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810

PREM 19/1345

Part 8

Confidential Filing

Future of the Post Office and
British Telecom

Mercury Communications Ltd.

Post & Telecommuni-
cations

Part 1: May 1979

Part 8: January 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
newspaper cover							
11.6.82							
29.6.84							
16.7.84							
18.7.84							
30.7.84							
31.7.84							
28.84							
PART ENDS							

PART 8 ends:-

J Redwood to Am 3/7/8x

PART 9 begins:-

Ps / Pst to AT 1/8/8x

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Department of Trade and Industry – Licence to be granted by the Secretary of State for Trade and Industry to Mercury Communications Limited under section 7 of the Telecommunications Act 1984. Produced 30 July 1984

House of Commons HANSARD, 2 May 1984, columns 353 to 361: British Telecom (Privatisation)

Signed J. Gray Date 24/9/2013

PREM Records Team

31 July 1984

②
PRIME MINISTER

HT 21/7

SHARE SALES AND BT

Most Government issues have been accident-prone. Like French Generals, advisers and Ministers often prepare to win the last war and not the next one.

My conclusions are:

1. For a small issue (up to £300/400 million) you need the protection of a tender against underpricing (ABP, Amersham, Jaguar).
2. These issues need not be underwritten at all. The fee could be saved by having either no minimum or a low minimum price. Whatever the sale proceeds, the Government could say that the right price had been achieved.
3. For a larger issue (Britoil, BP etc) there is more danger of a flop. Here, underwriting has attractions to guarantee sale, and the Government can run the risk of a fixed price issue, as the very size of the company will prevent an enormous premium being established.

If people insist on underwriting an issue at a "realistic price" and on a tender, they will kill all the fun and naturally deter institutions from applying.

BT

The argument at yesterday's meeting that there is a danger of selling far too cheaply - of making the issue a stag's charter - is not well founded.

Institutions and individuals have cash and facilities of around £2-3 billion for an attractive issue. These facilities are not related to the size of the issue concerned - a £30 million attractive issue is often 70-100 times oversubscribed; a £100 million, 20-30 times; and a £500 million issue, 4-6 times. On this simple rule, allowing for some additional build-up of institutional cash for BT, it will only be 1-1½ times subscribed (on a fully paid basis). [Multiply by 3 for the partly paid basis, as some will gear their applications.] This is not a level of oversubscription likely to embarrass us in early dealings.

The disappointment yesterday was in the approach to the issue, stressing the institutions whilst playing down the retail market on administrative grounds and overseas markets. This will make selling to the institutions more difficult.

Conclusion

To succeed, we must sell to more than 1 million private
investors. Inducements to do so will be cheap given the
higher price you will then get from the institutions.



JOHN REDWOOD

SHAREHOLDER INCENTIVES

BILL VOUCHER SCHEME

- 1 Each voucher will be worth £18 against a quarterly BT bill.
- 2 The vouchers will be sent out every six months as follows -

<u>Shares purchased and retained (approx)</u>	<u>July 1985</u>	<u>January 1986</u>	<u>July 1986</u>	<u>January 1987</u>	<u>July 1987</u>	<u>January 1988</u>
£250	1					
£500	2					
£1000	<u>2</u>	<u>2</u>				
£2000	2	2	2	2		
£3000 or over	2	2	2	2	2	2

SHARE BONUS SCHEME

- 1 The share bonus will be one free share for every ten shares held for three years after the flotation.
- 2 The share bonus will only apply to the first £5,000 worth of shares held for the qualifying period.

PRICE OFFSET

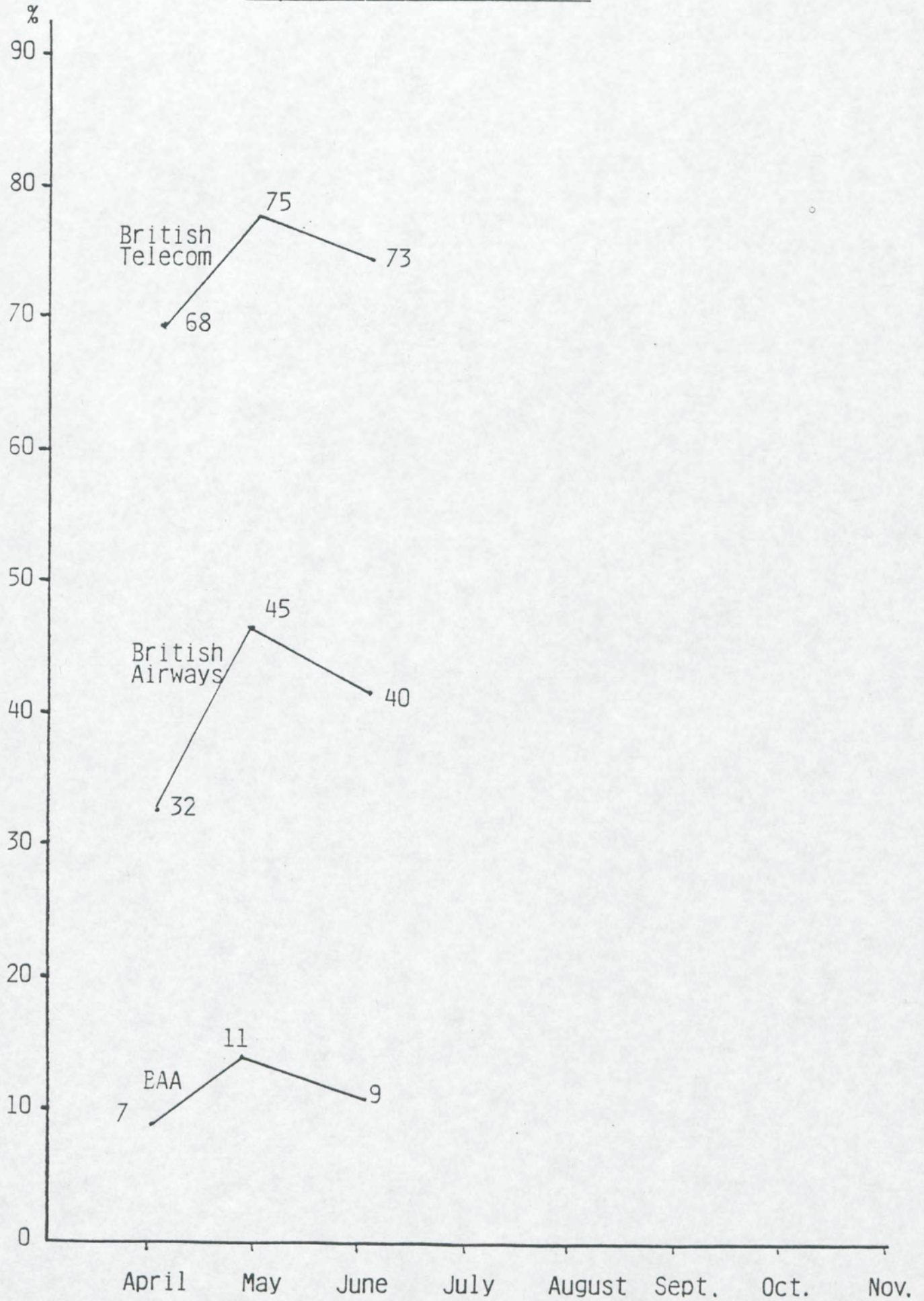
- 1 Dependent on the public response, the shareholder incentives might cost between £80-120m for investment by individuals of between £950-1,400m.
- 2 This cost would be offset if the price of BT shares was to increase as a consequence of the incentives by 2.5-3.5 per cent.

10 72.

1100.
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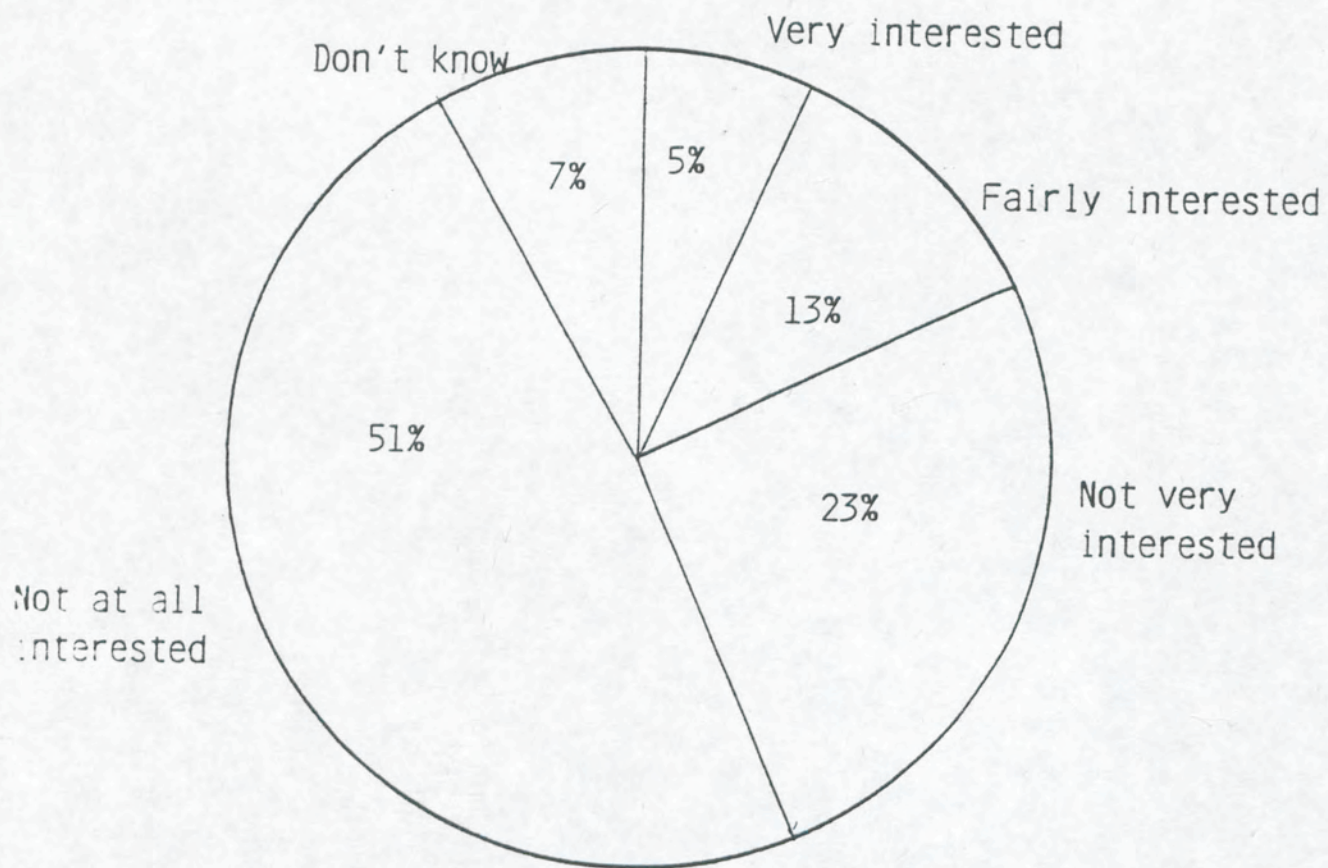
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AWARENESS OF PRIVATISATION



INTEREST IN BUYING

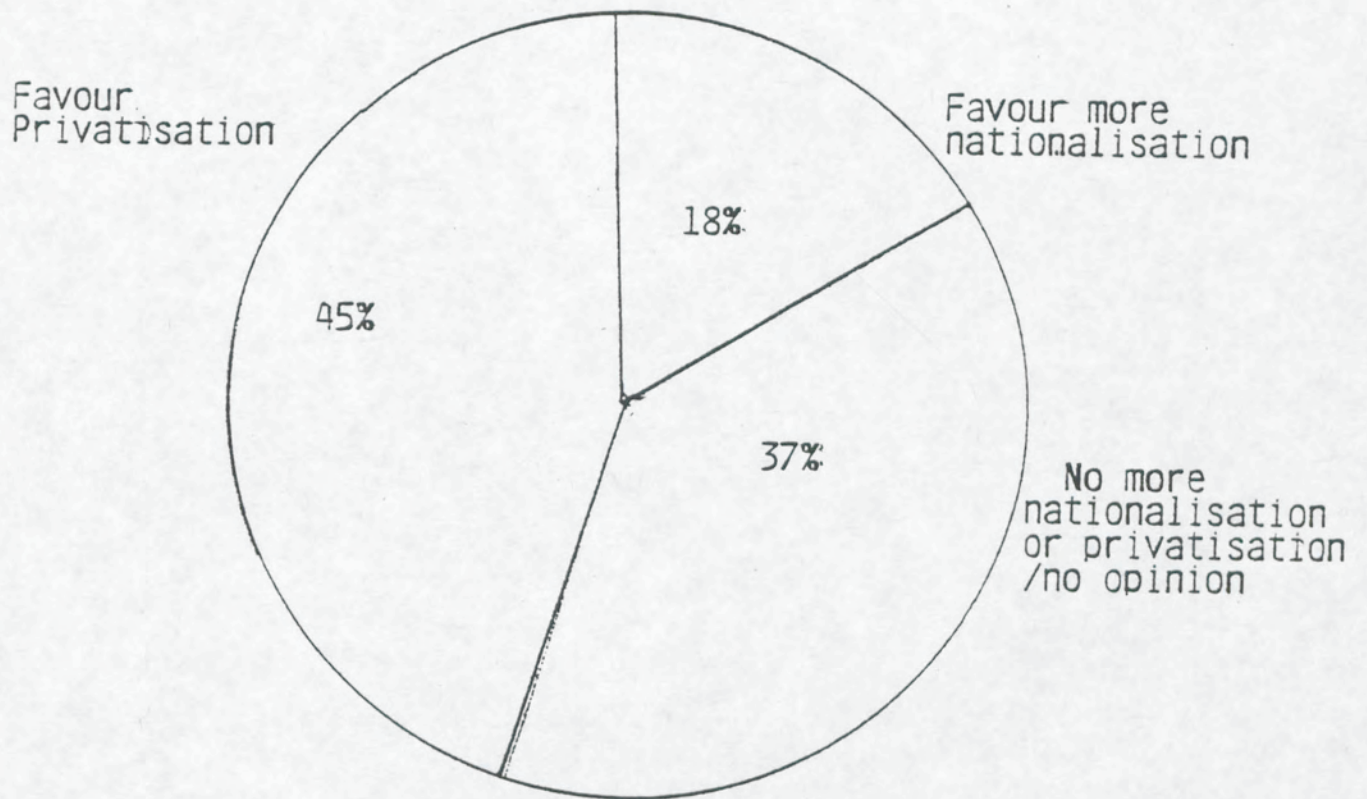
Q. The Government intends to offer shares in British Telecom for sale this year. How interested do you think you will be in purchasing such shares?



Base: All

SOURCE: MORI
(June, 1984)

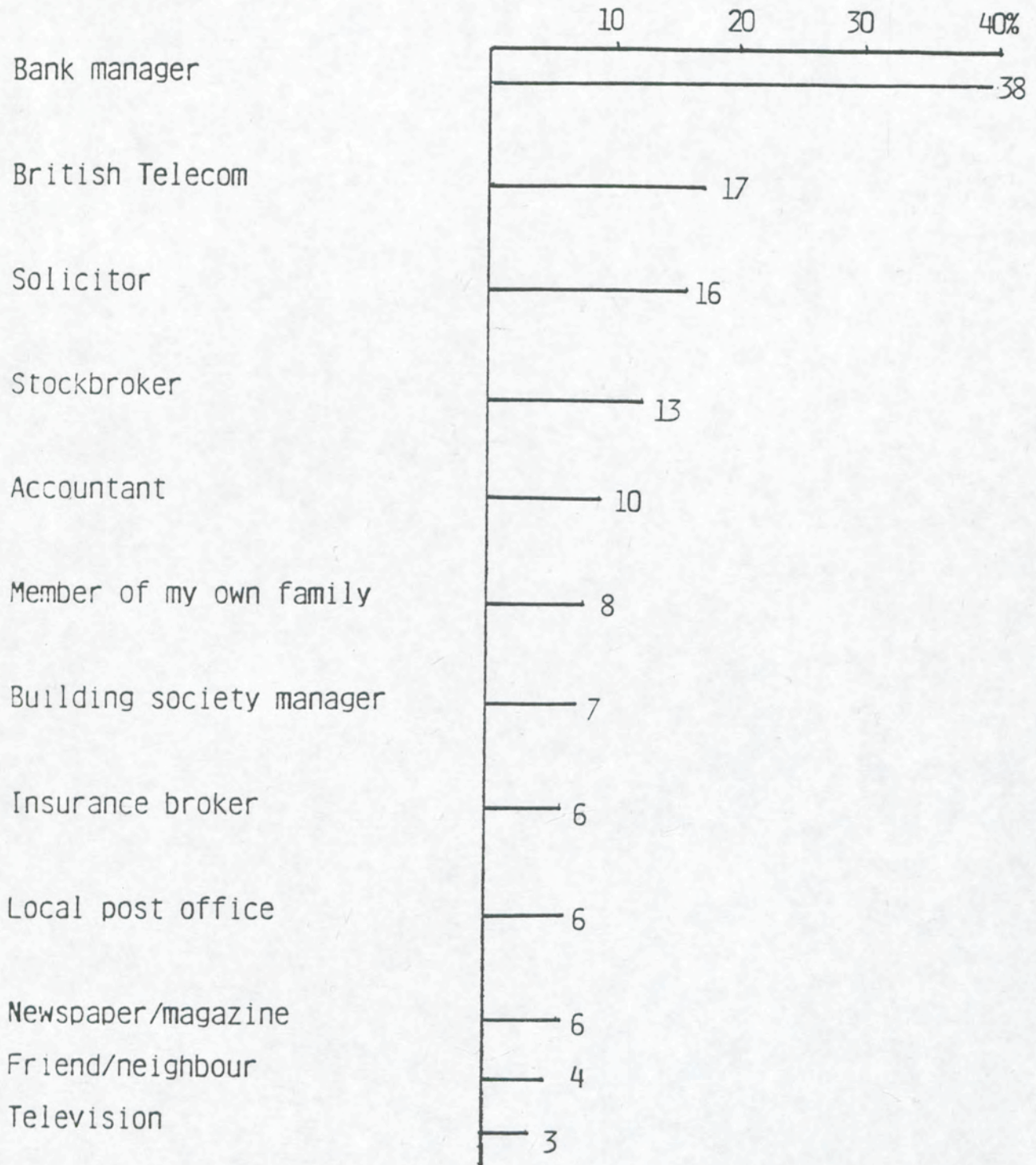
PRIVATISATION - GENERAL



SOURCE: MORI

(June, 1984)

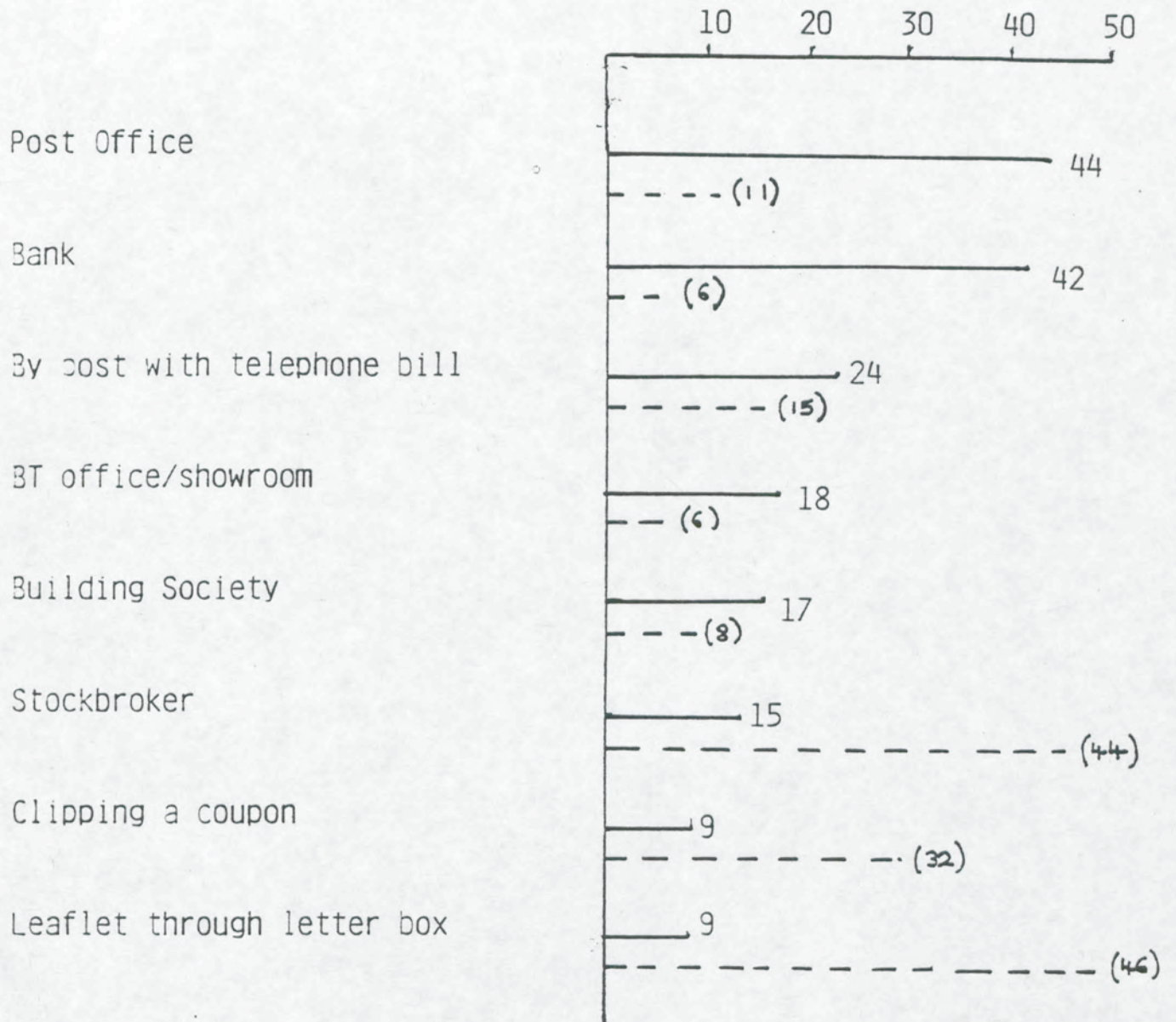
ADVISERS



Base: Those interested in buying

SOURCE: MORI
(June, 1984)

