

1928.
NEW ZEALAND.

IMPERIAL WIRELESS AND CABLES CONFERENCE, 1928.

SUMMARY OF REPORT.

Laid on the Table of the House of Representatives by Leave.

[NOTE.—THE NUMBERED PARAGRAPHS IN THE SUMMARY CORRESPOND TO THE NUMBERED PARAGRAPHS IN THE FULL REPORT, BUT ARE IN THE MAJORITY OF CASES A SUMMARIZED VERSION ONLY.]

SUMMARY.

PART I.

PART I of the report is introductory and indicates the meetings held, the witnesses called, and the terms of reference, which were as follows: "To examine the situation which has arisen as a result of the competition of beam wireless with cable services, to report thereon, and to make recommendations with a view to a common policy being adopted by the various Governments concerned."

PART II.

Part II describes briefly—

- (i) *Telegraphic communications between various parts of the Empire before the advent of the beam services;*
- (ii) *Imperial beam wireless services, with some particulars of rates, ownership of stations, operation of services, and important conditions contained in the licenses;*
- (iii) *The effect of beam services upon cable systems in the following main paragraphs of the report:—*

18. It has been represented to us that cable undertakings affected by wireless-rate reduction and Indo-European land-line service have been brought to a serious position by a twofold reduction in receipts, resulting from the operation of lower rates introduced as a means of countering the beam competition, and from loss of traffic to the beam services. On the Canadian service, where the wireless and cable rates are the same, no crisis has, however, at present arisen.

Note to paragraph 18: In the case of the Pacific cables, the reduction to the existing rates was effected on the 1st February, 1927—*i.e.*, prior to the opening of the beam service, and as a result of the completion of the new cable at the end of 1926.

20. The present beam rates on the Australian, South African, and Indian services—assuming the existing traffic to be maintained or the increase continued—yield a very high profit, and these rates could be substantially reduced and still give a handsome return on the capital invested. Therefore the beam services could always afford to undercut the cable rate, and, if competition were unrestricted, could render cable systems unremunerative. Having regard to these considerations, it was suggested to us that those responsible for the cable companies might be pressed, unless a satisfactory means could be found of obviating the effect of acute competition, to liquidate their undertakings at once and distribute their large reserves amongst their shareholders rather than to remain in operation and dissipate their resources.

- (iv) *The necessity for the retention of cable systems.*

21. Many parts of the Empire are not at present, and may not for some time to come, be served by wireless. The existing wireless services are subject to fading and occasional prolonged interruption, which would be a serious hindrance to urgent commercial telegrams if cables were not available. It is obvious also that cables have a value for strategic purposes. Wireless offers a cheap service but not all-sufficing, and it remains important for commercial and other purposes that the majority of the cables should be kept in operation.

(v) *The threat from foreign enterprise.*

22. Information has been laid before us indicating an attempt on the part of certain foreign interests to secure an increased share in the control and operation of world communications. There can be no doubt that the British cable and wireless companies will have to face increasingly keen competition from foreign interests.

Part II ends with a summary of the problem as follows :—

23. (a) The cable undertakings operating between the constituent parts of the British Empire would be unable to continue on a paying basis in the face of unrestricted competition on the part of beam wireless services.

(b) The Eastern and Associated Telegraph Companies would be in a position to go into voluntary liquidation and dispose of their assets to the highest bidder.

(c) There are indications that foreign enterprise might be ready to seize an opportunity of acquiring such part of the Eastern and Associated Companies' system as could be transferred to a foreign purchaser.

(d) Owing to lack of complete secrecy and certainty, " wireless " is not yet in a position entirely to supersede cables. Cables therefore still possess great value for the maintenance of necessary communication between the constituent parts of the Empire for commercial and strategic purposes.

PART III.—POSSIBLE COURSES OF ACTION BY THE GOVERNMENTS CONCERNED.

24. Broadly speaking, there are five ways in which the Governments concerned might deal with this situation, viz. :—

(a) *Non-intervention.*—To refrain from any intervention and allow economic causes to decide the issue.

(b) *Subsidies.*—To assist cables by direct subsidies, to remain in operation until such time as they may be no longer required owing to the development of wireless.

