothing to do with the traditional telephone and telex systems. Banks or computer services are possible providers of any kind of service, which includes setting the value of these services, whether they be commercial, financial, or technical.

The enacted law separated telecommunications from postal services, creating France Telecom as a public corporation in charge of network

operations and run as a state-owned company. It did not include any privatization of the system because of political opposition especially from public sector unions. France Telecom will keep both the domestic and international monopoly over basic network and voice services, but the law does allow competition in the supply of terminal equipment and value-added services.