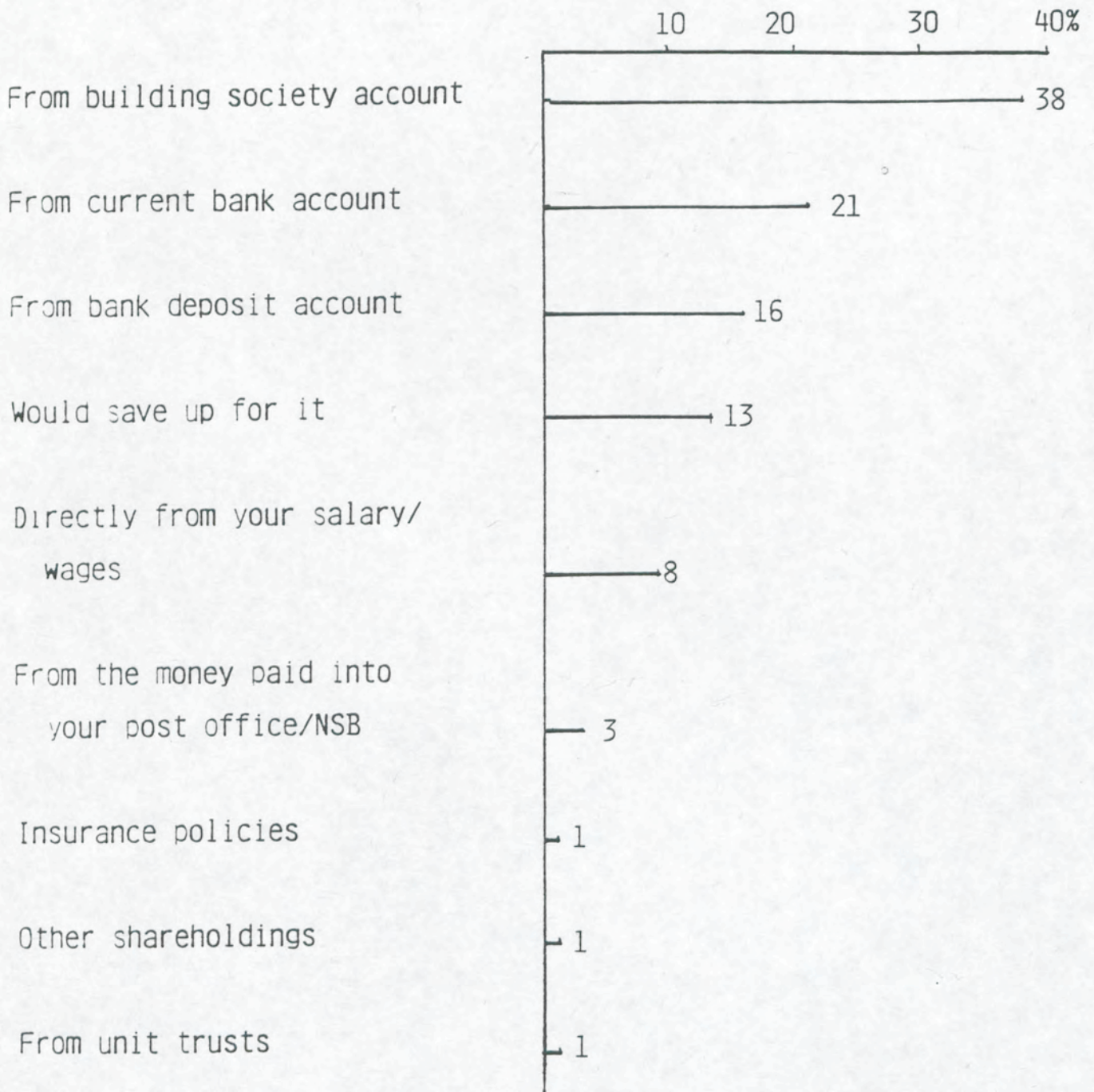
HOW PREFER TO PURCHASE



Use ———
(Definitely not use) - - - -

SOURCE: MORI
(June, 1984)

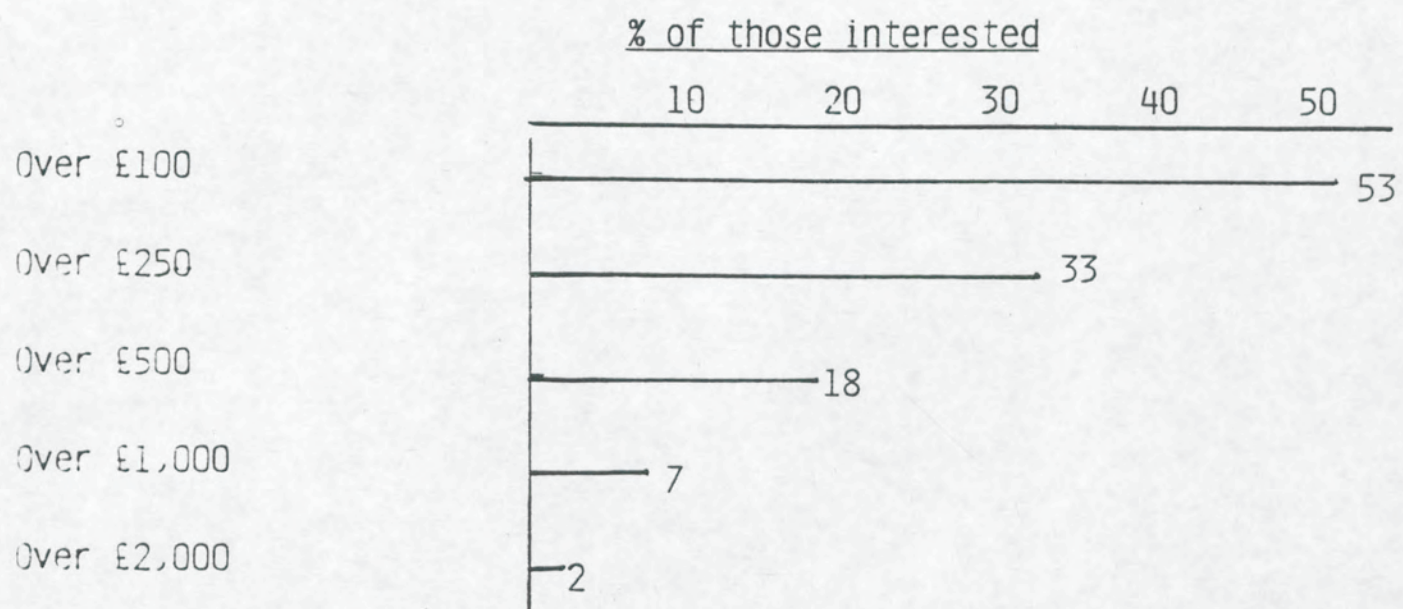
WHERE MONEY WOULD COME FROM



SOURCE: MORI
(June, 1984)

Base: All interested

AMOUNTS INTEND TO INVEST

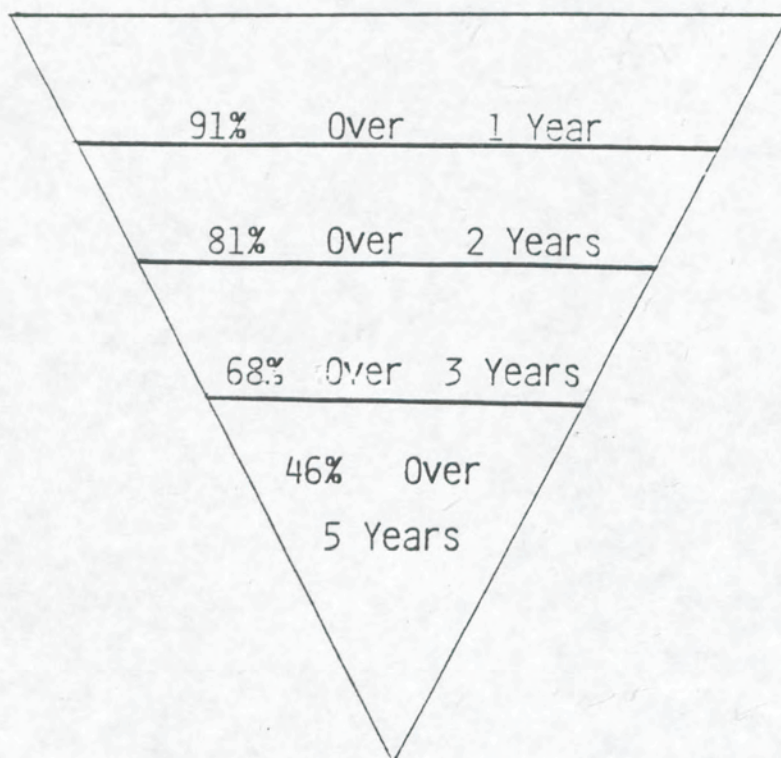


	AB %	C1 %	C2 %	DE %
Over £100	60	63	51	43
Over £250	39	43	29	25
Over £500	26	25	13	11
Over £1,000	10	8	5	5
Over £2,000	2	4	-	3

SOURCE: MORI

(June, 1984)

LENGTH OF PERIOD OF INVESTMENT

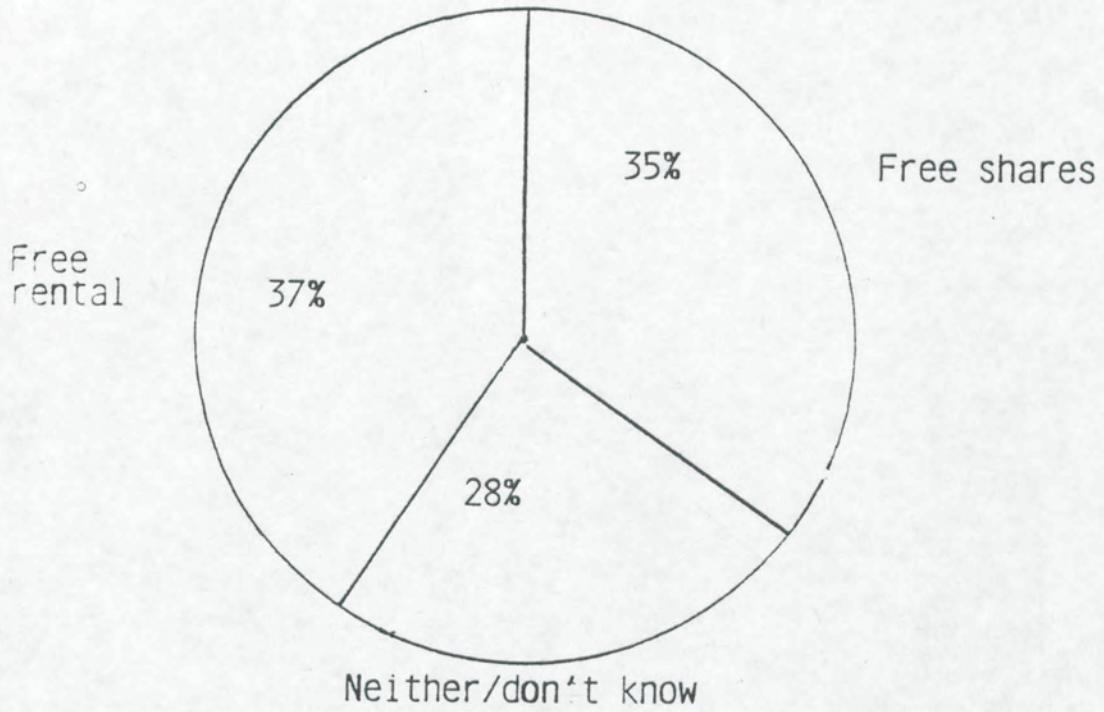


(REPERCENTAGED TO
EXCLUDE "DON'T KNOWS"
= 16%)

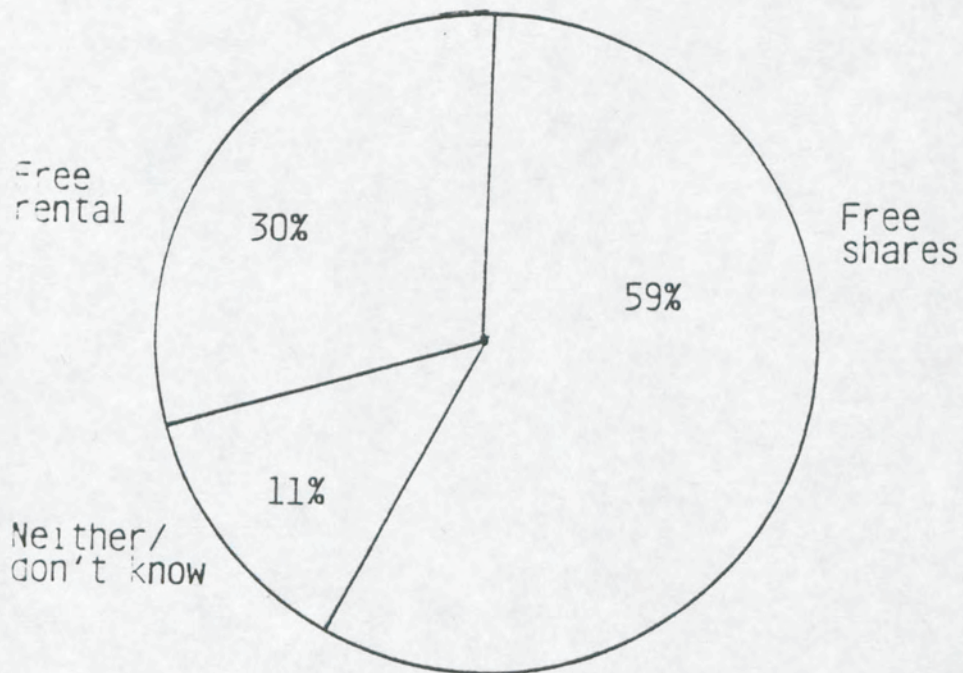
SOURCE: MORI
(June, 1984)

PREFER SHARES OR RENTAL

ALL RESPONDENTS



INTERESTED



510

NIBPM
AT 3017

~~CCND~~



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

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GTN 215) 5147
(Switchboard) 215 7877

From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP

John Moore Esq MP
Financial Secretary to
the Treasury
Whitehall
LONDON
SW1

3 July 1984

I shall be announcing this afternoon by means of a written answer that we intend to grant Mercury Communications Ltd a licence under Section 7 of the Telecommunications Act 1984, and to apply to Mercury the telecommunications code contained in Schedule 2 to that Act. The licence, which would replace the 1981 Act licence under which Mercury currently operates, would give Mercury power to establish and run a national public telecommunication system in competition with BT. The application of the telecommunications code to Mercury would give it power to instal apparatus both on private land, subject to gaining the necessary consents, and in the streets.

A statutory notice announcing our intention will appear in appropriate national and local government newspapers tomorrow and later in the week. This notice initiates a statutory period of public consultation lasting until 17 September on the proposed licence.

I enclose a copy of the proposed licence together with explanatory notes which outline the main differences between it and BT's licence. Since many of the provisions in the two licences are the same, I also enclose a copy of the explanatory notes on the BT licence, which summarise the conditions in that licence.

I am copying this letter to the Prime Minister and to Lord Cockfield, David Waddington, Alan Butler, Alick Buchanan-Smith, John Stanley, Lord Gray of Contin, John Strading Thomas, Ian Gow, Kenneth Clarke, Lynda Chalker, John MacGregor and Sir Robert Armstrong.

KENNETH BAKER

M57/M57AAG

TELECOMMUNICATIONS ACT: PROPOSED LICENCE FOR
MERCURY COMMUNICATIONS LTD

EXPLANATORY NOTES

1 These notes are intended to outline the provisions in the licence which the Secretary of State proposes to grant to Mercury Communications Ltd ("Mercury") and in particular the main differences between the conditions it contains and those in the British Telecom (BT) licence.

2 In accordance with section 8(5) and 10(6) of the Telecommunications Act 1984, the Secretary of State has issued a notice declaring his intention to grant a licence to Mercury under section 7 of that Act, and to apply to Mercury the telecommunications code contained at Schedule 2 to the same Act. This initiates a consultation period which is required under that Act and which will last until Monday 17 September, during which representations and objections may be made to: the Department of Trade and Industry, Room 525, 1 Victoria St, London SW1.

3 The licence document is divided into six parts:

- the licence to run certain telecommunications systems;
- conditions regulating how the systems are to be run;
- arrangements for revoking the licence;
- authorisation to connect to other systems and to provide telecommunication services;
- exemptions and conditions relating to the application of the telecommunications code; and
- definition of the Mercury telecommunications system

4 The conditions of the proposed Mercury licence are similar to the conditions in the BT licence, but appropriate changes have been made to reflect the different circumstances of Mercury. An explanation of the detailed provisions common to both licences can be found in the explanatory notes on the BT licence (a copy of which is attached).

5 The main differences between the two licences are:-

- Mercury does not have BT's universal service obligation. This reflects the fact that it does not have a national system like BT's. However it is obliged to install applicable systems and to provide services by means of those systems.
- Mercury is licensed to operate in the whole of the UK, whereas BT's licensed area excludes Kingston-upon-Hull, where the City Council provides services equivalent to those of BT.
- Mercury cannot provide call box services unless it applies to provide them and the Director General of the Office of Telecommunications determines that there is a reasonable demand for such services.
- Mercury cannot provide telecommunication services for seagoing vessels other than offshore installations. With this exception, BT will remain solely responsible for maritime services.
- In view of its market position, Condition 24 in the BT licence, which restricts the amount by which BT can increase its prices, does not apply to Mercury. For the same reason, there is also a minor change in the way in which BT Condition 16 of the BT licence on the publication of terms and conditions applies to charges for new services.
- Since it is not already providing local services, Mercury does not have in its licence the BT licence conditions concerning charges for the maintenance and installation of certain exchange lines (BT Conditions 25 and 26).
- Mercury's licence contains a condition requiring it to pre-notify the Secretary of State of changes in the control of its share capital and gives the Secretary of State power to revoke the licence in certain circumstances. In BT's case, the question of changes in control of share capital is dealt with in the Articles of Association.
- The condition concerning payment of fees for Mercury differs slightly from the BT equivalent (Condition 46). BT's renewal fee is based on a percentage of its turnover: because Mercury, as a new entrant, will at first have a low turnover, provision is made for its renewal fee to be calculated differently in certain specified circumstances.

- Schedule 4 of Mercury's licence includes a condition requiring arrangements to be made so that in the event of, for example, Mercury ceasing to trade, funds would be available to meet liabilities that might subsequently arise in relation to apparatus installed in the street.
- A number of conditions will come into force earlier for Mercury than for BT because, as a new entrant to the market, Mercury can meet the obligations in those conditions at an earlier date. The relevant conditions concern the requirements:
 - to record any material transfer between different parts of the business (Condition 17);
 - to keep separate accounts for systems and apparatus supply businesses (Condition 18);
 - to set up a subsidiary company for any apparatus production (Condition 20);
 - to specify separately in quotations and invoices the charges for each service provided otherwise than by means of the Applicable Systems and the charges for apparatus (Condition 33);
 - to cease to install integrated wiring on served premises, subject to certain specified exceptions (Condition 37).

6 These differences are occasioned by the differences in circumstances between BT, which already provides a national public telecommunications service, and Mercury, which is developing a national network for the purpose of providing such a service. Generally however they will both be carrying the same duties and responsibilities.

LICENCE FOR BRITISH TELECOMMUNICATIONS

EXPLANATORY NOTES

INTRODUCTION

1 These notes are intended to provide an explanation of the provisions in the licence granted to British Telecommunications ("British Telecom") by the Secretary of State for Trade and Industry under section 7 of the Telecommunications Act 1984.

2 The licence was granted by the Secretary of State on 22 June and was laid before Parliament on 26 June. It is intended that the licence will come into effect on Sunday 5 August which is the day when the new licensing arrangements established under the Telecommunications Act enter into force. British Telecom will be converted from being a statutory corporation into a public limited company on Monday 6 August and will thereafter trade as British Telecommunications plc. The Government plans to sell 51% of the shares in British Telecom later in the year.

3 The licence has been laid before Parliament in accordance with section 9 of the Telecommunications Act. This provides that no order designating a telecommunication system as a "public telecommunication system" can come into effect until at least 28 days after both the order and the licence for the system have been laid before both Houses of Parliament. The British Telecom licence and the Hull licence, which is also being laid before both Houses of Parliament, will therefore lie before Parliament for 40 days.

4 The provisions of the British Telecom licence are substantially the same as those incorporated in the draft text which was published on 25 October 1983, with certain modifications and additions to reflect the comments made in the intervening period. The licence document is divided into six parts:

- The Licence to run certain telecommunications systems;
- Conditions regulating how the Systems are to be run;
- Arrangements for revoking the Licence;
- Authorisation to connect to other systems and to provide telecommunication services;
- Exemptions and Conditions relating to the application of the Telecommunications Code; and
- Definition of the telecommunication systems British Telecom is allowed to run.

THE LICENCE

5 The Licence itself has three paragraphs. Paragraph 1 gives British Telecom permission to run the telecommunication systems (known as the "Applicable Systems") which are described in Annex A and to connect to other telecommunication systems and to provide the telecommunication services specified in Schedule 3. But when it does these things British Telecom must abide by the conditions set out in Schedule 1 and the permission can be revoked, or taken away, in the (unlikely) circumstances described in Schedule 2. Paragraph 2 allows British Telecom to benefit from the provisions of the Telecommunications Code (contained in Schedule 2 to the Telecommunications Act) so that it can install all the telegraph poles, wires, underground cables and so on which are needed to provide services to customers. But when it uses the powers in the Code British Telecom must abide by the special conditions set out in Schedule 4. Paragraph 3 says that the Licence will last for at least 25 years and will go on for longer unless 10 years notice of termination is given. The long period of notice is needed so that fears that the Licence might not be renewed will not prevent British Telecom from raising the capital to invest in expensive new plant and equipment.