(c) *Minimum-revenue guarantee.*—To check the inroad of competition mainly by controlling cable and wireless rates respectively and to give an undertaking that should a large diversion of traffic from cables reduce the revenue of cable undertakings below a fixed level the Governments concerned would make up the amount necessary to provide a minimum standard of revenue.

(d) *Pooling scheme.*—To diminish the force of wireless competition on Imperial routes by sharing part of the joint revenue of beam and cable services.

(e) *Fusion.*—To amalgamate so far as possible in one undertaking all cable and wireless interests conducting communication between various parts of the Empire, so as to secure unity of control and unity of direction.

We propose to examine each of these seriatim.

25. *Non-intervention.*—Non-intervention by Governments might have the following consequences : The cable companies might go into liquidation and their physical assets be put up for sale. The Governments concerned would then be faced with the alternative of purchasing the essential portion of these assets or see them pass into other, probably foreign, hands. We assume that neither of the alternatives would be acceptable, and that this course may be summarily dismissed.

26. *Subsidies.*—We assume that subsidies to cables would be equally unacceptable to the Governments and can also be dismissed.

27. *Minimum-revenue Guarantee.* The main principles of the scheme on this basis which was considered were—

(a) To ascertain the minimum revenue on which the cable companies might be induced to carry on for a term of years, giving them the opportunity to safeguard their profits by efficient administration :

(b) That the Governments concerned should control wireless rates, and so hold the balance of cable and wireless earnings in such a manner as might save them from financial obligations.

We concluded from an examination of the position that the Governments would probably be called upon to contribute to a minimum-revenue fund at a comparatively early date.

28. *Pooling.*—A scheme of joint purse was considered by which the earnings of the cable and wireless services upon specified routes might be so shared as to secure a reasonable return on their capital to the cable companies and the prospect of rate reduction as the traffic and revenue expand. It was suggested that this would provide a temporary *modus vivendi*, leaving the Governments concerned free to revise the policy at the end of the agreed period. The main objections to this proposal appear to be—

(a) The difficulty of ascertaining the precise financial prospects of pools :

(b) The possibility that a contingent guarantee of solvency on the part of the Governments might be called for :

(c) The economies realizable from pool schemes would be less than might be obtained by complete amalgamation :

(d) Unity of control, &c., would not be obtained by this means.

29. *Fusion.*—Amalgamation as in paragraph 24 (e) above would avoid most of the objections raised in the previous paragraph. Unity of control and direction and the continuance of the cable systems would be secured, economies would be effected, and encroachment on the part of foreign competitors most effectively resisted, while there should be a prospect of securing a reduction in telegraphic rates. It is along the lines of some such arrangement that we see the best chance of

conserving and improving the communication services of the Empire without entailing contributions from public funds. With regard to any apprehension concerning the safeguarding of public interests which might arise owing to the monopolistic character of amalgamation, we feel that means and measures can be devised which will guarantee to the communities concerned an effective service at a reasonable cost.

31. The adoption of any one of the third, fourth, or fifth courses would be facilitated by a merger of the Eastern and Marconi groups. The fifth course involves considerations of policy in regard to the disposal of Government-owned assets, such as the Pacific Cable Board system, the Imperial trans-Atlantic cables, the General Post Office beam stations in Great Britain, and the Government-owned cable and wireless systems in the West Indies.

PART IV.—DEVELOPMENTS WHILE CONFERENCE WAS IN SESSION.

(a) *Proposed Lease of Pacific Cable Board System.*

32. A conclusion was reached during the preliminary examination that, as part of any possible arrangement with the Eastern companies it would be desirable, at any rate, to lease the Pacific Cable Board system to those companies. The Governments concerned were asked whether they would view with favour such an arrangement, based on satisfactory terms and conditions, and the tenor of their replies was that, while reserving any decision until such time as the terms of any proposed arrangement were available, the Governments concerned did not wish to preclude the Conference from conducting an inquiry on those lines.

(b) *Proposed Merger between the Eastern Telegraph Companies and the Marconi Company.*

33. As indicated in paragraph 31, we formed the opinion that a merger between the Eastern companies and the Marconi Company, negotiations towards which had been instituted by the companies themselves before the Conference met, would facilitate a solution of the problem, provided satisfactory arrangements were secured to safeguard the interests of the Governments and the public. We accordingly addressed a further communication to the Governments represented in the Conference, setting out the considerations which led us to this opinion, and inquiring whether any objection was entertained to a solution being sought on this basis. The replies of the Governments indicated that no objection was entertained, except that His Majesty's Government in the Union of South Africa made certain reservations in regard to their position and that of the Wireless Telegraph Company of South Africa.

34. On the day these replies were being considered by the Conference we received letters from the two companies as follows:—

“ We beg to advise you that negotiations between the Eastern and Associated Cable Companies and the Marconi Wireless Telegraph Company have resulted, on the recommendation of Sir William Plender and Sir Gilbert Garnsey, in an agreement having been reached between the Boards of the two groups providing for a fusion of interests of the companies through the medium of a proposed holding company.

“ The agreement so arrived at is subject to satisfactory arrangements being made with the British Government and the Governments of the Dominions and India, and also to acceptance by stock and share-holders of both companies and of the Marconi Company.

“ J. DENISON PENDER.

“ INVERFORTH.”

35. Contains the proposed extent and allocation of capital in the new company as communicated to the Conference.

36. Having regard to the large sums involved and the intricacy of the accounts on which they are founded, the Conference enlisted the assistance of Sir O. Niemeyer and Sir William McClintock as financial experts to examine the financial basis of the proposed fusion.

(c) *Beam Wireless and Cable Assets of His Majesty's Government in Great Britain.*

37. As indicated in paragraph 31, any scheme of complete fusion would entail also a transfer in regard to ownership or management of the beam wireless and cable assets belonging to His Majesty's Government in Great Britain. We were informed that the arrangement contemplated by the Eastern and Marconi Companies included a transfer to them of these assets; and it is possible that unless the beam installations were transferred to the new company the merger would not in fact take place. It was thought necessary to obtain advice as to the attitude of His Majesty's Government in Great Britain towards this question, and in this case also His Majesty's Government in Great Britain, while reserving any decision until precise proposals were available, intimated that they did not wish to preclude us from conducting inquiries with a view to ascertaining whether a satisfactory solution could be found on this basis.

(d) *Negotiations with Companies concerned.*

38. Negotiations were then instituted with the companies concerned, on the understanding that their object was merely to enable the Conference to formulate recommendations to the Governments.

PART V.—RECOMMENDATIONS.

39. As the outcome of these negotiations, we submitted the scheme outlined below for consideration by the Governments concerned, as providing the best solution of the problem referred to us.

40. The objects of the scheme are—

- (a) To secure as far as possible all the advantages to be derived from unification of direction and operation :
- (b) At the same time to preserve for the Governments concerned control over any unified undertaking which may be created, so as to safeguard the interests of the public and the cable and wireless users :
- (c) To secure these desiderata at a minimum cost to the Governments.

41. Before setting out our recommendations in detail we desire to record that His Majesty's Government in the Union of South Africa has stated that it fully realizes the necessity for maintaining adequate means of communication between the various parts of the Empire, and with that object participated in this Conference. It was because the Union of South Africa is in an entirely different position from that of Great Britain and the other Dominions, who possess in some instances financial control, and in others financial interests either in cables or in wireless, or in both, that the Union Government made the reservations referred to in paragraph 33 above.

42. We wish also to note that the existing joint-purse arrangement between the Eastern companies and the Indo-European Telegraph Company and the Indo-European Telegraph Department of the Government of India will not be affected by acceptance of the recommendations detailed below, although the precise terms of these arrangements may possibly require revision.

43. Our recommendations are accordingly as follows :—

Recommendation 1: The Merger Company.—“The merger company to be formed will acquire as from the 1st April, 1928, all the ordinary shares of the Eastern, Eastern Extension, and Western Telegraph Companies, and all ordinary and preference shares and debentures (if any) of the Marconi Wireless Telegraph Company.”

This merger we consider forms an obvious basis for the creation of a company to combine the respective interests of the cable and Marconi groups. Bearing in mind that the cable and Marconi groups have large investment interests and manufacturing interests respectively which are not directly concerned with communication services, an entirely separate company on public-utility lines is proposed to own the assets and conduct the business of the merger in so far as communication services are concerned. (See recommendation 2.)