SCHEDULE 1: CONDITIONS INCLUDED UNDER SECTION 7 OF THE ACT

Introduction

6 Schedule 1 sets out the conditions which British Telecom must observe when it does the things permitted under paragraph 1 of the Licence. These conditions are set by the Secretary of State using the powers of section 7(5) and (6) of the Act. Since British Telecom's systems are to be "public telecommunication systems" he must include conditions of the kinds described in section 8(1) and (2) of the Act; these conditions are in Part 2 of Schedule 1. The conditions or rules are needed because the Act tells the Secretary of State that he must do certain things when he grants a licence. In particular section 3 of the Act places the Secretary of State under a duty, every time he grants a licence, to act in the way which he thinks best calculated to achieve a number of objectives:

- first, he must so far as practicable secure that everyone who wants a telecommunication service in reasonable circumstances can obtain service and he must pay special regard to those wanting emergency services, public call box services, directory information services, maritime services and services in rural areas;

- second, he must ensure that those like British Telecom who provide telecommunication services are able to finance the provision of those services.

7 These objectives are the most important ones. Once the Secretary of State has taken account of them, he must then act in the way best calculated to meet further objectives:

- he must promote the interests of those who use telecommunication services or who use telecommunication apparatus (including in particular the elderly and the disabled) in obtaining a variety of good quality services and apparatus at reasonable prices;
- he must maintain and promote competition so that telecommunication users obtain a choice of services and apparatus;
- he must promote efficiency and economy;
- he must promote research and development and the use of new techniques;
- he must encourage major users of telecommunications to set up business in the UK, promote the provision of international transit services here, and enable those providing telecommunication services and producing apparatus in the UK to compete effectively overseas.

8 British Telecom will be made to comply with these conditions by the new Director General of Telecommunications (who is called "the Director" in the Licence) using the powers in sections 16, 47, 49 and 53 of the Act. The Director will also have the assistance of the advisory bodies to be set up under section 54 of the Act. Where the Director considers that a breach of a Licence condition has occurred he must under section 16 make an order (of either a provisional or a final kind) requiring British Telecom to take such steps as he considers necessary to comply with the condition. Such orders are enforceable by civil proceedings in the Courts.

9 The Director may modify the conditions in Schedule 1. This can happen in two ways. First, if the Director and British Telecom agree that a change to a licence condition is needed or that a new condition is needed, and the Director gives public notice of his intention and then considers public comments about it, a condition can be modified by agreement under section 12 of the Act. Second, where there is no agreement between the Director and British Telecom but the Director thinks that a licence condition needs adding or changing, the Director may refer the matter to the Monopolies

and Mergers Commission (MMC). If the MMC considers that a modification would be in the public interest, then the Director may, under section 15 of the Act, modify the condition to put matters right. This power to modify applies only to the conditions in Schedule 1. The provisions of Schedules 2 and 3 and of Annex A cannot be modified under sections 12 and 15 and Schedule 4 can be modified only in accordance with the special procedures laid down in section 10 of the Act.

10 The Secretary of State's responsibility is limited to granting the initial licence and setting the initial conditions in Schedule 1. Once the conditions are set he has no power to initiate changes to them and only limited powers under sections 12 and 15 of the Act to prevent modifications.

SCHEDULE 1: PART 1

11 Schedule 1 is divided into three parts. Part 1 simply contains the definitions, interpretations and transitional provisions relating to the conditions in Parts 2 and 3. Schedules 2, 3 and 4 and Annex A each have their own definitions, interpretations and transitional provisions as appropriate. The definitions etc in Schedule 1, Part 1 can be modified if necessary using the procedures in section 12 and 15 of the Act. The convention is that terms which have a special meaning are normally given initial capital letters. If a term is used in only one condition (or in adjacent conditions) its definition is included in the Condition in question. If a term is used in several conditions its definition has been brought forward to Part 1.

SCHEDULE 1: PART 2

12 The conditions in Schedule 1 are divided into Part 2 and Part 3 because section 8(1) and (2) of the Act lays down the kinds of conditions which must be included in a licence before the system to which that licence relates can be designated under section 9 of the Act as a "public telecommunication system" and the operator as a "public telecommunications operator" or before the Telecommunications Code can be applied to them under section 10(2)(a). All the Conditions in Part 2 of Schedule 1 (ie Conditions 1 to 17) are set by reference to section 8(1) and (2). They impose a series of obligations on British Telecom specifying the services it must provide and how it must provide them. Under section 7 of the Act licences may also include other conditions apart from those included by reference to section 8(1) of the Act. Part 3 contains the other conditions which the Secretary of State thinks necessary. The obligations placed on British Telecom by the conditions in both Part 2 and Part 3 are subject to the exceptions and limitations in Condition 53 which set out the

circumstances where it would either be impracticable or not reasonably practicable to do those things or where demands would not be reasonable.

13 Condition 1 obliges British Telecom to continue to provide a universal telecommunication service; it must provide voice telephony services and other telecommunication services throughout the Licensed Area (ie all the United Kingdom except Hull). Condition 1 also obliges BT to install, keep installed and run the Applicable Systems for those purposes. British Telecom is thus obliged to install and maintain in good running order all the telecommunication apparatus (including wires, cables, radio links, exchanges, poles, ducts etc comprised in the Applicable Systems and to connect them to individual premises on request so that "Messages" (such as telephone conversations, telex communications and data signals) can be conveyed from one set of premises to another. The terms "telecommunication system", "telecommunication apparatus", "telecommunication services", "connect" and "convey" are all defined in section 4 of the Act.

14 Condition 2 supplements Condition 1 by making it clear beyond doubt that the universal obligation to provide voice telephony and other telecommunication services applies specifically to rural areas. There is no need to define rural areas for the purposes of Condition 2; either an area is a rural area in which case Condition 2 applies or it is not, in which case Condition 1 applies. The universal service obligations in both Conditions 1 and 2 will not apply where the Director is satisfied that any reasonable demand for telecommunication services is being met by others and that it would not be reasonable for British Telecom to be under an obligation to meet that demand.

15 Condition 3 contains a number of obligations on British Telecom to provide directory information. To all to whom British Telecom provides voice telephony services, it must under paragraph 3.1(a) also provide a full directory information service as defined in section 4 of the Act, that is to say the present Directory Enquiry Service. BT must also under paragraph 3.1(b) make available to anyone who requests them any directories (for telephone, telex or other services) it produces.

16 Paragraph 3.2(a) obliges BT to make available directory information to its customers about customers of systems such as the Hull system to which BT is connected. Paragraph 3.2(b) imposes a requirement to provide information to operators like Hull so that they can provide an equivalent service to their customers who want to find out the numbers of British Telecom's customers. Paragraphs 3.3 and 3.4 make provision for customers to have access to directory information about customers of overseas telecommunication systems. Reciprocal obligations will be contained in the licences for the other public telecommunication systems.

17 Paragraph 3.5 contains the protection for the blind and disabled required by section 8(2). It requires BT to provide a directory information service to blind and other disabled persons who cannot use printed telephone directories in a form appropriate to their needs (eg in an audible form like the present directory enquiry service, not a visual form). Whether or not BT decides to introduce charges for its present directory enquiry service, it must provide this directory information to the blind and other disabled persons free of charge or, if the Director agrees, appropriately recompense such persons. Paragraph 3.5 replaces Condition 34 of the draft licence published in October 1983.

18 Condition 4 obliges British Telecom, with certain exceptions, to provide "Maintenance Services" - defined in Schedule 1, Part 1 - in respect of telecommunication apparatus and systems which are connected to its systems but which are not comprised within those systems. Under Conditions 1 and 2 British Telecom is obliged to maintain apparatus comprised in its systems, for example Exchange Lines up to and including the socket or block terminal at which telecommunication apparatus like a telephone handset is connected to the Exchange Line. Conditions 1 and 2 do not require British Telecom to maintain or repair apparatus like telephone handsets which are connected to Exchange Lines and Condition 4 therefore requires British Telecom to provide Maintenance Services in respect of some connected apparatus. The obligation does not normally apply when a customer chooses to obtain telecommunication apparatus from someone other than BT.

19 Condition 5 obliges British Telecom to provide International Connection Services so that people in the United Kingdom can send Messages to places outside the United Kingdom (including the Isle of Man and the Channel Islands) and receive Messages from those places.

20 Condition 6 obliges British Telecom to provide a "Public Emergency Call Service", commonly known as the 999 service. Under this Condition British Telecom must provide this service at all places throughout the Licensed Area where people have access to its systems; whenever anyone picks up a normal working telephone then that person must also be able to make a 999 call from that telephone. The police, ambulance, fire and coastguard are the Emergency Organisations most frequently used but this condition also requires BT to continue to provide a Public Emergency Call Service to other organisations (eg the Mountain Rescue Service) to which it currently provides a 999 service.

21 Conditions 7 to 10 require British Telecom to continue to provide other emergency services and to formulate such plans and arrangements for emergencies as may be required by the appropriate authorities. Such services and requirements will include calls made by the Emergency Organisations (Condition 7), maritime services such as the Distress Watch Service

(Condition 8), special arrangements in the event of major accidents and plans to facilitate essential national communications in the event of damage to the network from whatever cause (Condition 9) and priority fault repair arrangements for essential services (Condition 9). British Telecom will be entitled, where this is appropriate, to recover the costs of such services, plans and arrangements.

22 Condition 11 obliges British Telecom to provide public call boxes. In large part this Condition follows the existing agreement between British Telecom and the Post Office Users' National Council (POUNC) governing the removal of call boxes. But a major difference is that whereas the present agreement has been only voluntary, Condition 11 imposes enforceable obligations on British Telecom. Because of the concern expressed by many about the future of public call boxes these notes explain Condition 11 in some detail.

23 Paragraph 11.1 contains the general obligation on BT to provide services at all call boxes in existence when the licence enters into force and those subsequently installed. Paragraphs 11.2, 11.3 and 11.4 limit the removal of call box facilities. Paragraphs 11.5 and 11.6 contain obligations to publish guidelines about the installation of new Public Call Boxes. Paragraph 11.7 defines the various terms used in Condition 11.

24 Paragraph 11.2 sets out the circumstances in which BT may withdraw a Public Call Box. Paragraph 11.2(a) allows withdrawal, provided the procedures set out in paragraph 11.3 are followed, where the provision is "impracticable", for example where the wayleave for the siting of a Public Call Box is withdrawn or a road is widened. Paragraph 11.2(b) is based on the existing arrangements whereby British Telecom and POUNC have agreed a guideline (or Minimum Figure) for a Public Call Box's annual takings below which a call box may be withdrawn. Paragraph 11.2(b) continues this practice. The minimum figure will be £185 per annum, which is the same as the latest guideline agreed between POUNC and British Telecom, and can only be changed after consultation with the four national advisory committees set up under section 54 of the Act and if the Director and BT both agree on the new figure under this arrangement. No Public Call Box will be able to be removed if its annual revenue (which includes an allowance for credit card calls, transfer charge calls etc) is above £185 per annum (unless any of the other circumstances covered in paragraph 11.2 apply) and before any such removal the procedures set out in paragraph 11.4 must be followed. However, if the annual revenue is below £185 per annum it is open to others, eg the local authority in the area, to make it up to that figure, and paragraph 11.2(b) provides that if this happens the Public Call Box must stay.

25 Paragraph 11.2(c) allows, for example, the withdrawal of one Public Call Box in a "bank" of several boxes if their use declines but provides that one box must remain on the same site or nearby so there is no question of complete withdrawal of Public Call Box services. Paragraph 11.2(d) is similar and allows removal of a Public Call Box provided that there is another box nearby but it also allows for a temporary cessation of service to the extent the Director agrees. This might happen for example when a road is widened to remove a corner on which a box is sited and British Telecom proposes to re-site the box.

26 Paragraph 11.2(e) allows for changes in the way that Call Box services are provided but as in paragraphs 11.2(c) and (d) the actual services must continue to be provided nearby. The term "Public Call Box" does not cover all "pay phones" normally found in pubs, cafes, clubs, airports etc. In many cases, although the public have access to these, they are in fact run not by British Telecom but by the publican, cafe owner etc, who normally pays a rent for the box and then keeps the coins put into it. However in terms of convenience to the public there is often little difference between the two except that in some cases pay phones are subject to opening hours. Paragraph 11.2(e) allows for rented or private pay phones (called "Private Call Boxes") to replace Public Call Boxes but this can only be done if there is a contract agreed between British Telecom and the provider of the pay phone. This contract must allow the public 24 hour access to the pay phone unless the Director agrees otherwise and the pay phone must also be fitted with an inductive coupler. The onus will be on British Telecom to ensure compliance with the conditions of such a contract.

27 Paragraph 11.3 sets out the procedure to be followed where British Telecom wishes to withdraw a Public Call Box on the grounds that its provision is impracticable under paragraph 11.2(a). British Telecom must try to install another Public Call Box nearby, but if it cannot, it must inform the local authority and consumer bodies in the area about its proposed removal. These bodies may make representations to the Director who may oblige BT to install a replacement Public Call Box nearby if he decides this is appropriate.

28 Paragraph 11.4 sets out the procedure British Telecom must follow if it wishes to withdraw a Call Box whose annual revenue falls below the Minimum Figure under paragraph 11.2(b). This procedure broadly follows the existing arrangements. The aim is to ensure that all those with a legitimate interest are informed and have an opportunity to make comments for the Director to consider.

29 Paragraph 11.5 is concerned with the provision of new Public Call Boxes, 11.5(a) dealing with the installation of new (permanent) Public Call boxes at new locations, for example on a new housing estate, and 11.5(b) with Temporary

Call Boxes, for example those installed at major conferences, exhibitions, sporting events etc. British Telecom must, after consulting with the Director, publish the criteria governing when it will provide such Call Boxes. It is expected that these guidelines will largely follow existing practice.

30 Paragraph 11.6 obliges British Telecom to provide Call Boxes at any location where the person requesting a box guarantees to pay its full cost.

31 Condition 12 obliges British Telecom to provide maritime telecommunication services in accordance with the Radio Regulations of the International Telecommunications Union. When they are at sea ships are normally outside the Licensed Area so the obligation on British Telecom is to both transmit and receive Messages to and from ships and to provide links from ships over its network in this country to any Network Termination Point, which could be on customer premises or a connection with another system (eg in Hull).

32 Conditions 1 to 12 are included in the draft licence in accordance with section 8 (1) (a) of the Act and require British Telecom "to provide such telecommunication services as are specified in the licence". Conditions 13 and 14 fulfil the requirement in Clause 8(1)(b) that the licence must require British Telecom "to connect or permit the connection to any telecommunication system to which the licence relates of such other telecommunication systems and such apparatus as are specified" or described in the licence.

33 Condition 13 has to be read in conjunction with Condition 14 in order to understand British Telecom's full obligation to make connections to its system. Condition 13 deals with a limited range of such connections to major systems run under licences granted to individuals rather than under class licences. Hull, Mercury and other systems that are individually licensed will be covered by condition 13, but not, for example private branch systems in office blocks (which will be run under a general licence). Where the Operator of such a major system requests that his system be connected, British Telecom is obliged to make an agreement with that Operator to make the connection and, if the Operator and British Telecom fail to reach agreement, the arrangements for connection are to be laid down by the Director. Where the Operator is what is called a "Long Line Public Telecommunications Operator" he will also be able to require an agreement from British Telecom which provides not only for basic connections to be made but also for people making use of the connections between his system and the British Telecom systems to be able themselves to choose to what extent their calls are conveyed by means of the Operator's system and British Telecom's system.

34 Paragraph 13.2 lays down the circumstances in which British Telecom will be exempt from these obligations to connect; for example when the necessary connections might be unsafe. Paragraphs 13.3, and 13.4 describe the matters which British Telecom may include in the relevant agreements. Paragraphs 13.5 and 13.6 give the Director the role of determining the terms of the agreement if, after a reasonable period of time, British Telecom and the Operator do not reach agreement, and they set out the criteria to which the Director is to have regard in making such a determination. Paragraph 13.7 provides for British Telecom to refuse to make a connection in circumstances where the Director agrees it is right to refuse and paragraph 13.8 enables the Director to require that British Telecom observes the arrangements for any connection.

35 Condition 14 obliges British Telecom generally to connect, or permit the connection, to its systems of any system which is not covered by Condition 13 and any apparatus which is approved under section 22 of the Act.

36 Condition 15, which is required by section 8(1)(c) of the Act, obliges British Telecom to permit any person who is running a telecommunication system connected to the British Telecom systems to provide any telecommunication services to others which he is permitted to provide under his licence. Condition 15 also obliges British Telecom to permit any person running such a system or using any apparatus connected to the British Telecom systems to provide services which do not fall within the definition of "telecommunication services" in section 4 of the Act. This is to ensure that people remain free to provide services like banking or the provision of information over the telephone.

37 Condition 16 obliges British Telecom to publish the charges, terms and conditions for the generality of its telecommunication services and to provide those services in accordance with those terms and conditions. In accordance with section 8(1)(e) of the Act the services covered by this obligation include those described in section 8(1)(a) to (c).

38 Condition 17 prohibits British Telecom from showing, whether in respect of charges or other terms and conditions or otherwise, undue preference or undue discrimination (particularly as respects persons in rural areas) in providing the generality of its telecommunication services including those described in section 8(1)(a) to (c) of the Act. Paragraph 17.2 provides that British Telecom will be showing undue preference or undue discrimination if it unfairly favours one part of its business so as to place persons competing with it at a significant competitive disadvantage. Paragraph 17.3 provides for the Director to decide when British Telecom is showing undue preference or undue discrimination as provided for in section 8(3) of the Act.

SCHEDULE 1: PART 3

39 Conditions 18 to 53 are not required by section 8 of the Act but are the remaining provisions which the Secretary of State considers it necessary to include in the British Telecom licence in order to secure the objectives set out in section 3 of the Act.

40 Condition 18 effectively prohibits British Telecom from cross-subsidising its Apparatus Supply Business, its Apparatus Production Company (see Condition 21), its provision of Land Mobile Radio Services or its provision of Value Added Services out of revenue from other parts of its business. Condition 18 has been greatly strengthened since the 25 October draft which failed to deal with capital transfers within British Telecom's business. These are now covered and the Director is given a new power to direct British Telecom to take immediate steps of any kind if it unfairly cross subsidises. This arrangement takes effect at once - there is no need for the Director to go through the slower procedures set out in section 16 of the Act which was envisaged in the October text. And the Director's powers to require British Telecom to take remedial action are wide ranging; for example, he could require an immediate price increase.

41 British Telecom's obligation to keep accounting records is considerably extended by paragraph 18.2. This takes effect as soon as practicable but British Telecom will not be in breach of its licence obligations, if in the period up to 1 April 1987, its management accounting procedures which are in the process of being introduced, fail to record every transfer within the business. British Telecom's Apparatus Supply Business is only covered by this condition for so long as that business constitutes a monopoly situation within the Fair Trading Act definition. Condition 18 does not prevent cross-subsidies where these are required under the licence, as for example where British Telecom provides the 999 service free of charge or where it runs Public Call Boxes at a loss.

42 Condition 19 permits, but does not oblige, British Telecom to share the cost of the loss-making services it is obliged to provide with other operators who make use of its networks in providing telecommunication services to their customers. The necessity for such subsidies cannot be established until British Telecom produces adequate accounts for services provided by its local areas and so detailed arrangements for "access charges" have not yet been worked out. The proceeds of "access charges" can be used only for meeting any losses incurred in providing apparatus for the disabled, the 999 service, Public Call Box services, or other services in specific local areas. The Director must approve any "access charge" that is introduced and British Telecom must contribute itself on the same basis as other operators.

43 Condition 20 requires British Telecom to establish separate accounting and reporting arrangements for its Systems Business and its Apparatus Supply Business. It lays down certain rules about how these arrangements are to be implemented. British Telecom must complete the separation of these accounts as quickly as practicable, but is given until 1 April 1987 to do so because its current nationalised industry accounts and organisation need substantial further alteration before the separation can be fully accomplished.

44 Condition 21 obliges British Telecom to establish a separate subsidiary company for its apparatus production activities by 1 July 1986. After that date British Telecom will not be allowed to engage in apparatus production. British Telecom is also obliged to ensure that the subsidiary does not become involved in running telecommunication systems. In order to assist the Director in carrying out his functions provision is made for him to receive the same kind of accounting information in relation to the apparatus production subsidiary as is required under Condition 20 in relation to the Systems and Apparatus Supply Businesses. Condition 21 also lays down an open tender procedure to be followed by British Telecom when it acquires apparatus from its apparatus production company in some circumstances, but there are exceptions for prototype apparatus etc.

45 Condition 22 requires that British Telecom must, when it combines the supply of apparatus with the provision of telecommunication services to a customer, give a fair opportunity for its competitors in the business of apparatus supply to obtain such services for their own customers on equivalent terms.

46 Condition 23 requires British Telecom to inform the Director about any proposals for changing its systems in ways which would require customers or manufacturers to buy or produce modified apparatus. British Telecom is also obliged to prepare, in consultation with the Director, and to publish a statement of its procedures for giving advance notice of such changes.

47 Condition 24 sets a limit for price increases for BT's main inland services. In any of the five years beginning 1 August 1984, price increases for business and residential rentals, local calls and trunk calls, taken together, must be at least 3 percentage points less than the annual rate of inflation. The annual rate of inflation is measured by the increase in the retail prices index (RPI) over the twelve months ending on the previous 30 June. If the actual price increases in any year are less than the limit, BT can take credit for this in either of the next two years. After BT's monopoly of the first telephones connected to Exchange Lines ends on 31 December 1984, the rental charge in respect of such telephones will be excluded from this Condition.

48 To calculate the average increase in prices for the services to which the limit applies, each such price increase is weighted in proportion to the revenue obtained by BT in respect of the service in the last financial year. The table illustrates the calculation as it would have applied to the increases in prices that took effect from 1 November 1983:

	Revenue £m	1982/3 %	1983 Price increase	Weighted increase
Exchange line rentals				
- Residential	823	22.9	4.8	1.1
- Business	313	8.7	4.8	0.4
Ordinary dialled local calls	1066	29.7	2.3	0.7
Ordinary dialled trunk calls	1391	38.7	2.3	0.9
	3593	100.0		3.1

Combining the price increase in proportion to 1982/3 revenues produces an average price increase of 3.1%. This can be compared with a rate of inflation over the year to the previous 30 June of 3.7%. If the RPI minus 3 limit had been in force BT would have been obliged to hold the average price increase for these services to 0.7%. However, there was no price increase the previous year (1982-83) when the rate of inflation was over 9%.

49 Condition 25 requires British Telecom to levy uniform maintenance charges for Exchange Lines over the first five years of the Licence. Maintenance charges are the main component of the present "rental" charged for exchange lines. Condition 26 provides that residential connection charges will be uniform over the first five years of the Licence when the work involved takes less than 100 hours.

50 Condition 27 obliges British Telecom to continue its present practice of issuing a Code of Practice for its employees and customers. The present Code describes the terms on which BT provides services, the quality of service BT aims to achieve and the procedures and contact points for customers who have complaints or queries about their bills, service faults, directories etc. The present Code will need to be amended to reflect the changes brought about by the Act, in particular the ending of provision of service under schemes. In future there will be a contract between BT and its customers which will substantially increase customers' legal rights and the Code has to reflect this change. Condition 27 therefore allows three months for the publication of the new Code, but in preparing this British Telecom must consult the Director. British Telecom must also consult the Director about the Code's operation at least once every three years.

51 Condition 28 enables British Telecom's customers to have access to independent arbitrators in respect of small disputes related to the provision of the telecom services by BT. This continues existing arrangements, whereby dissatisfied customers can take their complaints to the Chartered Institute of Arbitrators. In future, when schemes are replaced by contracts, it will be open to dissatisfied customers to take legal action but for the ordinary customer court action is normally too expensive and too lengthy. Condition 28 therefore enables them to seek resolution of disputes involving small sums through independent arbitrators. A limit, to be agreed between the Director and British Telecom, will be placed on the sums which can go to arbitration.

52 Condition 29 requires British Telecom to receive and consider representations from consumer bodies about its provision of services and its supply of apparatus. Condition 30 obliges British Telecom to ensure the accuracy of the meters it uses to measure the duration etc of telephone calls made by its customers. If any meter is a source of difficulty British Telecom can be obliged by the Director to keep additional records. Paragraphs 30.2 and 30.3 make provision for the time when the current discussions about independent approvals of British Telecom meters are brought into effect.

53 Conditions 31 to 33 impose obligations on British Telecom relating to the special requirements of the disabled for telecommunication services and apparatus. The Government has made clear its determination to ensure that after privatisation the disabled are looked after and British Telecom has also given public assurances on this. The Government is confident that British Telecom will look after the disabled and Conditions 31 to 33 are included in the Licence to provide reassurance to them.

54 Condition 31 covers the general needs of the disabled at large. It requires British Telecom to consult with the Director about the arrangements it makes to provide telecommunication apparatus (and its connection to the BT system and its maintenance thereafter) to meet all reasonable demands by disabled persons. British Telecom must also participate in the work of the advisory body for the disabled and persons of pensionable age which the Director must establish under section 54 of the Act. The effect of Condition 32 is to oblige British Telecom to continue to make available telephones which incorporate the inductive coupler (which enables people with suitable hearing aids to use the telephone) and telephones with amplifiers (which enable hearing impaired people without hearing aids to use the telephone).

55 Condition 33 requires British Telecom to install and keep installed in all Public Call Boxes apparatus to enable people with hearing aids to use the telephones in them. British Telecom has recently completed its programme to fit inductive

couplers in all Public Call Boxes and this Condition ensures that existing and new Public Call Boxes will continue to be so fitted. [Condition 34 of the draft licence published in October has been incorporated into Condition 3].

56 Condition 34 requires British Telecom to adopt a numbering plan which describes the arrangements for allocating numbers to customers and other systems and to give the details to the Director. Paragraph 34.4 requires British Telecom to consult the Director about its revisions of its numbering plan after consulting other public telecommunication operators and others concerned. If the Director is not satisfied about these proposals, paragraphs 34.6 to 34.9 make provision for the Director to decide what British Telecom's numbering plan should be so that it takes account of the interests of other operators and users.

57 Condition 35 prevents linked sales by placing an obligation on British Telecom, subject to certain specified exemptions, not to make it a condition of providing any telecommunication service, supplying any telecommunication apparatus, or connecting any other system or apparatus to any of British Telecom's systems authorised under the licence, that any other telecommunication service or apparatus should be acquired either from British Telecom or any other specified person. Condition 35 also prevents BT providing a service, supplying apparatus or making a connection on more favourable terms when it does any of those things in combination than when it does them alone.

58 Condition 36, which prohibits certain exclusive dealing arrangements, places an obligation on British Telecom, except with the written consent of the Director and subject to certain specified exemptions, not to make it a condition of buying any telecommunication apparatus that the supplier of that apparatus should:

- (a) supply other telecommunication apparatus to British Telecom or supply or not supply other telecommunication apparatus to another person;
- (b) supply other telecommunication services to British Telecom or provide or not provide other telecommunication services to another person; or
- (c) transfer to British Telecom or another person any interest in intellectual or industrial property which would confer an unfair competitive advantage on them.

59 Condition 36 also says that, while BT may agree with another person to act as sole supplier of some or all of the apparatus supplied by that person, if the Director is satisfied that that person did not willingly agree to give BT

that sole right, the Director may oblige BT not to impose such a condition in future either in all circumstances or in certain specified circumstances.

60 Condition 37 requires that, when British Telecom supplies a telecommunication service as part of a transaction or package also involving the provision of apparatus or another telecommunication service, it must separate the charges for each service and the apparatus in any quotation or invoice relating to the transaction. Paragraph 37.2 provides that the obligation in relation to the specification of prices of services in invoices (not quotations) does not arise until 1 July 1987 or until the necessary billing system has been introduced whichever is the sooner. Condition 37 is concerned only with the provision of information; the limitations on British Telecom's ability to offer discounts in the context of linked sales are dealt with in Conditions 16 and 35.

61 Condition 38 places an obligation on British Telecom to draw up, with the agreement of the Director, a code of practice on the confidentiality of customer information for those of its employees engaged in its Systems Business. The code must specify the people to whom information about a customer cannot be disclosed without the customer's consent, regulate the information about any customer or service which may be disclosed within the Business, and restrict the disclosure of information relating to the statutory testing of apparatus.

62 Condition 39 gives the Director powers to ensure that Industrial and Intellectual Property Rights (patents, design, knowhow, copyright etc) needed for telecommunication apparatus or services are not exercised by British Telecom in such a way as to prevent others providing telecommunication apparatus or services on reasonable terms and conditions.

63 Condition 40 gives the Director powers, where appropriate, to prevent British Telecom from making the connection of telecommunication apparatus to its systems subject to any approval or test other than those designated by the Secretary of State or by the Director under the Act.

64 Condition 41 obliges British Telecom to take all reasonable steps to ensure that information acquired in the course of any test or assessment of apparatus that it carries out for the purposes of section 25 of the Act is not disclosed, except with the agreement of those concerned, either to its own employees or to other people. Paragraph 41.2 is designed to ensure that people undertaking such work in British Telecom are not required to disclose information about it to those to whom they may be answerable in the Systems Business or the Apparatus Supply Business.

65 Condition 42 limits British Telecom's ability to install integrated wiring (eg wiring installed within a shared casing) after 31 December 1985. This is to ensure that, although British Telecom will continue to have sole responsibility for direct Exchange Lines, these are not installed so as to be "integrated" with, for example PABX extension wiring so as to inhibit the liberalisation of both the supply of PABX apparatus and the maintenance of such apparatus. Paragraph 42.2 deals with integrated wiring which is already installed or is installed before 31 December 1985 and gives customers the right to require the installation of additional wiring so that PABX extension wiring and Exchange Lines are separated.

66 Condition 43 requires British Telecom to make available (either by selling or renting it on reasonable terms) wiring which is already installed on customer premises but which will not in future be part of British Telecom's systems, to others who wish to run their own telecommunication system on those premises.

67 Condition 44 obliges British Telecom to ensure that, where it supplies a system or apparatus in relation to which it has a monopoly of maintenance, customers are told that it will provide maintenance services on the same basis irrespective of who supplies the apparatus. Paragraph 44.2 requires Maintenance Services to be provided in respect of such apparatus on standard terms and conditions which are published in accordance with Condition 16.

68 Condition 45 is a technical provision which deals with the way in which connections are to be made to the British Telecom system.

69 Condition 46 obliges British Telecom to prevent the connection to its system of other systems in such a way that Simple Resale services can be provided. This reflects the Government's present intention that in the period up to July 1989 it will not permit resale except in some limited forms. Condition 46 also frees British Telecom from any obligation to provide Private Circuits to any other public telecommunications operator who is authorised to provide such circuits for itself.

70 Condition 47 prohibits British Telecom from entering into agreements with the operators of foreign telecommunication systems in such a way that other UK operators licensed to provide international services would be unfairly excluded. Paragraph 47.2 prevents British Telecom from excluding other authorised public telecommunications operators from international arrangements for submarine cables.

71 Condition 48 makes special provision for controlling accounting methods, rates and divisions in international services.

72 Condition 49 obliges British Telecom to give the Director 30 days prior notice, subject to the exception specified in paragraph 49.5, of any agreement for the establishment or control of a body corporate or the establishment of a partnership for the running of a telecom system under a licence, the provision of telecommunication services which involve the running of a system under a licence or for the production of telecommunication apparatus resulting in the acquisition of a market share of more than 20%. The same obligation is also imposed about any other agreement or arrangement in the nature of a joint venture for running telecommunication systems or providing telecommunication services.

73 Condition 50 is designed to ensure that British Telecom cannot evade its obligations under the Licence by acting through an Associate. Condition 50 enables the Director to issue a direction requiring British Telecom to take remedial steps where he considers that it is trying to avoid such obligations in this way.

74 Condition 51 requires British Telecom to pay a fee on the grant of the Licence and an annual fee thereafter which will represent British Telecom's share, as determined by the Director, of the cost of running OFTEL and any related costs incurred by the Monopolies and Mergers Commission. The annual fee shall be subject to a maximum limit of 0.08% of the annual turnover of the Systems Business.

75 Condition 52 places an obligation on BT to provide the Director with any information he may reasonably require to enable him to carry out his functions.

76 Condition 53 sets out the limitations on British Telecom's obligations under Schedule 1 of the Licence. Paragraph 53.12 sets out the application of these limitations which do not all apply to all the obligations, for example where individual Conditions have their own limitations built in. Subject to that British Telecom is not obliged to do anything which is not practicable; nor will it be in breach of an obligation if it is prevented from complying by force majeure (paragraphs 52.2 and 52.3). Paragraphs 52.4, 52.5 and 52.6 set out the circumstances in which British Telecom is entitled to refuse service because the demand would not be reasonable. The questions whether it is "impracticable" to provide a service or whether there is no "reasonable" demand for a service can in the first instance be answered by the Director but in the final analysis his decisions can be challenged in the courts.

SCHEDULE 2: REVOCATION

77 Schedule 2 lists the circumstances under which the Licence may be revoked.

SCHEDULE 3: AUTHORISATION TO CONNECT OTHER SYSTEMS AND TO PROVIDE TELECOMMUNICATION SERVICES

78 Schedule 3 lists the kinds of system and the kinds of apparatus that may be connected to British Telecom's systems. It also specifies the services that may be provided; these Exclude Land Mobile Radio Services and Value Added Services for which BT will require separate licences.

SCHEDULE 4: EXCEPTIONS AND CONDITIONS RELATING TO THE APPLICATION OF THE TELECOMMUNICATIONS CODE

79 Schedule 4 to the Licence sets out the exceptions and conditions subject to which the various powers to install apparatus contained in the Telecommunications Code (Schedule 2 to the Telecommunications Act 1984) are conferred on British Telecom.

80 Many of the exceptions and conditions in Schedule 4 of the licence reflect two of the criteria set out in section 10(4) of the Act which are designed to ensure:

- (a) that the physical environment is protected and, in particular, that the natural beauty and amenity of the countryside is conserved; and
- (b) that there is no greater damage to streets or interference with traffic than is reasonably necessary.

81 It should be noted that the Telecommunications Code itself is not directly concerned with the purely planning aspects of the installation of telecommunication apparatus. The Code assumes that the planning status of telecommunications development is a matter to be determined separately under planning legislation. In this context the Department of Environment issued a consultation document in January 1984 on the revision of the General Development Order 1977 made under the Town and Country Planning Act 1971. (Similar proposals have been put forward in respect of the equivalent Scottish legislation.) In the section on telecommunications that document set out the Government's proposal that those operators to whom Telecommunications Code powers were applied should be granted a general permission to carry out minor telecommunications development (eg the installation of kiosks, wires, poles, small antennae, cables and ducts) without needing to seek specific planning permission in each case. The consultative paper made clear

the intention that this general permission should be qualified in the relevant telecommunications licences which applied the Code by exceptions and conditions designed to protect the physical environment, the practical result being to restrict the use that an operator would be able to make of the new GDO permission in a particular situation. Schedule 4 to the British Telecom licence has been drawn up on the assumption that the General Development Order will be revised along the lines previously proposed. Whatever the format of the General Development Order, the Secretary of State has power to modify Schedule 4 of the British Telecom Licence if, in its original form, it is not adequate to achieve the objectives set out in paragraph 80 above.

82 Condition 1 requires British Telecom to place underground all new telecommunication lines in designated conservation areas and the City of London, except in the limited circumstances defined in the licence where, for example, works are undertaken in an emergency or where additional service connections are made in an area where service is already provided by means of overhead lines.

83 Condition 2 requires British Telecom to give written notice to the appropriate local planning authority before installing any apparatus in proximity to a Grade I listed building. For the avoidance of doubt, Condition 2 also states that nothing in the Licence affects British Telecom's statutory obligations in respect of the protection of ancient monuments and listed buildings.

84 Condition 3 follows on from the specific restrictions placed on overhead lines in conservation areas and requires British Telecom to take steps to ensure that as many new non-service lines as possible are placed underground. Condition 3 also requires British Telecom to consider undergrounding its existing lines in certain circumstances and to consider whether telecommunication lines in new developments can be placed underground, on the basis of the costs being shared with the developer and any statutory undertaker concerned.

85 Condition 4 covers certain environmentally sensitive areas and in particular National Parks and Areas of Outstanding Natural Beauty. It requires British Telecom to give notice to the local planning authority (or other specified body) before installing overhead apparatus in the defined areas. Condition 4 extends the requirement to all apparatus in, for example, limestone pavement areas and sites of special scientific interest. British Telecom is obliged to consider any written representations made within 28 days of the giving of the notice and, where a decision is taken not to modify the original proposals in the light of any such representations, to give a written notification of its reasons. Condition 4 also enables the Secretary of State to add other areas to the list of those to which this condition applies.

86 Condition 5 takes account of the special status of land belonging to the National Trust (and the National Trust for Scotland). It requires British Telecom to give the Trust written notice before installing apparatus which provides a service to the occupier of land it owns or in which it has interest. This condition is made necessary by the provisions of the Telecommunications Code, under which an operator can install apparatus providing a service solely to the occupier of the land on which the apparatus is installed with consent of the occupier alone.

87 Condition 6 makes it clear, for the avoidance of doubt, that British Telecom will continue to be subject to the provisions of the Street Works Code in the Public Utilities Street Works Act 1950, which requires the agreement of the highway authority to a plan and section of major works. Condition 6 extends these arrangements, however, by obliging British Telecom to give written notice of its intention to install any apparatus which involves the breaking up of a maintainable highway. It also obliges British Telecom to consider any written representations made by the highway authority within specified periods, which periods are consistent with the requirements of the Street Works Code.

88 Condition 7 obliges British Telecom wherever practicable, to place all lines installed underground in the paved parts of a maintainable highway (ie the carriageway, footway or other hardened surface including, for example cycle tracks) in ducts.

89 Condition 8 lays down the minimum height at which lines must be installed over maintainable highways, unless the appropriate highway authority has agreed otherwise.

90 Condition 9 requires British Telecom to inspect its apparatus which is not inside a building and which is on or above the surface of the ground (eg a telegraph pole or a manhole cover) to ensure that it is not in a dangerous state. British Telecom is also required to investigate any report of its apparatus being unsafe and to remove any danger.

91 Condition 10 reaffirms the agreements and arrangements that exist between British Telecom and the Electricity Boards dealing with the measures necessary to protect telecommunication apparatus installed in proximity to electricity plant. The agreements also cover the apportionment of the costs of such protection.

92 Condition 11 requires BT to give instructions to its employees and agents with a view to securing that apparatus is installed in accordance with the provisions of the condition. In large part it replaces the proposal in the October 1983 draft of the Licence which would have obliged British Telecom to prepare and follow a code of practice on the installation of external telecommunication apparatus. The change has been made because of the concern expressed whilst the

Telecommunications Code was being considered by Parliament about the need for an effective and straightforward mechanism for protecting the environment. This has resulted in the abandonment of the idea of a separate code of practice in favour of more precise licence conditions. Where other conditions of Schedule 4 do not do so the instructions referred to in Condition 11 are intended to cover the matters originally envisaged as being suitable to be dealt with in a code of practice. One significant advantage of the new approach is a reduction in the number of documents to which reference will have to be made by those with an interest in the installation of apparatus by telecommunications operators. Condition 11 requires British Telecom within 3 months of the licence coming into force to inform the Director General of Telecommunications of the steps taken to give effect to the obligation.

93 Condition 12 also covers a matter originally intended to be covered in a code of practice. It requires British Telecom to keep records of where it has installed its apparatus underground and to provide information on the location of its underground apparatus to bona fide enquirers including, in particular, highway authorities. Condition 12 also requires British Telecom to cooperate with statutory undertakers in joint projects (eg computer mapping) to improve the provision of information about the location of underground apparatus.

94 Condition 13 simply provides for notice to be given after the event where under other conditions of Schedule 4, British Telecom is permitted to carry out works in an emergency which would otherwise require prior notice.

95 Condition 14 permits British Telecom to install overhead lines on a temporary basis for public events, construction sites notwithstanding those conditions of the licence which would otherwise prohibit the installation of such apparatus or require prior notice to be given.

96 Condition 15 gives British Telecom a similar permission to that in Condition 14 when providing services to an Emergency Organisation in an Emergency.

97 Condition 16 reflects section 10(5) of the Act. British Telecom must make available to the public in the office of the General Manager of each Telephone Area a copy of Schedule 4 to the Licence and a copy of any direction given by the Secretary of State under section 10(4) of the Act, for example a direction modifying the list of areas in Condition 4.

ANNEX A: DEFINITION OF THE APPLICABLE SYSTEMS

98 Annex A defines "the Applicable Systems", that is to say the systems which the licence authorises British Telecom to run. The systems include both British Telecom's major networks such as the Public Switched Networks and isolated point-to-point links (such as "external extensions").

99 The Applicable Systems are defined

- (a) by reference to specified points to or from which each system may convey messages (paragraph 1(a)); and
- (b) by specifying certain particular apparatus and systems which are excluded (paragraphs 1(b) and (c)).

100 The concept of the "Network Termination Point" (NTP) is central to the definition. The NTP is a precise location (in practice it will usually be the mating surfaces of the contacts in apparatus such as a socket or block terminal). It is the point at which energy (of the kinds mentioned in section 4(1) of the Act) may pass in either direction between an Applicable System and apparatus connected to it but not forming part of it. The Applicable Systems are then those systems that may convey messages from one NTP to another but no further. The NTP therefore forms the boundary of any Applicable System and the Licence does not authorise British Telecom to run anything beyond the NTP.

101 In addition to conveying messages between one NTP and another, the Applicable Systems are also defined to permit the conveyance of messages between other points:

- (i) between an NTP and another place; this permits such system facilities as operator services where Messages pass between a subscriber and a point within the system;
- (ii) between any two places which are not NTPs, without passing through an NTP, provided that the conveyance of such messages is not a telecommunication service (as defined in section 4(2) of the Act) provided to another; this permits a wide variety of necessary "system housekeeping" messages to be passed within the system;

- (iii) between a Call Office and any other place; this permits call box services to be provided.

102 These arrangements have another important effect. They mean that the system may not be used to provide telecommunication services except via an NTP. The NTP is therefore the uniform means of connection through which all telecommunication services (other than public call box services) must be provided. This provides for uniform means of connection, facilitating fair competition in the supply of telecommunication apparatus and services.

103 The NTP must be located in one of two classes of apparatus. For purposes of connection to the generality of apparatus including telecommunication systems such as private branch exchanges and data communication systems, the NTP is located in "Network Termination and Testing Apparatus" (NTTA), which forms part of the Applicable Systems. Condition 45 requires that NTTA must be on Served Premises unless the Director agrees otherwise. The NTTA is permitted only to have "network" functions, including providing the means of physical connection between the system and other apparatus, network testing and functions such as multiplexing and signal conversion, necessary to proper communication between apparatus and system. Customer apparatus functions, such as private branch switching and telex terminals, cannot be integrated with the NTTA, but must always form part of separate apparatus or systems, connected to the Applicable Systems at an NTTA.

104 When connection is to be made between the Applicable Systems and other individually licensed systems such as those run by Hull and Mercury, the NTP concept still applies but the NTP may instead be located in "Network Connection Apparatus" (NCA). In such cases, the connection arrangements will be subject to negotiation between the parties (or, if they disagree, to determination by the Director) and there are no restrictions placed on the functions that can be embodied in the NCA. This allows full flexibility in the negotiation of sensible arrangements within the framework of licence Conditions 13 and 14 which require British Telecom to connect other licensed systems to the Applicable Systems.