Recommendation 2: The Communications Company.—“There will also be formed a Communications Company to which the Cable and Marconi Companies will sell as at the 1st April, 1928, all their communication assets in exchange for shares. The Communications Company will therefore hold all the communication assets of the Cable and Marconi Companies, except in so far as these belong to the subsidiary companies in which the Cable and Marconi Companies' holding is less than 100 per cent. The Communications Company will acquire the holdings of the Cable and Marconi Companies in those communications companies in which the Cable and Marconi Companies' holding is less than 100 per cent. The Communications Company will also acquire the Government cables and hold the lease of the Post Office beam. The capital of the Communications Company is not to exceed at its inception £30,000,000.”

By this means an arrangement is made to segregate in the Communications Company what may be termed the purely communications assets of the undertaking. Further, the proposed capitalization of the Communications Company will bear a direct relation to this aspect, thus enabling a scheme to be devised for the equitable apportionment of the future profits derived solely from communications operations as between shareholders of the company and users of the service. (See recommendation 5, below.)

Recommendation 3: Terms of Transfer of the Governments' Cable and Beam Assets.—“The Communications Company to take over as from the 1st April, 1928, the Pacific Cable Board's cables, the West Indian cable and wireless system worked by the Pacific Cable Board, the Imperial Atlantic cables, and the lease of the Post Office beam service (including provision for the transfer to the company of existing staffs) on terms to be arranged.

“The beam service to be leased for twenty-five years at a rental of—

“(a) A basic sum of £250,000 per annum :

“(b) As from the 1st April, 1931, an addition equivalent to 12 per cent. on any increase in the company's profits (from communications services) above the standard revenue (see recommendation 6) ; a payment of £60,000 to be paid in such manner as may be agreed.

“The Communications Company to undertake to meet the annual service of the outstanding debt on the Pacific Cable Board as on the 1st April, 1928, and to pay in addition a capital sum of £517,000 for the Pacific Cables, together with interest at 5 per cent. as from the 1st April, 1928 ; to pay £300,000 for the West Indian cable, and £450,000 for the Imperial cables. The rental payable by the Communications Company and the service of the Pacific Cable Board debt will be guaranteed by the merger company.”

Recommendation 4: Direction and Management of the Undertakings concerned.—“The board of directors of the merger company, the Communications Company, the Cable and Marconi's Companies will be identical. Two of the directors, one of whom shall be the chairman of the Communications Company, to be persons approved by His Majesty's Government on the suggestion of the Cable companies.”

The purpose of identity of the Boards is to secure unity of direction of policy throughout the undertaking. At the outset the number of directors will, in consequence of the amalgamation, probably be large; but it has been proposed and accepted by the companies that, as opportunities offer, this number will be reduced to a smaller figure—say, twelve—including, of course, the two directors approved by His Majesty's Government.

Recommendation 5: Revenues of the Communications Company.—“A standard net revenue of £1,865,000 (exclusive of non-telegraphic investment revenue) from the Communications Company's services to be fixed to the purposes of the company; all net revenue from the Communications service in excess of that sum to go, as to 50 per cent. to the company, and as to 50 per cent. to the reduction of rates or such other purposes as the Advisory Committee (recommendation 6) may approve. If additional capital expenditure is incurred by the Communications Company in relation to traffic, there shall be added to the above initial standard revenue an appropriate charge for interest at such rate as may later be agreed.”

As a corollary to the handing-over to private enterprise the conduct of public services, there should be an effective method of ensuring that users of the service shall not be exploited for the benefit of the shareholders. A standard net revenue on that portion of the undertaking which is solely engaged on the conduct of communications is, therefore, fixed as the normal amount which the Communications Company may appropriate without question to its own purposes. Any excess over this amount should be devoted, in part at least, to the benefit of users of the service. A portion is allocated to the company as an incentive to improve and develop its service, so as to avoid a tendency to stagnation.

Recommendation 6: Control by the Governments concerned.