Excluded Systems

105 The Annex prevents British Telecom from running systems in the area in which the City of Kingston upon Hull is authorised to run systems. British Telecom may not therefore compete with Hull within the latter's area (paragraph 1(c)). Technical exceptions from this are made:

- (a) to allow British Telecom to connect to aircraft and seagoing vessels or hovercraft in the Hull area;
- (b) to allow connection between the British Telecom and Hull systems in the Hull area; and
- (c) to allow British Telecom to connect to any other public telecommunication system in the Hull area.

106 The Applicable Systems also exclude all systems used to provide land mobile radio services (paragraph 1(d) when read with the definitions in paragraph 2). This means that British Telecom may not, under this licence, run mobile radio services such as radio telephones and radio paging services and will require separate licences for these services.

107 The Applicable Systems also exclude telecommunication systems run under any other licence granted, or having effect as if granted, under section 7 of the Act. This is primarily intended to ensure that British Telecom is not able to use this licence to run branch systems (PBXs and data communication systems, including local area networks, are examples of such branch systems). Were British Telecom able to do so, it might obtain an unfair competitive advantage eg through the application of Telecommunication Code powers. If BT runs branch systems, it will only be able to do so under another licence, and in this respect will be on exactly the same footing as any other person.

PRIME MINISTER

27 July 1984

BRITISH TELECOM MEETING

Government Objectives

The objectives set out by the DTI (who are in the lead) are sensible. The main aim should be to use this enormous issue to make a substantial increase in the number of share owners in the UK. The substantial fees the City intermediaries will receive (Treasury say £140 million) could be used in part to improve the method of buying and selling securities in the UK market for private individuals.

Valuation of BT

BT is a big issue by any standards. The hawks say it is worth a lot because it has captive customers in a fast-growing area of activity, so its profits will grow year after year. The doves say that it is like the dull utility businesses in the US (the electricity businesses and the regional telephone companies). Shares in these utilities are cheap stocks paying big dividends. This is an essentially technical argument between professional advisers who are paid to get that kind of thing right. Individuals, however, may well expect a decent level of dividend, as they will be comparing it with something like a deposit account.

The third section of the agenda - public perceptions of BT - reveals from poll evidence that the public as a whole think BT is good. Opinion should be monitored and advertising targetted to meet the points it reveals.

The Strategy

The UK institutional market will have to provide much of the buying power for the issue.

The UK institutions are a flock of sheep. They are likely to bleat and complain about the size of the issue and its terms. They are heavily influenced by press comment and market gossip, either all buying or none. The art of selling to them is to look as if you can sell a lot to somebody else, to create fear that they might be missing a good deal, and to use the fees as inducement to take more shares.

The Government has several important cards in its hands when selling to the institutions:

1. Because British Telecom is such a large issue, it will be a measurable proportion of the United Kingdom equity market in terms of the total capital value (probably more than 5 per cent). Institutions are scared stiff of owning shares that do not go up as much as the

market overall, and will therefore be reluctant to run funds with no in BT shares, in case BT does well.

2. If the institutions believe that a sizeable proportion of the issue is going to be sold to private individuals and overseas, then the amount they have to take up reduces, and so the shares in BT therefore become that much more attractive to them.

3. The impression has to be created by good press management that whatever the final valuation of the company, it is good value.

4. The institutions stand to make a packet out of the BT issues. The meeting could well discuss how best to spend this money:

(a) Could we use the fees in the form of a sales commission for those who succeed in placing a large amount of stock?

(b) Could we pay larger fees for those banks and broking firms that come up with the best ideas for creating an effective retail market, so that the small investor can be assured of a friendly, cheap way of buying and selling his shares subsequently?

The system of sale being suggested is to pre-sell the issue to the UK institutions, and then to sell shares to overseas and individual customers. Any shares sold to these latter groups would then be subtracted from the number the institutions have to buy.

A normal offer for sale involves the institutions underwriting at a stated price, ie agreeing to buy all the shares on offer at that price if there are insufficient willing applicants.

Underwritten issues may be fixed price, or may be tender offers where the applicant specifies how much above the fixed price he is prepared to pay.

These technical questions are less important than a big retail sales drive and fixing a good price.

The Retail Market

The retail sector should be encouraged by the offer of vouchers to offset telephone bills and the free share offer. The current terms of £18 of rent offset for £250 of shares, or 1 free share for 10 after 3 years, for up to £5,000 of investment, "costs" an estimated £100 million. Shouldn't we go much further with the inducements? Why not double these suggestions?

At this point in the discussion, you could raise the question of what action is being taken to simplify the costs and complexities of after-dealing: the banks and/or leading retailers and/or the Post Office could be used for people who do not have a stockbroker. The retail customer is going to be persuaded by a decent yield, inducements, ease of dealing and good advertising.

Overseas

There is a problem with the US market, as the telephone utilities in the States typically sell much more cheaply than we hope to sell BT for here.

However, in the US and Japanese market, the local investment houses are used to taking stock themselves and packeting it out to their customers. Could we not pre-sell some of BT to the larger American and Japanese institutions, not underwriting this in the UK, and make them earn their fee that way? Could we sell direct to the big Middle--Eastern investment funds, with Ministerial involvement?

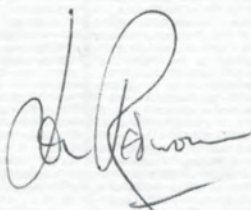
Conclusion

The timetable is now very tight. We cannot afford any further delays, as people will not want to apply for BT very close to Christmas because the stock market winds down early.

The materials produced so far are workmanlike, but rather unimaginative. The essence of the issue must be to encourage several million individual shareholders; and to do that, the advertising campaign has to stress that:

- i. very small packages of shares can be purchased;
- ii. BT is a solid enough investment to have as a single share investment, to start somebody off;
- iii. the terms - both for a telephone subscriber and for the preferential issue of free shares - are so attractive as to be an overwhelming case for the private investor;
- iv. the arrangements made for after-sales service to the small man are attractive and accessible to him.

The meeting should also be used to test that the mechanics for selling to the institutions work.



JOHN REDWOOD



DEPARTMENT OF TRADE AND INDUSTRY
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JF7006

PS/
Secretary of State for Trade and Industry

27 July 1984

CONFIDENTIAL

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

Dear Andrew, *ms*

The Prime Minister is to have a meeting on Monday to
discuss forthcoming aspects of the BT flotation. I
... enclose an annotated agenda.

2 I am copying this letter and enclosure to Margaret
O'Mara (Treasury).

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Encl



CONFIDENTIAL

BT FLOTATION

1 Departmental objectives

- i to transfer ownership of 51 per cent of BT's equity to the private sector;
- ii to achieve this at a defensible price;
- iii to ensure that the offer is fully subscribed (and not just fully underwritten);
- iv to encourage individuals as well as institutions to apply for shares, so that BT's subscribers are well represented among its shareholders;
- v to ensure that there is a satisfactory after market.

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2 The Task Ahead

BT's market value will depend upon the yield and price/earnings ratio chosen:

Yield (%)	6.5	7.0	7.5	8.0	8.5	
Valuation* (£m)	8,600	8,000	7,450	7,000	6,500	
Price/earnings	8.0	8.5	9.0	9.5	10.0	10.5
Valuation* (£m)	6,250	6,650	7,050	7,450	7,830	8,220

Even though we will be using an instalment basis of payment, stretching to early 1986, the demands on the market will be formidable:

- largest primary placing in London :
 Britoil £548 million in 1982
- largest equity issue in London :
 British Petroleum £600 million in 1981
- largest equity issue in New York :
 A T and T \$1,060 million in 1982.

*Assumes dividend cover of 2.0 after 35 per cent tax charge on prospective 1984-85 pre-tax earnings of £1,300 million.

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3 Public perceptions of BT

According to our MORI polls BT is well regarded by the public:

- uses modern technology/is profitable;
- provides good service to customers; *(I don't believe this)*
- as highly regarded as Sainsbury or ICI. *and certainly not this*
AF

Positive image makes investment in BT attractive:

- 5% "very interested" in investing;
- 13% "fairly interested" in investing;
- of those who are interested, 39% would hope to hold shares for more than 5 years.

Reasons for interest in investing: "company of the future" (59%); "money will be secure" (57%); "successful company" (55%).

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4 The Strategy

The key to success is the UK institutional market. We propose a fixed price offer, underwritten on Impact Day. But our efforts must be supplemented by effective marketing to individuals and in overseas markets.

a UK institutions

- 350 leading institutions being cultivated;
- three major stockbrokers' reports published;
- "Pathfinder" prospectus available three weeks before Impact Day;
- "Road shows" for prospective investors by BT management;
- Commitments to subscribe will be sought from major institutions so that the Government can be confident that shares are fully subscribed.

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b Individuals

We propose putting strong emphasis on sales to individuals by:

- the offer of vouchers (pro-rata to the amount invested) which subscribers can use to offset telephone bills;
- as an alternative to vouchers, extra shares for individuals who hold shares for an extended period;
- incentives for BT employees to become shareholders;
- circulation of a leaflet on the forthcoming privatisation with telephone bills between July and September;
- vigorous efforts to develop interest among regional stock-brokers and clearing banks;
- advertising campaign starting on 20 August;
- wide circulation of "mini-prospectus" - document containing key financial information - during offer period;
- MORI studies "tracking" consumer attitudes throughout the Autumn.

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c Overseas

North American, Japanese and European sales could contribute substantially to the success of the flotation. Overseas interest would stimulate UK institutions' confidence in the flotation.

BUT

- i US underwriting practices are very different from those of the UK;
- ii US yield expectations are higher than those in the UK;
- iii we are concerned lest shares underwritten overseas - in New York or Tokyo - flow speedily back to the UK.

Consequently we propose:

- i underwriting of foreign sales in London: no overseas underwriting;
- ii registration of offer in US, Canada, Japan and Switzerland; vigorous marketing by local investment houses;
- iii rest of Europe and Middle East to be dealt with by London stockbrokers.

Overseas sales might boost UK success by some £500 million. But overseas sales will not compensate for UK disappointment.

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5 Estimated Costs

	£ million
Underwriting fees and brokers' commissions [possible range only - all arrangements still to be determined]	80 - 130
Subscriber voucher scheme and share bonus scheme	80 - 105
Employee incentives	35 - 45
Marketing (including prospectus advertising)	15
Professional advice	5
Receiving bank costs/registrar costs	8 - 12

223 - 312

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6 The Timetable

- 17 July BT Licence was approved by House of Commons
- 25 July BT Licence was approved by House of Lords
- 5 August Licence takes effect
- 6 August BT becomes plc
- 20 August Advertising campaign begins
- [Early October : Party Conferences]
- 26 October 'Pathfinder' prospectus distributed in UK and overseas
- 29 October 'Road shows' (presentations by senior BT managers to institutions) begin - both in UK and US
- [6 November : US Presidential Election]
- 6 November State Opening of Parliament
- 15 November Size of placing and the price are determined
- 16 November Impact Day: underwriting and/or placing of shares
- 18 November Prospectus published in press
Mini prospectus made available
- 29 November Application Lists open
- 7 December Dealings begin

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

Prime Minister

DTI propose to conduct this meeting as a presentation (I think Kenneth Baker will be Master of Ceremonies) rather than a decision taking meeting. The aim is to bring you into the thinking of those running the show, but it will also provide an opportunity to test whether there are any remaining doubts about whether selling 5% is one go (albeit with staged payments) is feasible. As well as hearing from them what they hope to achieve, you should quiz them on what are the difficulties they face.

AT

27(7)



JU833
Secretary of State for Trade and Industry

NCBPM
AT 30/7

BCP with Pa
response AT 27/7

u to

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET
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GTN 215)
(Switchboard) 215 7877

23 July 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

D. Lloyd

POST OFFICE OBJECTIVES

I enclose a copy of a draft set of long-term objectives for the Post Office Corporation covering the postal business and National Girobank, and would welcome comments from you and those to whom I am copying this letter. If the draft is acceptable to you and colleagues, we will arrange for an announcement in the usual way.

2 I am sending copies of this letter and enclosure to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

NORMAN TEBBIT

POST OFFICE OBJECTIVES

For each of the Post Office's main business activities the objectives are as follows:-

1 INLAND LETTER BUSINESS OBJECTIVES

1.1 To make a profit each year.

1.2 To give good value for money by providing the quality and standards of service at the levels for which customers may reasonably expect to pay.

1.3 To increase the efficiency of the service and adapt it to maintain the business's competitive price position in the communications industry, so that the letter monopoly continues to serve the public interest.

2 OTHER MAILS SERVICE OBJECTIVES

2.1 To provide a range of complementary communications and distribution services, consisting of Royal Mail International, Royal Mail Parcels, and Premium service activities.

2.2 To make a profit from each of these three business activities.

2.3 To provide service standards that meet customer demand within a competitive market.

3 COUNTER SERVICE BUSINESS OBJECTIVES

3.1 To make a profit each year.

3.2 To provide efficiently and economically, financial transactions, information and other related services to meet the needs of all Agency customers, National Girobank and the Mails business.

3.3 To adapt service and operations to changing market demands, taking full advantage of opportunities offered by technology.

3.4 To provide efficient services in an attractive customer environment.

BANKING OBJECTIVES

4.1 To make a profit each year sufficient at least to comply with financial targets agreed with the Government.

4.2 To provide a nationwide banking service to both personal and business customers using post offices as branch outlets in competition with other banks and to pursue a policy of profitable growth within the framework of prudential ratios determined by the Bank of England.

- 5 In pursuing these business objectives, the Post Office will act with recognition of its statutory and public service obligations, mindful of its special responsibilities where it provides a monopoly service, and will meet its financial and other targets and act within borrowing limits agreed from time to time with the Government.

In support of the business objectives, the Post Office will:

5.1 seek to realise the full potential of its workforce within a framework of good staffing practices;

5.2 improve the efficiency with which the resources are used and in support of that pursue a well conceived investment programme to take full advantage of technological advances;

5.3 reduce the cost of services, measured in constant prices, by improved efficiency;

5.4 develop its business in accordance with changing customer needs, seeking opportunities for profitable growth at fair prices;

5.5 within the framework of its statutory powers, seek profitable new business opportunities through vigorous marketing, either on its own account or in association with other enterprises.



25 JUL 1984

NRSPM

C950

ART 1917



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/18009/83

Your ref:

18 July 1984

Dear Kenneth:

When Patrick Jenkin wrote to you on 11 January he promised to let you know the outcome of any appeal made by Mercury Communications Limited against the refusal of planning permission for the installation of microwave radio aerials and transmission equipment at Sunley Building, Manchester.

You will be glad to know that, following a public inquiry, we have accepted the Inspector's recommendation to allow the appeal. The decision has been issued today and I am enclosing a copy of the letter for your information.

/ I am copying this letter to the Prime Minister.

Neil

NEIL MACFARLANE

The Rt Hon Kenneth Baker MP



Departments of the Environment and Transport

North West Regional Office

Sunley Building Piccadilly Plaza Manchester M1 4BE

Telex 668767

Telephone 061-832 9111 ext

J R Eve
Chartered Surveyors
1 Deans Yard
London
SW1P 3NR

Your reference
EMS/MMM/CAW/LN217 and 9
Our reference
APP/B4215/A/84/11021
Date

18 July 1984

Gentlemen

TOWN AND COUNTRY PLANNING ACT 1971
APPEAL BY MERCURY COMMUNICATIONS LTD
LOCAL AUTHORITY APPLICATION NO F20178

1. I am directed by the Secretary of State for the Environment to say that consideration has been given to the report of his Inspector, Mr H M A Stedham ARICS, FRTPi who with his Assessor Mr M H Walters MIEEE during the period 11-13 April and 3-4 May 1984 held a local inquiry into your clients' appeal under Section 36 of the above Act against the decision of Manchester City Council to refuse planning permission for the installation of microwave radio facilities at Sunley Building, Piccadilly Plaza, Manchester. This comprises:-

- "i. Replacement of an existing Pye Radio mast on roof with 7m high stub tower;
- ii. Erection of one 1.2m diameter and five 0.6m diameter dish antennae on stub tower;
- iii. Relocation of radio antennae on Pye Radio mast on to the stub tower;
- iv. Erection of four quadrant antennae on roof;
- v. Use of part of gallery level of building as radio equipment room".

2. The Inspector in his report, a copy of which I enclose, concluded that:-

"Bearing in mind the above facts, I am of the opinion that there is insufficient evidence to support a conclusion that the proposed installation would pose a potential threat to the health and safety of the general public or persons employed in connection with it. I appreciate that experiments carried out on various small objects suggest that microwave radiation at any frequency or power density level cannot be guaranteed to be free from potential harmful effects to

human beings. Nevertheless to justify banning on health and safety grounds something which has long been in ordinary everyday use without evidence of harm, I consider that it is necessary to go further than merely establishing that there is no absolute proof of an absence of harmful effects and to show that there are significant reasons for believing that the health or safety of human beings are likely to be put at risk.

"The National Radiological Board, a body set up by Parliament to undertake research and advice on protection from radiation hazards, is apparently satisfied on the basis of measurements and worst case calculations by its own staff about possible health hazards from Mercury equipment. The Health and Safety Executive's advice to the council that the installation would not cause a health hazard to persons in close proximity or significantly affect existing low-level radiation was confirmed in evidence given at the inquiry.

"I accept the opinion of the Assessor that a planning inquiry is not the right place to revise the country's safety standards, and I note that the consultative document published by the NRPB in December 1982, which put forward proposals for amending safety standards, took account of non-thermal effects. Worst case calculations show the emissions from the proposed antennae to be far below the amended standards and below the most stringent standards applicable anywhere. I agree with the conclusion of the Assessor that there is no reason for a low power installation to the proposed standard to be refused permission on health hazard grounds, and in the next paragraph I deal with the one reservation which he makes.

"The Assessor's reservation concerns the possibility of persons being subjected to a field from the quadrant antennae which might be harmful. As several different companies have installations on the roof, he considers that there is a possibility of these antennae being approached when not switched off for maintenance by persons without full knowledge of their characteristics. His suggestion at the inquiry of a higher mounting would make these antennae more conspicuous in views of the building. During our visit to the roof of the building after the inquiry, the Assessor was satisfied that the 2 quadrant antennae on the long sides of the building could not in practice be approached inadvertently. He considers however that acceptance of the plans should be subject to some means of restricting close access to the 2 other antennae at the ends of the building. Whilst I see no objection in principle to covering this point by a condition it may be felt that, now attention has been drawn to this problem, the manner in which the interests of safety and amenity can best be reconciled is a matter which could reasonably be left for settlement, possibly at the particular location, by representatives of the Health and Safety Executive, council and appellants.

"No objection has been raised on the grounds of the effect of the proposed tower and aerials on appearance. Structures and equipment on the roof of this very tall building are generally not visible from the near vicinity, and in the long distance views they would be seen from so many different angles that it is difficult to generalise on the effect of additions and replacements on appearance. I do not disagree with the opinion expressed by the City Planning Officer in his report to the Planning Committee on 13 December that the proposals would be no worse than, and possibly an improvement on, the existing situation.

"Subject to condition 4 being amended to cover the extra height of 0.25m, which was not opposed by the council and would not significantly affect appearance, the appellants do not object to the conditions recommended in the City Planning Officer's report except for No 3. Although theoretically this condition is not necessary, since development involving a material change in the external appearance would require planning permission, it may be felt that a condition requiring permission for any further aerials could be justified to ensure that structures on the roof did not become unreasonably conspicuous as a result of a series of extra aerials each of which did not materially change the appearance.

"The Assessor agrees with my conclusions".

3. The Inspector recommended that the appeal be allowed subject to the attachment of the conditions proposed by the City Planning Officer in a report dated 13 December 1983 to the City Planning Committee. These conditions related to the dimensions of the proposed structures and the removal of non-operational aerials and the existing Pye mast; and they also proposed that consent should be required to be obtained for the erection of any additional aerials.

4. The Secretary of State agrees with his Inspector's conclusions and accepts his recommendations except for that which relates to the imposition of a condition which would require consent to be obtained for the erection of additional aerials. The Secretary of State notes that this recommendation reflects concern about the possible cumulative visual effect of additional aerials but, having regard to the evidence given about the general visibility of structures on the roof of Sunley Building, he is not persuaded that exceptional measures to control development there are justified. Accordingly he allows this appeal and hereby grants planning permission for the installation of microwave radio facilities on Sunley Building, Piccadilly Plaza, Manchester in accordance with application No F20178 of 22 August 1983, subject to the following conditions:-

- i. The development hereby permitted shall be begun not later than 31 July 1989;

J R Eve, Chartered
Surveyors, London

EMS/MMM/CAW/LN217 and 9
APP/B4215/A/84/11021

July 1984

- ii. The existing Pye radio mast shall be removed on completion of the new structure;
 - iii. All aerials on the structure shall be operational and any aerials which cease to be operational shall be removed;
 - iv. The maximum height of the proposed structure including all aerials attached to it, shall not exceed 12.25m as indicated on drawing No PM/BCAE/1003/A submitted with the above application;
 - v. The approval hereby granted relates to the submitted drawings as amended by drawing No PM/BCAE/1001/B submitted with the above application.
5. This letter does not convey any approval or consent which may be required by any enactment, byelaw, order or regulation other than Section 23 of the Town and Country Planning Act 1971.

I am Gentlemen
Your obedient Servant

W A ASTON
Authorised by the Secretary of State
to sign in that behalf

MANCHESTER CITY COUNCIL

APPEAL

by

MERCURY COMMUNICATIONS LIMITED

Inspector: H M A Stedham ARICS FRTPI
Assessor: M H Walters MIEEE
Date of Inquiry: 11-13 April and 3-4 May 1984
File No: APP/B4215/A/84/11021

Tollgate House
Houlton Street
BRISTOL
BS2 9DJ

June 1984

To the Right Honourable Patrick Jenkin MP
Secretary of State for the Environment

Sir

I have the honour to report that on 11-13 April and 3-4 May 1984 I held an inquiry at the Town Hall, Manchester into an appeal by Mercury Communications Limited under Section 36 of the Town and Country Planning Act 1971 against the refusal of the Manchester City Council to permit the installation of microwave radio facilities at the Sunley Building, Piccadilly Plaza, Manchester, comprising:

- i. Replacement of existing Pye radio mast on roof with 7 m high stub tower.
- ii. Erection of one 1.2 m diameter and five 0.6 m diameter dish antennae on the stub tower.
- iii. Relocation of radio antennae on Pye radio mast on to new stub tower.
- iv. Erection of 4 quadrant antennae on the roof.
- v. Use of part of gallery level of building as radio equipment room.

1.1. The reason for refusal is that the proposed development would be a threat to the health and safety of the general public in the City and particularly to those people who would be in close and frequent proximity to the installation.

1.2. I have had the benefit of the advice of Mr Walters who sat with me as Assessor on the technical aspects of microwave radio facilities.

1.3. This report includes a description of the appeal premises and surroundings, the gist of the representations made at the inquiry, and my findings of fact, conclusions and recommendation. Lists of appearances, documents and plans are attached.

1.4. Throughout this report I have used the following abbreviations:

Mercury	Mercury Communications Limited
NRPB	The National Radiological Protection Board.
HSE	The Health and Safety Executive.
BT	British Telecom.
Hz	Hertz, namely oscillations (cycles) per second.
KHz	Kilohertz, namely thousands of Hertz.
MHz	Megahertz, namely millions of Hertz.
GHz	Gigahertz, namely thousand millions of Hertz.
mcw	Microwave.
rf	Radio frequency.
emg	Electromagnetic.

I have generally referred to power density (intensity) in W/m^2 , namely watts per sq m. It can also be expressed in mW/cm^2 , namely milli-watts per sq cm. The level in mW/cm^2 can be obtained by dividing W/m^2 by 10.

THE SITE AND SURROUNDINGS

2.1. The Sunley Building forms part of the post-war Piccadilly Plaza development, occupying a large island site in the centre of Manchester. A 2-storey podium covering the whole site is mainly in retail and commercial uses, but the upper part comprises 3 separate units: The Sunley Building which is just over 100 m high and used for offices lies in between Bernard House and the Piccadilly Hotel. Bernard House some 8 m north-west of the Sunley Building is about 40 m high and used as offices. The Piccadilly Hotel about 25 m to the south-east is some 55 m high.

2.2. Access to the roof of the Sunley Building is obtained via the 29th floor which is the highest floor served by the lift and is used for offices. Stairs lead through locked doors up to the 30th floor occupied by building services, radio equipment rooms and open galleries enclosed within the outer cladding of the building. Access to the roof is by cat ladders within these galleries.

2.3. North of Piccadilly Plaza is a bus station, with further north the public Piccadilly Gardens. Opposite the other 3 sides of the island block are mainly shop and office buildings of heights very considerably lower than the Sunley Building. The nearest building of similar height to the Sunley Building is the Co-operative Insurance Society (CIS) offices in Miller Street about 700 m to the north. The nearest high building is St Andrews House in Portland Street about 200 m to the south, which is also offices and roughly 70 m high.

2.4. Because of the great height of the Sunley Building, the structures on its roof cannot be seen from Piccadilly Gardens or from other points at street level in the surrounding area. The roof structures are however seen from more distant points including Piccadilly Station over 500 m to the south-east and other view-points further away. Because of the distance away of such points generally the antennae are not very obtrusive.

CASE FOR THE APPELLANTS

The material points are:

3.1. High priority given to the creation of an alternative communications network is shown by the urgency with which the current Telecommunications Bill is being promoted to privatise BT and extend the opportunities for other operators. Mercury is the only operator authorised to set up in competition with BT and further licences will not be considered until 1990.

3.2. The major element is a 800 km fibre-optic cable to be laid alongside the railway and backed up by a system of mcw repeater links from London to Manchester (document 2), to be used whilst the cable is being laid and as a back-up system. From points along the system, signals will be passed by further cables or mcw to distribution nodes in the major towns, from where they will be transmitted by mcw to aerials on subscribers' roofs. Distribution nodes need to be on the tallest buildings to prevent signals being blocked by land or other buildings. As mcw equipment can be installed quickly, it enables the service to be provided in the shortest time and it is also the most appropriate until a large number of subscribers is available; if and when there are sufficient to make it economic, local networks of underground cables will be laid.

3.3. BT has a similar system using frequencies in the 19 GHz band. In the last 12 months Mercury has received 24 planning permissions for similar installations in towns and cities throughout the UK and a service has been provided in the City of London since April 1983 with the approval of all authorities. Some 5 refusals of permission have been on grounds of the appearance of aerials, not safety.

3.4. Existing equipment operated by Pye Telecommunications Limited would be relocated on the proposed stub tower. The proposed 1.2 m dish antenna would form the end of the back-up link from London and the 0.6 m dish antennae would provide a high capacity service to 5 separate customers within line-of-sight of the Sunley Building. The omni-directional quadrant (or slot) antennae appear as short vertical rods and would serve customers requiring low-capacity connections. Maintenance personnel would visit the equipment at the foot of the tower for periods amounting to a maximum of 2 hours per week but it is unlikely that attention would be required to the antennae; if it was, standing instructions require the transmitter to be switched off for the period of attention.

3.5. The Sunley Building is the second tallest in Manchester, and is within a predominantly commercial area where above-ground floor uses are mainly offices; there are however a few hotels. The area is dominated by the heavy volume of traffic, and a bus terminus is located in Parker Street. The 29 upper floors of the Sunley Building comprise offices and when the building was completed in 1966 its suitability as a transmitting location was recognised: there are now 3 radio and television operators with equipment on the roof.

3.6. The planning application was supported by a memorandum, setting out Mercury's aims and describing the proposals. It was deferred by the committee for further consultations with HSE following receipt of a late objection by the British Telecommunications Union Committee (document 49) and for consideration of the possibility of relocating all the existing and proposed aerials on to a single structure. Relocation of all aerials was however ruled out for structural reasons and because of interruption to broadcasts, but the HSE confirmed that it was satisfied that the proposal was not a threat to public health (document 4). Despite this, and a recommendation for approval by the City Planning Officer who expressed the view that the current proposal would be no worse than, and possibly an improvement on, existing roof structures, the application was refused, solely on health and safety grounds.

3.7. Insofar as relevant to this appeal, planning policies for the area (document 5) recognise Manchester's role as a major regional centre, attractive to all major national concerns. With the economic recession, its activities need to be strongly protected both by sustaining those existing and by attracting new ones. Existing equipment on this roof is clearly seen from many relatively distant points, but not from the major central public open space of Piccadilly Gardens. Aggregating the Mercury and Pye aerials on one structure would remove some of the existing roof clutter and no objection on the grounds of the effect on appearance has been pursued by the council and no planning evidence called.

3.8. The proper approach to safety was stated in a recent Commons debate when the Under Secretary of State considered that development control must assess the degree of risk and balance it against other reasons for and against the action in question; Mr Macfarlane also stated that it was not for the developer to prove why he ought to be granted planning permission (document 6, columns 796-7). Section 12 of Development Control Policy Note 1 states that 'other material considerations' must be genuine planning considerations and that it is generally not desirable to use planning control to secure objectives provided for in other legislation. It would therefore be a radical departure from normal practice for workers' safety to be accepted as a planning consideration. Likely harm to the public could be a material consideration but the HSE and NRPB are the proper bodies in the present case to consider whether there would be danger.

3.9. The Radiological Protection Act 1970 (document 16) provided for the NRPB to be established to undertake research and provide advice on protection from radiation hazards. The Health and Safety at Work etc Act 1974 (document 17) is concerned with the health and safety of workers and protection of other persons from risks arising from their activities, with provision for the NRPB and HSE to work together. Paragraph 5 of circular 9/84 reaffirms the Statement in the draft circular (document 23) that the planning system should not be used to pursue objectives more appropriate to the health and safety legislation, and that the HSE will advise the planning authority on potential hazards so that it can make a properly informed decision on the planning merits. Proposed amendments to the General Development Order (document 24) would put Mercury on the same footing as BT and avoid inhibiting a rapid response to customers' needs; there is no suggestion that the intensity of mcw should be regulated because this is a matter for the HSE.

3.10. The worst cases of potential exposure to mcw involved in the proposed installation involve levels well below the most stringent standards, which are those of the Soviet Union, and only a tiny fraction of the existing and proposed UK standards (document 2). Advice given to the council by the HSE (document 4) and conclusions in the report on Mercury equipment by the NRPB (document 11) are that there are no grounds for concern about hazards from mcw radiation proposed. Since however a negative cannot be proved, it is not possible to meet the requirement in paragraph 11 of the rule 6 statement to demonstrate that transmissions would be incapable of adverse effects on the health of any person in Manchester. The Government is aware of areas of uncertainty and legal powers are available to put an end to mcw installations if they caused danger. There is no reason why radiological effects should be any different in Manchester or why Mercury should be subjected to different considerations from other mcw users there, including BT operating on similar and lower frequencies with a power of 18 watts, as compared with a maximum of 0.63 watts by Mercury.

3.11. Using the figures from table 2 of the NRPB report on Mercury equipment (document 11), Mr Cott has calculated the power density from the proposed installation at the worst points (document 7). So far as maintenance personnel are concerned, visiting equipment boxes on the roof of the Sunley Building for a maximum of 2 hours per week, the highest calculated power density at the foot of the stub tower is 0.063 W/m^2 which compares with the most stringent (Russian) standard of 1 W/m^2 and the UK standard of 100 W/m^2 . Transmitters would be switched off if aerials needed attention, and aerials are lined up on receiving mode. No reason is seen why the quadrant antennae should not be mounted, as suggested by the Assessor, at a height of about 3 m as shown in the photographs of the Moorgate installation (document 9) to prevent accidental exposure of persons unaware of the danger of approaching them very closely when they are not switched off.

3.12. So far as the general public is concerned, buildings of 20 storeys or more within 800 m of the 103 m high Sunley Building have been listed (document 10) and calculations made of the power density at the 2 most affected, which are both offices. These are the tallest building, the CIS office which is 107 m high and 720 m away, and the nearest high building, St Andrews House, which is 70 m high and 210 m away. Using the most pessimistic assumptions, the calculated highest power density which could arise is 0.01 W/m^2 at the CIS building and 0.0005 W/m^2 at St Andrews House. The maximum density at the roof of the adjoining Piccadilly Hotel, which is next to the Sunley Building but about 45 m lower, would be around 0.0001 W/m^2 . At street level the maximum calculated power density is also 0.0001 W/m^2 .

3.13. For exposure of the public, the most stringent standard is 0.05 W/m^2 , and the equivalent UK standard is at present 100 W/m^2 , but it is proposed to reduce this to 50 W/m^2 where children are present. The radiation to which the public is likely to be exposed would be very substantially lower than the UK standard and well below

the Russian standard. Even the most cautious interpretation of scientific literature compels the conclusion that suggestions of potential hazard are unsubstantiated and speculative.

3.14. It would be a considerable disaster for the country if mcw transmissions had to be stopped. The existing telephone system is not suitable because it cannot cover the frequency range required for modern office machines. Mercury has potential customers in Manchester but because of confidentiality is unable to identify them until agreements have been signed.

3.15. Mr Burstow's job includes giving advice on electrical matters. In his capacity of advising on the non-ionising radiation hazard associated with rf and mcw, he attended at the council's request a meeting between Mercury and the Planning Department on 1 November 1983. Based on documents supplied, indicating that there would be a 0.6 m dish antenna and several quadrant antennae, the advice of the Medical Research Council (document 14) and knowledge of the NRPB consultative report (document 19), he wrote to the council on 10 November (document 4). He was unaware that other antennae would be installed until a copy of the NRPB report on Mercury equipment (document 11) was sent by the appellants on 26 March, and did not see the application plans until just before the inquiry opened.

3.16. Although unaware of the details of the power involved when he wrote to the council on 10 November, Mr Burstow was aware of the GPO system and its output, and had a good idea of the power required. Now that he is fully aware of the Mercury proposals, he does not wish to change the views expressed in his letter; it now appears that the maximum radiated power density from the Mercury antenna would be less than the 1.12 mW/cm^2 (11.2 W/m^2) referred to in the letter. As compared with the total power of 2.33 watts to the Mercury antennae, typical existing installations in Manchester include police, fire brigade and ambulance services with up to 100 watts fixed and 5-20 watts from vehicles at a frequency of 100 MHz, television of up to 1000 kW at 470-870 MHz, Piccadilly Radio of 2 kW at 97 MHz, ship navigation radar of 25 kW peak at 3 and 9 GHz, airport radar of 600 kW peak and 1 kW average at 600 MHz and 1 GHz and BT at Macclesfield Forest of typically 6-10 watts at a frequency of 10 GHz plus. Mr Burstow's own tests showed existing emg 'noise' level in Manchester as of the order of 0.01 W/m^2 .

3.17. Despite variations in scientific opinion, the NRPB in its consultative document has summarised current opinions and come up with its own conclusions. Although in paragraph 7 it is considered that all exposures of the general public should be kept as low as reasonably practicable, at the low levels proposed the exposure is not significant. The questions raised by Professor Fröhlich are matters for the Medical Research Council and are what the NRPB was set up for. The consultative document accepts that there are differing risks at different frequencies and proposed an averaging system, ensuring that the summation of the measured power density at the frequency, divided by the appropriate limit for that frequency, should not exceed unity. The document also suggests that low power devices with a total emission of less than 7 watts may be regarded as harmless provided they are unable to deliver more than 4 w/kg^{-1} for prolonged periods.

3.18. In relation to the points made in the BT Union Committee letter (document 49) electrocution risks would not be abnormal and Mr Burstow will be asking for details of proposals. He doubts if there would be any high temperature hazards because of the low power, and there would be little radiation. As part author of Guidance Note GS21 (document 22) he considers that ignition risks could not arise because the maximum power of only 0.63 watts is well below the 2 watts required to ignite hydrogen.

3.19. Mcw are one form of emg waves, which include radiowaves, infra-red waves and light waves. Radiowaves have frequencies in the KHz and MHz region and an arbitrary

boundary has been fixed between them and mcw at 300 MHz although no sharp transition in the properties of waves occurs at that frequency. The upper frequency of mcw is defined at 300 GHz. High frequency radiowaves and mcw have many everyday uses including broadcasting, air traffic control, radar, general telecommunications, cooking and physiotherapy; there is growing interest in using mcw for cancer therapy.

3.20. Application of an electric field to any material which conducts electricity causes it to heat up. As the human body consists of 65-70% water, which has a moderately high electrical conductivity, it will dissipate heat when subjected to an electrical field. The biological effect can be therapeutic but the circumstances in which it can be considered hazardous must be examined. After a brisk walk or emotional stimulus, which increase body temperature by 1-2°C, the temperature returns to normal, no permanent biological change occurs and this is termed a reversible effect. An example of irreversible damage is the formation of a cataract if the temperature of the lens of the eye increases to around 42°C; the lens is particularly vulnerable to mcw injury because of its high water content and lack of blood supply to conduct heat away. The nature of biological damage is related directly to the temperature rise in the tissue and therefore determined partly by the power density of the mcw beam to which it is exposed. Experiments carried out on New Zealand white rabbits, whose eye lenses bear anatomic similarities to those of humans, show that mcw power density of over 1000 W/m² is required to produce a cataract.

3.21. The question is sometimes raised as to whether radiowaves and mcw cause non-thermal biological effects, which could occur at power densities lower than for thermal effects. When Professor Grant prepared his evidence he was not aware of evidence of non-thermal effects from continuous wave (ie not pulsed) low intensity 10 GHz mcw used for communications purposes. After being shown the 1971 article by Carpenter and Livstone (document 33) at the inquiry, he feels certain that, if the findings of their experiments had been confirmed, there would have been full awareness of them in scientific circles. Low level or non-thermal effects have been propounded on the basis of experiments with animals, excised tissues or cell suspensions, observed either at very high frequencies (over 40 GHz), or with pulsed waves to which the biological effect is attributed. Many of these experiments however still await confirmation.

3.22. Professor Grant accepts that some experiments have shown low-level biological effects described in reports as non-thermal, but other persons have not been able to replicate them and there may be other explanations such as artefacts. Professor Fröhlich's theory (document 34) is one possible explanation. Many experiments refer to power densities of several mW/cm² as low but Professor Grant does not accept that, say 5 mW/cm² (50 W/m²), is low or that it would not produce some heat effects even if only something like 10⁻⁵°C. He does not accept the conclusions on the yeast cell experiment in Coherent Excitations in Biological Systems (document 35, page 36) as more than one possible interpretation: this was one of the most difficult experiments to set up and get accurate results from and to his knowledge other people have been unable to reproduce these effects. Many artefacts are involved and scientific evidence cannot be described as excellent until confirmed in at least 2 other laboratories. The conclusion on the Puffing of Giant Chromosomes (document 35, pages 18-19) involved exposure of very high frequency mcw at about 50 W/m² on a fairly small area. Professor Schwan on pages 222-3 (document 35) also considers that, until results have been duplicated, their significance would continue to be debated; his recent letter (document 36) confirms that he still has doubts. Although Professor Fröhlich is a FRS and very respected in his previous field as a theoretical physicist, he came into the field of biological problems much more recently.

3.23. Professor Grant accepts that evidence of non-thermal effects at frequencies of over 40 GHz is promising, but not that nothing is known about frequencies of

the order proposed by Mercury. A frequency of 96 Hz has been used in radar since the war with no adverse effects observed. Mcw exposure hazards must be taken seriously but the present proposal involves emissions too low to be considered a danger. Although the NRPB Consultative Document (document 19) advocates exposure of the general population to be kept as low as reasonably practicable, the board has expressed the opinion that there are no grounds for concern about health hazards from Mercury equipment (document 11). There is no evidence to connect behavioural effects with mcw and reference on page 22 of Professor Grant's book (document 26) is only to "reports" of such effects.

3.24. In the United Kingdom, official interest in the possible health hazards of mcw dates from 1960 with a consensus of opinion that people should not be exposed to more than 100 W/m^2 , based on the additional thermal burden not exceeding the rate at which heat is produced normally. Over the past 30 years considerable research has been carried out in the area of fundamental biophysics, observing the effects on animals and carrying out surveys on human populations exposed to mcw; more than 4000 scientific papers have appeared since 1970 on the biological effects. As a result of this research the NRPB have proposed changes in standards (document 19) taking account of both frequency and whether or not children are involved.

3.25. The Russian standard, much lower than that of the UK, is based on the observation that certain workers involved with mcw equipment exhibited functional disturbances symptomised by headaches, irritability, loss of appetite and difficulty in concentration. There is however no specific evidence to show that these reported symptoms were due to mcw exposure; 2 events occurring in sequence do not justify a conclusion that the first causes the second unless there are good scientific reasons for believing so. In a survey carried out on US Navy personnel who had been exposed to levels of $1-10 \text{ W/m}^2$ on board an aircraft carrier, no deleterious effects were observed.

3.26. Over the past 40 years millions of people have been exposed to mcw with no biological damage observed which cannot be attributed to a gross heating effect. The level to which people in the vicinity of the Mercury antennae would be exposed would be lower than the Russian standard; $1/5$ in the case of people working in the CIS building and $1/15$ in the case of maintenance personnel. In the light of these worst figures, Professor Grant considers that there is no health hazard from exposure to mcw from the proposed Mercury transmitter.

3.27. Professor Grant commented on the Yannon case, in an attempt to be helpful, because it had been referred to in the letter from the BT Union Committee (document 49). He has however no direct knowledge of the case, is not an expert on medical matters and has no objection to his evidence on this point being withdrawn. The council had ample opportunity to put the Yannon case to Professor Michaelson, who has more detailed knowledge about it, but did not do so, nor was Professor Grant asked questions about it until after Professor Michaelson had returned to the United States.

3.28. Radiation refers to any type of emg energy, with frequencies increasing from that of household electricity (50 Hz) through rf, mcw, infra-red, visible light, ultra-violet and X-rays to gamma radiation. There is a distinction between non-ionising radiation, which includes mcw, and ionising radiation, which includes X-rays, gamma rays and radiation associated with nuclear physics and power plants. Cumulative irreversible damage can occur in tissues exposed to ionising radiation, but Professor Michaelson considers that there is no scientific or medical evidence that continuous exposure to low-level mcw fields, namely 100 W/m^2 , results in damage to biological systems. Mcw do not penetrate the body, and the effect on human bodies cannot be compared with experiments such as with yeast where material

the size of a yeast cell or chromosomes of a midge are exposed to high power densities with a very high absorption rate. The effects of experiments on isolated systems in vitro cannot be compared with effects on the human body which has a lot of controls and adaptive mechanisms; if parts of the body are affected, other parts take over. Power densities which are low for humans could be very high for animals.

3.29. A large body of data on the biological effects of exposure to mcw, accumulated over the past 75 years, indicates that prolonged whole-body exposure at intensities over 1000 W/m^2 , which is 10,000,000 times greater than that of the Mercury proposals at street level, could be dangerous at frequencies where significant energy is absorbed. Lower levels at densities of $10\text{-}100 \text{ W/m}^2$ are well tolerated by human beings and are the basis of the standards of the relevant UK and US safety bodies. Evaluation of the biological effects of mcw exposure needs to differentiate between established effects and speculative reports, and to consider when effects become a hazard; for example some are beneficial under appropriate controlled conditions such as cancer therapy. Changes must be sufficiently understood for their significance and hazard potential to be determined.

3.30. Living organisms respond to many stimuli as part of the process of life. When normal light rays contact the eyes, the biological effect of vision is innocuous and helpful, but by staring directly at the sun the same emg energy could be harmful. As man and animals can adapt to change, biological effects may well be within their capacity to maintain a normal equilibrium; only if it compromises ability to function properly or to recover can it be considered a hazard. Even if the alleged biological effects within the prevailing standards were substantiated, none could be considered hazardous or relevant to man.