“The Communications Company to consult in regard to questions of policy, including any alteration of rates, an Advisory Committee, which we suggest should include representatives of the Governments participating in this Conference, to whom representatives of other parts of the Empire may be added as required from time to time with the approval of the Governments concerned. No increase of rates prevailing at the date of the formation of the Communications Company to be made except with the assent of the Advisory Committee.”

As the undertaking is one which closely concerns the several parts of the Empire, it is essential that they should have a voice in the direction of the policy of the undertaking; and, having regard to the responsibility of the Governments concerned as trustees of the public, it is essential that they should be in a position to exercise an additional measure of control over policy to that secured by the approval of nominations of certain members of the Board of the undertaking.

The Imperial Advisory Committee should have access to all information in the hands of the Communications Company which is necessary to enable it to carry out its duties. Such information would, of course, be treated as strictly confidential.

As has been indicated above, the main concern of the Governments is to secure an efficient and cheap service. For this reason the Imperial Advisory Committee should, we suggest, be given absolute power in regard to any proposed increase to the existing rates, and the allocation of the funds which become available for rate reduction, &c., in accordance with recommendation 5 above.

But there are also other questions, such as the institution of new services, the discontinuance of any services which become commercially unprofitable, and the general distribution of traffic between alternative routes. For example, in regard to the question last mentioned, it will be desirable that a reasonable proportion of the total cable traffic between Great Britain, Australia, and New Zealand should continue to pass over the route by way of Canada, which does not touch foreign territory at any point. It is not possible to prescribe in advance for all such contingencies. For this reason it should be provided that in all such matters of general policy the Communications Company should consult the Imperial Advisory Committee. Cases may occur in which the interests of the public in regard to cheap communications may conflict with strategic requirements. In such cases the Committee must weigh the relative merits of the two considerations and advise accordingly.

We do not attempt to lay down the precise composition of the Committee or to define the status of its members, as we feel that these are matters for determination by the Governments concerned.

Recommendation 7: Additional Safeguards and Conditions.—“It is to be agreed—

- “(a) That British control of all the companies must be guaranteed:
- “(b) That the Governments may assume control of the cable and wireless systems in time of war or other national emergency:
- “(c) That the fighting Services are entitled to build and work cable or wireless stations for their own purposes, but not for commercial purposes.”

There are, of course, a number of points of detail which will need to be included in any formal agreement, as, for example—

- (a) The furnishing of all information to the Advisory Committee, including, if required, an examination of the Company's accounts on their behalf:
- (b) An undertaking by the companies not to dispose of or lose control of their communications assets:
- (c) Safeguards against undue preference to or excessive payments for apparatus manufactured or patented by the merger:
- (d) Precise terms to be formulated in regard to the transfer of the personnel.

Recommendation 8: Telephone Services.—“The Post Office in London will reserve the right to conduct the external telephonic services of Great Britain, but will agree with the company on the terms on which it will have the right to use the company’s wireless stations or portions thereof for telephonic purposes.”

44. The above scheme is designed to secure a common basis for the conduct of telegraphic communications of the various parts of the Empire. The full benefits of the scheme can only be secured by whole-hearted co-operation on the part of all the Governments concerned and of the undertakings conducting telegraphic communications throughout the Empire. The establishment or authorization of services within the Empire which work in opposition to, or, indeed, out of harmony with, the above scheme would deprive it of much of its value, and would militate against the objects which we have endeavoured to attain. We recommend, therefore, that if our proposals commend themselves to the Governments of the several parts of the Empire they should take steps to apply the principles of the scheme, with such modifications in points of detail as may be necessary to meet local conditions, to the overseas telegraphic undertakings operating within their jurisdiction. For example, it will be appreciated that the prospects of harmonious working might be prejudiced if any of the undertakings concerned were not under predominant British control.

45. After an exhaustive study of all the factors involved, and consultation with all available interests concerned, we feel convinced that the scheme we have propounded above provides the best solution of what is a problem of the first importance to all parts of the British Empire. The scheme of service is not only a matter of common interest, but possibly the link on which more than any other the several parts of the Empire depend for mutual intercourse. Our recommendations will, we believe, establish this service on a firm foundation, lead to its development, and provide for its administration in a manner well calculated to bring to the communities which it is its function to serve all the benefits which naturally flow from a rapid, cheap, and efficient system of communications.

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