3.31. Experiments with small animals must be carefully designed and performed to eliminate responses due to unrelated agents inadvertently introduced rather than the factor being studied. Much of the research on biological effects of mcw has been with small rodents, whose heat absorption, field concentration effects, body surface areas and thermal regulatory mechanisms differ significantly from man's. Results of exposure of common laboratory animals cannot therefore be readily extrapolated to human beings and effects would not necessarily occur in a large animal or man. As an example, at 11 GHz mice and rats absorb 10-12 times as much energy, and man is therefore at least 10 times less susceptible. Professor Michaelson concludes that animal studies and surveys have failed to identify any detrimental effects that could even tenuously be attributed to intensities of mcw energy experienced in the environment. Various retrospective studies carried out on human populations exposed to mcw energies (document 37) also show no cause for public concern about the levels of emg fields to which the general public is being exposed, or would be exposed after the Mercury antennae came into operation.

3.32. Proper assessment of risks and benefits is important, and failure to educate the public properly could result in suspicions and fears that impede much needed advances. As in all fields of science, there are some unknowns in biological aspects of emg energy, but the need for further research should not deter applications when levels involved are clearly safe. Not only are the calculated density levels from the proposed antennae low but measured levels have generally proved to be considerably lower than estimated. The proposed emissions can be seen in perspective when it is appreciated that an adult person emits emg energy at frequencies of between 300 MHz and 300 GHz at nearly 0.0054 W/m^2 and that there is nothing new about rf, which comes from the sun. Thalidomide was a unique case, involving a drug which was put on the market after research a lot of which was questionable.

3.33. A careful review of the sizable literature shows that there is little, if any, firm evidence of any biological effect not associated with direct heat

generation which would influence physiologic integrative processes, and at the proposed levels thermal input is insufficient to elicit significant alterations in body function. Analysis of laboratory studies shows no biological effects hazardous to health or safety and there is no confirmed evidence of alteration to reproductive capacity or neonatal growth influenced by ambient levels of mcw/rf energies; reference to "little information" in paragraph 8.1.2 of the World Health Organisation report (document 31) is because people have not been exposed to levels needed to establish effects. There is no convincing evidence for direct interaction with blood cells, or theoretical basis for expecting mcw exposure to cause cancer.

3.34. Critical analysis of available literature and theoretical considerations which are irrefutable indicate to Professor Michaelson that sufficient scientific data is available on which to conclude that there are no biological effects which may be hazardous to health of safety as a result of the ambient levels of emg energy emitted by mcw/rf communication systems.

3.35. There was no reference to Professor Fröhlich in the rule 6 statement and his views were first mentioned at the inquiry. [An adjournment offered by me was not taken up because of Professor Michaelson's imminent return to the United States.] Professor Fröhlich is at the nearby Liverpool University and it is unfortunate that he did not attend the inquiry to explain his views. He knows that mcw transmissions are already carried out on a large scale and, if he is so concerned, it is surprising that he has not made representations about them long ago. Professor Grant finds his note (document 41) difficult to understand, and it is common ground that his theory is not wholly accepted as proven. Even if it is right, it does not follow that the Mercury proposals involve a significant risk.

3.36. It can be seen from the manuscript of Professor Fröhlich's note that, when he wrote that use of these frequencies appeared to him highly irresponsible, he was under the impression that 1-3 GHz was involved, and that when informed of the correct frequencies he simply amended the figures in his note. These particular frequencies cannot therefore, as implied in the note, be regarded as especially dangerous. It would have been helpful to have asked Professor Fröhlich if he thought that it was highly irresponsible for all mcw emissions not to be stopped.

3.37. It appears that Dr Smith believes that mcw emissions of the level proposed, which are far below the standards proposed in the December 1982 Consultative Document of the NRPB (document 19), would expose several thousand people in Manchester to likely harmful effects and that none of the existing emissions referred to by Mr Burstow are safe. It is surprising therefore that he did not avail himself of the invitation in the consultative document to comment on the NRPB proposals, nor has he written to the HSE. The fact that the NRPB has kept up to date is shown by many references in paragraph 8 of the document to recent documents, and by December 1982 Professor Fröhlich's theory would have been well known to the board. The NRPB report (document 11) stating that there would seem to be no concern about possible health hazards from Mercury equipment was based on measurements and worst case calculations by the board's own staff. Dr Smith agreed that the conventional theory of mcw effects on biological material is adhered to by the NRPB and the large majority of scientists.

3.38. Assessment of risk is essentially a matter for the NRPB and HSE and not for a local planning authority or any particular Inspector. It was accepted on both sides that there is nothing special about the proposed installation or Manchester itself to make this different from the many similar installations elsewhere in the country. Whether or not they pose significant health risks must be considered in the same way everywhere. Faced with compliance with standards everywhere in the world, and a consensus of opinion that there is no actual risk, the council has fallen back on the view that as long as there is any uncertainty nothing should be allowed. It is irresponsible for the council to whip up fears despite the views

of the relevant authorities, the NRPB and HSE, and then argue that development should be refused on grounds of psychogenic effects on the public; such refusal would not be on account of danger but because belief in danger could make some people feel ill.

3.39. Providing for such matters to be up for discussion at every public inquiry would be against the public interest. Parliament has set up the NRPB and HSE to advise on such questions, and on technical matters the planning authority should seek the advice of the HSE and follow it. It is recognised that advice may change as scientific knowledge grows, but a planning inquiry is a grotesquely unsuitable forum for investigating the correctness of the NRPB evaluation of the evidence it has received. On the basis of Lord Diplock's judgement on *Bushell v The Secretary of State* (document 38) it would be a rash Inspector who, in the light of the cross-examination of 3 witnesses at a 5-day planning inquiry in Manchester, came to a conclusion that the NRPB was wrong.

3.40. The Secretary of State's approach to technical matters was recently restated in paragraph 10 and Appendix 3 of circular 9/84. In the context of the present case, presumably the Secretary of State does not consider that there are significant risks because mcw emissions are not listed as hazardous in the circular, nor are they excluded from the General Development Order consent to the Post Office, airports authority etc in the draft amendments to the order (document 24). If the Secretary of State considered mcw emissions to be an unacceptable risk, no doubt he would revoke the GDO etc, but permission cannot be allowed in London but refused in Manchester, or allowed to BT but refused to Mercury.

3.41. BT is no safer than Mercury and has a Project Overlay which has similar characteristics to that of Mercury. One of the largest of the existing emissions referred to by Mr Burstow is by BT whose Kilostream and Megastream systems use mcw. The council chose to accept the views of the BT Union Committee which has produced no evidence to support its claim that BT can provide the necessary services. The council has produced no witness to support the views that Manchester citizens are afraid, no planning evidence against the proposal, and no witness to refute criticisms that refusal was based on political bias because of the effect of the Mercury proposal on BT. The proposed installation would not make the slightest difference to safety unless by some extraordinary chance: firstly, Professor Fröhlich's theory is correct, and secondly, when applied to human beings it was found to have harmful consequences, and thirdly, by some unhappy chance the particular frequencies proposed were found to be more harmful than those currently in use.

3.42. There is no objection generally to the conditions suggested in the City Planning Officer's report (document 4). As a result of a minor amendment the height of the structure referred to in condition 4 should be 12.25 m not 12 m. Condition 3 should be imposed only if some good reason was given and, since permission was refused only on safety grounds, no basis has been put forward for limiting the number of antennae.

CASE FOR THE COUNCIL

The material points are:

4.1. Radiowaves in the frequency range of up to 300 GHz are non-ionising emg radiation and by convention those between this frequency and 300 MHz are referred to as mcw. Except close to the antennae, the power density of emissions decreases at the square of the distance from the source. In considering how mcw radiation reacts with biological systems, Dr Smith considers it necessary to bear in mind the limits of present knowledge; it is generally agreed that more research is needed. Very little is known about the non-thermal interaction of mcw radiation

on the organisation of biological systems, and it is not yet possible to predict all the effects, let alone detailed effects, on biological materials in the living state.

4.2. Conventional theory is concerned with heat generated and field interactions which may be produced by such radiation. According to this theory, biological systems have a high propensity to absorb electrical energy and convert it into heat. Absorption of energy from emg waves leads to heat development and possible direct field interactions with membranes, biopolymers and biological fluids. Direct field interactions have not been thought to be great at power densities of under 10 W/m^2 as the membrane field strengths in biological materials are greater than the fields produced by such densities. Thus according to the conventional view, the relevant effects of mcw radiation at power densities of $1-10 \text{ W/m}^2$ is the direct production of heat.

4.3. Research has shown however that this theory cannot account for 4 kinds of phenomena: Firstly, different effects may be produced in the same biological material by the same quantity of energy deposition as between mcw radiation and other means such as heat baths; this shows that mcw radiation can produce significant effects not dependent on its heating capacity. Secondly, effects can be produced by mcw radiation at such low levels that a direct thermal effect is not a reasonable hypothesis. Thirdly, the level of effects does not increase proportionately with frequency increase, may increase or decrease in a discontinuous fashion, or may in some cases stabilise at a particular level. Fourthly, when energy is supplied, there may be a time lag before any effect occurs.

4.4. An alternative approach is to consider energy deposition as capable of creating organisation in a biological material. One of the most common features in biology is that energy supplied by food or sunlight is partly used to build up and maintain a very complex organisation. Intense sunlight may well warm a plant, but its action cannot be regarded as entirely thermal.

4.5. Professor Fröhlich who is a distinguished scientist and a FRS has advanced a theory to account for biological effects of mcw radiation which do not depend on thermal action. According to this theory, the release of stored energy in active biological systems, in the form of high energy chemical bonds and electrical fields in membranes, may be triggered by a very small increase in energy additional to that in the environment or within the body. Mcw radiation may affect by interactions with enzymes the processes of energy storage in biological systems as well as triggering energy release. Professor Fröhlich states (document 34, page 148) that the strongest evidence for the existence of such non-thermal non-linear effects arises from their dependence on frequency, intensity and time of irradiation. He draws attention to the significance of mcw radiation as a source of coherent excitation of a biological system; coherence determines properties at one space-time point when they are known at another. He puts forward 3 basic types: i. coherent excitation of a single polar node, ii. excitation of a metastable highly polar state, and iii. vibrations arising from more complex processes and giving rise to limit cycles. Their products are highly ordered states of electrical energy, shown to be physical possibilities by Professor Fröhlich but their realisation in actual biological systems has to be determined experimentally.

4.6. Two criteria may be used to determine whether a biological effect is non-thermal, namely i. expected only at certain frequencies and ii. dependent upon energy supply exceeding a critical value with little extra effect from further supply. Some recently reported experiments which provide excellent evidence of non-thermal effects concern yeast cells and the giant chromosomes of the midge fly (documents 35 and 42). They illustrate how non-thermal effects may be produced. These effects are frequency specific with a time-lag before onset. They can be induced at low power densities if the exposure period is sufficient.

4.7. Having worked at frequencies other than these examples, Dr Smith knows of no reason why the range of 10-13.5 GHz should be assumed to be incapable of producing non-thermal effects. He is aware of no theoretical ground or experimental work suggesting, let alone establishing, a threshold at or close to 42 GHz below which non-thermal effects will not occur. The expected frequencies are for example 10-100 GHz for affecting cell membranes and 1 GHz for DNA or RNA molecules; these are all in the region proposed to be used by Mercury.

4.8. Confusion in the results from many experiments so far conducted may arise from insufficient precision in the research. The implications of accepting that mcw radiation can contribute to the process of energy build-up as well as triggering release of energy from the body's own storage systems have not yet been explored in detail. Although some effects may be harmless, it cannot now be said that all will be.

4.9. Emg fields and rf radiation occur naturally over a wide range of frequencies. The ionosphere shields the earth's biosphere from radiations of this kind originating in space. The intensity of naturally occurring fields is low and mostly due to atmospheric electricity; emissions from the sun and stars, although measurable are very weak. Natural radiation is incoherent; the oscillations are not continuous and have random variations in their phases.

4.10. Since about 1880 electricity and its applications have developed rapidly but in the 100 KHz to 300 GHz range the proliferation of man-made sources of energy has occurred only over the last few decades. Exposure to man-made radiation may be much higher than from natural radiation and is mostly coherent radiation. Man has had no real opportunity to adapt to mcw levels of this kind, intensity and duration.

4.11. Mcw radar as a possible hazard was discussed in scientific literature as early as 1943 but 10 years elapsed before the first proposals for safety limits to protect people. Only in 1960 did the Medical Research Council put forward recommendations of a 100 W/m^2 limit for continuous exposure (document 14), following an American lead. Both standards however were based on avoiding thermal effects. International standards still vary significantly (document 46). In 1982 the NRPB consultative document proposed reducing the 100 W/m^2 limit to 50 W/m^2 for the general population and recommending that all exposures of the general population should be kept as low as reasonably practicable.

4.12. Recognition of possible non-thermal effects has been slow and, apart from the Russian-based ones, standards are still based only on thermal effects. They have also been considered only in terms of power density although it is impossible to classify biological effects on intensity alone as the absorbed energy depends on the dielectric properties of the particular material, which vary with mcw frequency and depend on the composition of the particular system.

4.13. Standards have been based on surveys of human exposures, laboratory experiments on animals and general considerations. The few epidemiological studies have generally been limited in scope and in general the available data concerning health effects of mcw on man are insufficient and of inadequate scientific quality. Laboratory experiment results are not consistent, and extrapolation to man is difficult. The thalidomide experience shows that failure to produce an effect in a laboratory does not guarantee no effect on man. Until there is more and properly funded research concentrating on non-thermal effects, and the mechanisms of interaction between biological materials and mcw radiation are better understood and explored, Dr Smith considers it impossible to state that exposure to mcw radiation at any particular intensity and frequency for any particular period has been shown to be safe. In a statement given to Dr Smith (document 41), Professor Fröhlich considered that at the present state of scientific knowledge it was not possible to answer questions about the possible harmfulness of mcw in the 10-13 GHz region and

that, until appropriate experiments had been carried out in this frequency region on various biological objects in order to be sure of their response, it appeared to him highly irresponsible to use them.

4.14. The fact that risks are being taken more seriously in the United States is shown in a very recent report (document 47). Expertise available to the NRPB in 1982 is less than available to Dr Smith today, and moreover there is a time-lag between carrying out work and writing it up. Figure 10 on page 55 of Coherent Excitations published in 1983 (document 35) shows a biological effect which was significant at 0.5 and 5 W/m² was not significant at 50 W/m² so that effect does not necessarily reduce with power.

4.15. The proposed installation would use phase modulation, with the carrier wave always left on whether traffic was being carried or not. The service from the quadrant antennae would extend to a maximum distance of 10 km. From the information supplied it can be estimated that a beam over ½ km wide would come into the centre of Manchester from Werneth Low, and there would be a beam of similar width at Werneth Low (plan H). There would also be beams to and from 5 high-capacity users not yet specified. Beams directed at lower buildings would irradiate windows at higher levels in such buildings. There would be numerous returning beams from those served by the quadrant antennae which, because of the height of the Sunley Building, would have to point downwards and would irradiate windows from a high angle. The sum total of these beams should not produce an appreciable thermal effect but it is not possible to be certain whether or not there would be harmful non-thermal effects.

4.16. The frequencies involved are such as might be expected to affect cell membranes and modulation might induce lower frequency effects. It is not known how long a human being can store coherent mcw radiation or how much accumulated power density would trigger a non-thermal effect. The critical integrated energy density capable of producing a non-thermal effect in yeast was probably less than 1.8 kilojoules per sq m and, if it was assumed that a non-thermal effect might arise at 2 kJ/m², which is close to the energy density implied by earlier Russian standards for exposures of up to 10 hours, the time taken to produce such an effect at various distances is shown on table 1 (document 43), assuming that the NRPB measurements on Mercury equipment were correct. These figures show what might conceivably occur and with present knowledge it is not possible to be sure what will happen and to whom. There is a possibility that the Mercury proposals would lead to effects on some people, some of which might be harmful. Dr Smith considers that there is not sufficient knowledge to be able to state that the proposals are safe.

4.17. The council considers that in health and safety matters it is unrealistic to seek to draw a distinction between workers and the general public; this would mean considering persons whilst going to work but not when they were working. The Health and Safety at Work etc Act 1974 (document 17) covers employees in section 2 and the public in section 3. Paragraphs 4-5 of circular 9/84 make it clear that there should be a measure of planning control over the creation of hazards. It has been suggested on behalf of Mercury that if the council objects to the present application it should take action against existing mcw users. Apart from some possibility of revocation however the council has no power, and many of the users are covered by the General Development Order.

4.18. It is no longer accepted as axiomatic that radiation is safe just because of low level and NRPB now consider that exposure should be kept as low as possible. It is always possible to argue that more replication of experiments is needed and it may be a long time before all scientists agree. If Professor Fröhlich is correct however we appear to be on the threshold of a dramatic change of view, and the

World Health Organisation has come down on the side of non-thermal effects. It also advocates keeping exposure to mcw as low as possible (document 31, page 105) and this can be achieved by not approving mcw systems when there is a safer alternative.

4.19. It is perfectly possible to avoid irradiating the population of Manchester by using communications systems relying on underground cables. It is clear from Mr Cott's evidence that Mercury's choice of mcw was based on economic rather than technical reasons and that future replacement of mcw links by fibre-optic cables was dependent upon economic rather than safety reasons; the firm's requirements could be met by cables. Planning is concerned with use not the user and if BT can provide a service by safer means there is no justification for approving the mcw proposals by Mercury. Mr Cott has little knowledge of facilities available in Manchester from BT, and was unable to produce any evidence that Mercury had any prospective customers in the city; there is no evidence to support the firm's optimism about demand for the proposed services.

4.20. At the time when Mr Burstow wrote to the council on 10 November advising on the application, he was unaware of details of the Mercury proposals. He did not know how many aerials were proposed or the power input to them. The HSE role is limited to considering whether the proposal complies with the relevant standard.

4.21. The confident statement in Professor Grant's evidence that there is no health hazard from exposure to mcw from the Mercury transmissions conflicts with statements made by him in books and papers. These include references in his book (document 26, page 22) to well established biological hazards of mcw, and to numerous reports of behavioural effects; in his 1981 paper (document 27, page 605) to effects on the growth rate of yeast as capable of being accounted for by Professor Fröhlich's theory but inexplicable in terms of a thermal effect, and to not everything being universally understood; and in his 1982 paper (document 28, pages 3-4) to effects which cannot be clearly explained in terms of a thermal mechanism, to non-thermal effects of clinical significance and biological importance, to an appropriate theory by Professor Fröhlich for a phenomenon which cannot be accounted for by classical physics, and to the need to understand more fully the mechanism of non-thermal effects.

4.22. Professor Grant accepts that the conclusion of Professor Fröhlich that there are non-thermal effects from mcw may be correct, and although he stated that there was no evidence of such effects at 10 GHz, these were demonstrated in experiments reported in 1971 (document 33). He gave evidence about the Yannon case, in which the widow of a New York radio technician was awarded compensation because it was accepted that her husband's death had been due to exposure to mcw, but admitted that he had no direct knowledge of the case. No evidence of this case was given by Professor Michaelson who knows more about it.

4.23. Professor Michaelson has not carried out the scientist's duty to present a balanced judgement, expressing both of the conflicting theories accepted by highly respected persons and then identifying his preferred opinion. On page 116 of his 1981 article (document 30) he refers to Eastern European reports of a wide variety of functional changes and considers that a careful search needs to be made for exposed groups not yet studied, on page 109 he refers to the fact that there have been few epidemiological studies, generally limited in scope, and despite his reference to no direct evidence that mcw are carcinogenic on page 116 he considers more intensive and extended monitoring necessary. His evidence that there is no cause for concern does not square with references on pages 13, 15, 79 and 82 of the World Health Organisation report (document 31). He refers to a survey of naval personnel exposed to radar but the fact that there were no effects from 9 GHz does not establish that there would be no effect at 10.5 GHz; this would not even be established by the absence of an effect at 10.3 GHz.

4.24. Even if it were to be accepted that hazards from the proposed installation were not such as to justify refusal of permission, laymen knowing of the disagreement about safety between respected experts would consider that there must be a risk. Furthermore the public is ignorant as to the distinction between ionising and non-ionising radiation. Psychogenic effects would therefore be likely because people do feel ill when they think that they may be ill.

4.25. The council is not happy about the Assessor's suggestion that possible danger to persons on the roof of the building from the quadrant antennae should be removed by mounting them on tall poles. This would make them more prominent and affect the appearance of the building.

4.26. The remarks by Lord Diplock in *Bushell v The Secretary of State* quoted by the appellants were concerned with a matter of Government policy and therefore not relevant to the present case. It is submitted as a matter of law that there is no obligation on the planning authority, or the Secretary of State, to follow blindly the advice of the HSE or NRPB.

FINDINGS OF FACT

I find the following facts:

5.1. The appeal relates to rearrangement of some of the existing structures and aerials on the roof of this 100 m high building in the centre of Manchester and the erection of a new stub tower and further aerials.

5.2. No objection has been raised on grounds of the effect of the proposals on the appearance of the building which can be seen from many points in the city, and the application was refused only on the grounds of a threat to the health and safety of the public.

5.3. The Health and Safety Executive was consulted on the application, and advised the council that the proposed installation would not cause a health hazard to persons in close proximity or significantly affect the low level radiation from existing radio frequency and microwave installations.

5.4. A subsequent report by the National Radiological Protection Board on safety considerations of microwave transmissions from equipment used by Mercury concludes that, on the basis of measurements and worst case calculations by NRPB staff, there would seem to be no grounds for concern about possible health hazards from any combination of communication equipment in systems used or proposed by Mercury.

5.5. Calculated power density levels involved in the non-ionising microwave radiation from the proposed aerials affecting maintenance workers, the occupiers of the (office) buildings where the effects would be greatest, an adjacent hotel and persons in the street are substantially below the standards proposed by the NRPB in its consultative document issued in December 1982 in which reference is made to non-thermal effects and well below the most restrictive standards which are those applying to the Soviet Union.

5.6. Historically, standards designed to safeguard people from potential harmful effects of electromagnetic radiation have been based mainly on preventing damage caused by heating.

5.7. Experiments carried out in recent years involving exposure of animals, insects, excised tissues and cell suspensions to microwave radiation have reported biological effects regarded as not caused by heating; such effects were found to be not necessarily restricted to particular frequency levels nor proportionate to intensity of radiation.

5.8. Pending replication of results of experiments in other laboratories, the existence of non-thermal biological effects from microwave radiation is not universally accepted by scientists.

5.9. The population of the United Kingdom has been exposed to microwave radiations at least since the war and uses of microwave equipment in Manchester include British Telecom, emergency services, television, radio, and radar in connection with the airport and ship navigation.

5.10. Retrospective studies of persons who had been exposed to microwave and radio frequency radiation have not produced substantive evidence of harmful effects.

5.11. Satisfactory evidence was not available at the inquiry regarding the circumstances in which compensation was paid to the widow of a New York radio technician or to substantiate a connection between microwave radiation and disorders suffered by workers concerned with microwave equipment in the Soviet Union.

5.12. A suggestion by the Assessor that the proposed quadrant antennae should be mounted at a height of about 3 m, to prevent accidental exposure of persons unaware of the danger of approaching them too closely when not switched off for work to be carried out on them, was accepted on behalf of Mercury but considered inappropriate by the council because of the effect on appearance.

CONCLUSIONS

6.1. Bearing in mind the above facts, I am of the opinion that there is insufficient evidence to support a conclusion that the proposed installation would pose a potential threat to the health and safety of the general public or persons employed in connection with it. I appreciate that experiments carried out on various small objects suggest that microwave radiation at any frequency or power density level cannot be guaranteed to be free from potential harmful effects to human beings. Nevertheless to justify banning on health and safety grounds something which has long been in ordinary everyday use without evidence of harm, I consider that it is necessary to go further than merely establishing that there is no absolute proof of an absence of harmful effects and to show that there are significant reasons for believing that the health or safety of human beings are likely to be put at risk.

6.2. The National Radiological Board, a body set up by Parliament to undertake research and advice on protection from radiation hazards, is apparently satisfied on the basis of measurements and worst case calculations by its own staff about possible health hazards from Mercury equipment. The Health and Safety Executive's advice to the council that the installation would not cause a health hazard to persons in close proximity or significantly affect existing low-level radiation was confirmed in evidence given at the inquiry.

6.3. I accept the opinion of the Assessor that a planning inquiry is not the right place to revise the country's safety standards, and I note that the consultative document published by the NRPB in December 1982, which put forward proposals for amending safety standards, took account of non-thermal effects. Worst case calculations show the emissions from the proposed antennae to be far below the amended standards and below the most stringent standards applicable anywhere. I agree with the conclusion of the Assessor that there is no reason for a low power installation to the proposed standard to be refused permission on health hazard grounds, and in the next paragraph I deal with the one reservation which he makes.

6.4. The Assessor's reservation concerns the possibility of persons being subjected to a field from the quadrant antennae which might be harmful. As several different

companies have installations on the roof, he considers that there is a possibility of these antennae being approached when not switched off for maintenance by persons without full knowledge of their characteristics. His suggestion at the inquiry of a higher mounting would make these antennae more conspicuous in views of the building. During our visit to the roof of the building after the inquiry, the Assessor was satisfied that the 2 quadrant antennae on the long sides of the building could not in practice be approached inadvertently. He considers however that acceptance of the plans should be subject to some means of restricting close access to the 2 other antennae at the ends of the building. Whilst I see no objection in principle to covering this point by a condition it may be felt that, now attention has been drawn to this problem, the manner in which the interests of safety and amenity can best be reconciled is a matter which could reasonably be left for settlement, possibly at the particular location, by representatives of the Health and Safety Executive, council and appellants.

6.5. No objection has been raised on the grounds of the effect of the proposed tower and aerials on appearance. Structures and equipment on the roof of this very tall building are generally not visible from the near vicinity, and in the long distance views they would be seen from so many different angles that it is difficult to generalise on the effect of additions and replacements on appearance. I do not disagree with the opinion expressed by the City Planning Officer in his report to the Planning Committee on 13 December that the proposals would be no worse than, and possibly an improvement on, the existing situation.

6.6. Subject to condition 4 being amended to cover the extra height of 0.25 m, which was not opposed by the council and would not significantly affect appearance, the appellants do not object to the conditions recommended in the City Planning Officer's report except for No 3. Although theoretically this condition is not necessary, since development involving a material change in the external appearance would require planning permission, it may be felt that a condition requiring permission for any further aerials could be justified to ensure that structures on the roof did not become unreasonably conspicuous as a result of a series of extra aerials each of which did not materially change the appearance.

6.7. The Assessor agrees with my conclusions.

RECOMMENDATION

7.1. I recommend that the appeal be allowed subject to conditions generally on the lines of the City Planning Officer's report dated 13 December 1983 and paragraph 6.6 above.

I have the honour to be
Sir
Your obedient Servant

H M A STEDHAM

APPEARANCES

FOR THE APPELLANT

Mr K Schiemann QC and Mr R Cornwath - Instructed by Messrs Bird & Bird, London WC1.

They called:

Mr E M Sheard MA FRICS - Partner, Messrs J R Eve, London SW1.

Mr P Cott MSc FIEE CEng - Technical Director, Mercury Telecommunications Limited.

Mr D J Burstow BSc CEng MIEE - H M Senior Electrical Inspector of Factories, Health and Safety Executive, Manchester.

Professor E H Grant BSc PHD FInstP - Professor of Experimental Physics, University of London.

Professor Sol M Michaelson BSc DVM SMIEEE - Professor of Radiation Biology, and Biophysics, and Associate Professor of Medicine and of Laboratory Animal Medicine at the School of Medicine and Dentistry in the University of Rochester, New York.

FOR THE COUNCIL

Mr R A Henderson QC and Mr J Howell

They called:

Dr C W Smith BSc(Hons) PhD FIEE CEng - Senior Lecturer, Department of Electronic and Electrical Engineering, University of Salford.

DOCUMENTS

- Document 1 - Lists of persons present at the inquiry.
- " 2 - Comparison of microwave radiation exposure levels from proposed facilities with safety standards of different countries.
- " 3 - Sketch showing Mercury's proposed national trunk fibre-optic cable network and microwave link.
- " 4 - City Planning Officer's report to the Planning Committee on application, including copy of observations from Health and Safety Executive.
- " 5 - Resume of planning policy documents by Mr Sheard.
- " 6 - Extract from Hansard for 21 February 1984.

DOCUMENTS CONTINUED

- Document 7 - Calculations by Mr Cott.
- " 8 - Graph showing power density at street level due to side lobes from 1.2 m antenna at power level of 0.63 W.
- " 9 - Leaflet describing Mercury telecommunications system.
- " 10 - High rise buildings within 0.8 km of Sunley Building.
- " 11 - Report by National Radiological Protection Board on Safety Considerations of Microwave Transmissions from Equipment used by Mercury.
- " 12 - Estimated power density at Piccadilly Hotel.
- " 13 - Article by Mr Cott on Mercury telecommunications system.
- " 14 - Home Office publication on Safety Precautions Relating to Intense Radio-Frequency Radiation, 1960.
- " 15 - Press notice of revised recommendations of Medical Research Council, January 1971.
- " 16 - Extract from The Radiological Protection Act 1970.
- " 17 - Extract from Health and Safety at Work etc Act 1974.
- " 18 - Agreement between Health and Safety Commission and National Radiological Protection Board, April 1975.
- " 19 - NRPB consultative document on Proposals for the Health Protection of Workers and Members of the Public against the Dangers of Extra Low Frequency, Radiofrequency and Microwave Radiations, December 1982.
- " 20 - Correspondence between the Health and Safety Executive and the council, April 1984.
- " 21 - Letter from HSE to the appellants' solicitors, 4 April 1984.
- " 22 - HSE guidance note GS21 on Assessment of Radio Frequency Ignition Hazard.
- " 23 - Extracts from draft circulars on Conditions and Planning Controls over hazardous development.
- " 24 - Extract from proposed amendments to the General Development Order.
- " 25 - Summary of qualifications and experience of Professor Grant.
- " 26 - Extracts from Dielectric Behaviour of Biological Molecules in Solution by Professor Grant (1977).
- " 27 - Article by Professor Grant on Biological Effects of Microwaves and Radio Waves, December 1981.
- " 28 - Article by Professor Grant on Interaction of Radiowaves and Microwaves with Biological Material 1982.

DOCUMENTS CONTINUED

- Document 29 - Summary of qualifications and experience of Professor Michaelson.
- " 30 - Article by Professor Michaelson on Health Implications of Exposure to Radiofrequency/Microwave Energies 1981.
- " 31 - Environmental Health Criteria 16: Radiofrequency and Microwaves, World Health Organisation 1981.
- " 32 - Review of Environmental Health Criteria 16 by Professor Michaelson.
- " 33 - Article by Carpenter and Livstone on Evidence for Nonthermal Effects of Microwave Radiation: Abnormal Development of Irradiated Insect Pupae 1971.
- " 34 - Article by Professor H Fröhlich on The Biological Effects of Microwaves and Related Questions 1980.
- " 35 - Coherent Excitations in Biological Systems, edited by Fröhlich and Kremer, 1983.
- " 36 - Correspondence between appellants and Professor H P Schwan regarding his paper concluding the Symposium on Coherent Excitations.
- " 37 - Summary by Professor Michaelson of studies carried out on human populations exposed to microwave and radiofrequency energies.
- " 38 - Extracts from report of Bushell and Another v Secretary of State for the Environment (1981).
- " 39 - Appeal decision relating to premises at Heywood, Bury.
- " 40 - Summary of qualifications, experience and qualifications of Dr Smith.
- " 41 - Statement given to Dr Smith by Professor H Fröhlich FRS.
- " 42 - Description by Dr Smith of experiments on yeast cells and giant chromosomes of a midge fly.
- " 43 - Table and figures produced by Dr Smith.
- " 44 - Glossary of electronic/electromagnetic terms, and international system of units and orders of magnitude.
- " 45 - Electromagnetic radiation and biological systems.
- " 46 - Microwave and radio frequency exposure limits in various countries.
- " 47 - Report on The Drive to Regulate Electromagnetic Fields in the United States, March 1984.
- " 48 - Correspondence between the council and the appellants' solicitors, March-April 1984.
- " 49 - Letter from the British Telecommunications Union Committee opposing the planning application.
- " 50 - Folder of literature on British Telecom National Networks services.

PLANS

Put in by the appellants

Plan A - Roof plan showing existing and proposed aerials. Scale: 8 ft to 1 in.

" B - Sections through gallery of building at level 30 showing existing and proposed aerials and equipment rooms. Scale: 8 ft to 1 in.

" C - South-west elevation of building showing existing and proposed aerials and towers. Scale: 16 ft to 1 in.

" D - North-west elevation of building showing aerials and towers. Scale: 16 ft to 1 in.

" E - Site of Sunley Building and its surroundings. Scale: 1/1,250.

" F - Microwave links of British Telecom, the Gas Board and the Policy. Scale: 1/50,000.

Put in by the council

" G - Location and surroundings of Sunley Building. Scale: 1/1,250.

" H - Approximate width of signal beams between Sunley Building and Werneth Low. Scale: 1/50,000.

Prime Minister (2)
 A useful summary of the
 licence provisions
 MR TURNBULL

MS
 29 June 1984

AT
 29/6

BT LICENCE

After a lot of hard bargaining, the BT Licence was laid before Parliament on Tuesday 26 June. It will come into effect on Sunday 5 August. BT will be converted from a statutory corporation into a public limited company on the following Monday.

We have therefore met the requirement that the licence should be laid before both Houses of Parliament for at least 28 days and we are still on schedule for the privatisation of BT in November.

The licence has been tightened up in several important respects since the draft was published in October. It satisfactorily covers 3 main areas:

- obligations to provide a comprehensive telephone service;
- restrictions to prevent future abuse of BT's monopoly/dominant position;
- measures to encourage fair competition.

Both BT, and potentially more significantly, Mercury are content.

Obligations

On the subjects of most public concern, the licence clearly states BT's obligation to provide rural services, public call boxes, emergency services and directory enquiries. There are also adequate provisions for the disabled and for maritime services.

The licence permits, but does not oblige, BT to share the cost of any loss-making services it has to provide with other companies making use of its networks. Given the current inadequate state of BT's accounts, it is not yet clear whether this access charge will actually be required.

BT will be allowed to close public call boxes which take less than £185 a year. This is an agreed figure with POUNC and could apply to perhaps 5,000 out of the total 77,000 call boxes. There are adequate provisions for consultation on this point and the licence also allows for local authorities or other bodies to provide a subsidy to top up takings to £185 in order to retain uneconomic call boxes.

DAUABM

Restrictions

The licence confirms that for the next 5 years price increases for business and residential rentals, local calls and trunk calls, taken together, must be at least 3% below the annual rate of inflation. As this formula applies to a basket of services, it is still possible that some consumer charges will rise by more than the rate of inflation. Indeed there is a separate undertaking on rentals restricting price rises to less than 2% above the RPI.

BT is required to establish separate accounting and reporting arrangements for its apparatus supply business by 1 April 1987 and is prevented from cross-subsidising either the supply or manufacture of apparatus from profits from the network services. BT must also set up a separate subsidiary by 1 July 1986 for the manufacture of telecommunications equipment.

Competition

BT are prevented from exercising any undue discrimination which places competitors at a significant competitive disadvantage.

The provision which caused the most difficulty during the negotiations was the obligation on BT to interconnect with other licensed systems such as Mercury. This obligation is essential for increased competition and is vital for Mercury's future. After much disagreement, this issue has now been satisfactorily resolved and BT and Mercury have signed a Heads of Agreement on Interconnect. Mercury's Chairman, Sir Douglas Lowe, is content with this outcome although the details have still to be worked out.

OFTEL

The success of our telecommunications policy will now largely depend upon the ability of OFTEL to monitor and enforce the terms of the licence.

There must be some doubts whether OFTEL will be able to stand up to BT, but we have defined the rules of the game and have appointed Professor Carsberg as the referee. It is now up to him to control the play.

DLP.

DAVID PASCALL

DAUABM



BF with PM response
BT 217

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422
Telephone (Direct dialling) 01-215
GTN 215
(Switchboard) 215 7877

PS Secretary of State for Trade and Industry

28 June 1984

CONFIDENTIAL AND MARKET SENSITIVE

A Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

MERCURY

Thank you for your letter of 11 June. I am sorry not to have replied sooner.

2 My Secretary of State entirely shares the Prime Minister's view that the success of the Government's telecommunications policy depends crucially on the establishment of Mercury as a strong competitor to BT. It seems likely that at the outset the Mercury partners may have underestimated the size of the investment, in terms of staff resources as well as finance, that would be required to make Mercury a convincing alternative to BT. It needs to be remembered that so far Mercury has only some 200 staff compared with BT's 240,000; and while Mercury's shareholders have already invested some £50m in facilities, with a further £110m committed, BT's fixed assets are valued at some £8,500m. Cable and Wireless, however, are better placed than any other British company to understand the magnitude of the task Mercury is taking on; and it is encouraging therefore that after careful reflection C&W have decided that they want to take full responsibility for Mercury's future.

3 So long as there continues to be clear evidence of a firm commitment by the shareholders (whether C&W alone, or in conjunction with BP) to making Mercury fully successful, my Secretary of State will want to leave as much scope as possible for Mercury's management to decide, on commercial grounds, which are the particular market sectors on which it should concentrate its efforts in the next few years. The interconnection arrangements recently agreed in principle between BT and Mercury should provide

JH1ALZ



the latter with plenty of opportunity to build a profitable business, but Mercury still needs to show determination and skill in identifying and satisfying customer requirements if it is to make an effective market impact.

4 In accordance with the statement on telecommunications policy which Mr Baker made on 17 November last year, we intend the new Mercury licence currently under discussion to include an obligation concerning the geographical spread of its network. My Secretary of State regards this as the necessary counterpart to the Government's undertaking that no further national network operators will be licensed before 1990. At the same time, it will be necessary to recognise that Mercury will only be able to extend its network so as to provide national coverage in due course if its commercial success creates adequate justification for the substantial investment that will be needed.

5 The Prime Minister may recall that the possibility of a large international telecommunications company's joining the Mercury consortium has already been raised twice, in relation to AT&T and Pacific Telesis. On both occasions the Home Office and the Foreign and Commonwealth Office saw some difficulties in what was proposed. At present Cable and Wireless appear to have reached a firm decision not to pursue such possibilities; but they could recur and we will discuss with the Home and Foreign and Commonwealth Offices whether, and if so on what conditions, they would be prepared to see foreign interests taking part in Mercury.

6 I am copying this letter to Margaret O'Mara (Treasury), Peter Ricketts (FCO), Christine Heald (Home Office) and to Richard Hatfield (Private Secretary to Sir Robert Armstrong).

Yours ever,
A. D. Lansley

ANDREW D LANSLEY
Private Secretary

Past - Present; Future A 8

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Cf

*I have retained the
license in Policy Unit
files in view of our
current interest. Agreed?
David P...
13/7*

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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GTN 215 5147
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From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP

John Moore Esq MP
Minister of State
HM Treasury
Parliament Street
LONDON SW1

26 June 1984

BRITISH TELECOM: LICENCE UNDER THE TELECOMMUNICATIONS ACT 1984

I enclose a copy of the licence (together with the accompanying Explanatory Notes) granted to British Telecom under the Telecommunications Act which has been laid before Parliament today in accordance with section 9 of the Act. The licence for the City of Kingston upon Hull (which is very similar to BT's licence) was also laid today. The Act requires both licences to be laid for at least 28 days but in fact the period will be 40 days as we intend that the BT and Hull licences will come into effect on 5 August which is the day on which Parts II, III and IV of the Act will enter into force.

The BT licence is being sold through HMSO and the Hull licence through the newly-established Office of Telecommunications at Atlantic House, Holborn Viaduct, London EC1.

I am copying this letter to David Waddington, Hamish Gray, Lynda Chalker, Arthur Cockfield, Alick Buchanan-Smith, Kenneth Clark, Ian Gow, Adam Butler, John Macgregor, John Stradling Thomas and to the Prime Minister.

KENNETH BAKER

M51/M51AAL

*Planning licence &
VAN's license to follow*

~~CO NO~~

N/SPM

AT
12/6PM/84/97PRIME MINISTERMercury

1. The Secretary of State for Trade and Industry minuted to you on this subject on 6 June, and your office replied on 7 June.
2. I have no objection to what he proposes, and support his view that it will be sensible to look at the possible monopoly position arising from Cable and Wireless' activities in overseas centres.
3. I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Home Secretary and to Sir Robert Armstrong.

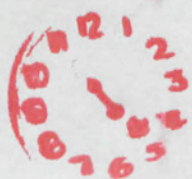
GEOFFREY HOWE

Foreign and Commonwealth Office
13 June 1984

Post office: Fribourg
Pt 8



3 JUN 1984





CCDP

NBPM

BT

13/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MERCURY

I see from Norman Tebbit's minute to you of 6 June that Eric Sharp, the Chairman of Cable and Wireless, believes that, as at present constituted, Mercury is not likely to mount an effective challenge to BT. I think we are bound to give considerable weight to his views.

2. I wholly take Norman's point that without the participation of Cable and Wireless, Mercury has no future. So, if we are to get effective competition to BT, we must either acquiesce in Cable and Wireless' desire to take over control or look for some other means of stimulating competition.

3. We clearly cannot change our policies on telecommunications competition so close to the BT sale and I therefore agree that it would be right to allow Cable and Wireless to move to take over the direction of Mercury. But it will be crucial to secure assurances from Cable and Wireless of their commitment to Mercury, as Norman indicates, and it would be helpful to hear what they are prepared to offer on this.

4. Next year, after the privatisation of BT, I believe we should review the position to see whether the prospects of Mercury becoming an effective competitor have become any clearer. I take it that we should not be effectively prevented from doing so, by the terms on which BT is floated.

5. I am sending copies of this minute to Geoffrey Howe, Leon Brittan and Norman Tebbit, and to Sir Robert Armstrong.

N.L.

N.L.

11 June 1984

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Cab. Off.
DP.

10 DOWNING STREET

From the Private Secretary

11 June 1984

MERCURY

Following your Secretary of State's minute of 6 June, the Prime Minister has been giving further thought to the implications for ~~telecoms~~ policy of the changes in management and shareholding in Mercury. The success of that policy depends crucially on the establishment of a strong competitor to BT. She hopes, therefore, that the changes in Mercury do not presage any weakening on its part in its intention to become a national competitor to BT. Were there to be any such weakening on Mercury's part in its willingness to invest on the scale required, it would be necessary to reconsider the duopoly policy.

BF

The Prime Minister has also asked whether there are any prospects for new partners in Mercury. She would be interested in an assessment of the advantages and disadvantages of having a large international telecommunications company come in.

Andrew Turnbull

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

ce DP

CONFIDENTIAL - MARKET SENSITIVE



NB PM AT
11/6

PRIME MINISTER

MERCURY

I have seen a copy of the Secretary of State for Trade and Industry's minute to you of 6 June about the latest developments on the control of Mercury. My interest previously was in the possible implications of an interest being taken by a non-British company, which I understand has now receded. I am content with the proposal that Cable & Wireless should discuss the question of control with BP, with a view to assuming total control over Mercury.

I am sending copies of this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and to Sir Robert Armstrong.

L. B.

11 June 1984

CONFIDENTIAL - MARKET SENSITIVE

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Post + Tax Future
#8



1 JUN 1984



10 DOWNING STREET

Pune Minister ①

The telecoms policy hinges on the development of Mercury as a competitor to BT. Policy Unit want to be reassured that the management / shareholder changes, which are necessary in themselves, will not become the occasion for a reduced role for Mercury.

Agree a letter to DTI to confirm that in new structure Mercury will have the resources to complete the task allotted to it?

Yes m

AT
8/6

CONFIDENTIAL

MR TURNBULL

8 June 1984

MERCURY

The equal division of responsibility between Cable and Wireless and BP has not been successful. The top management of Mercury also needs strengthening although there are signs that the new Chairman, Sir Douglas Lowe, is aware of this problem.

If Mercury is to stand any chance of developing as a viable competitor to BT, it must have strong management and the full confidence of its shareholders. In these circumstances we support Cable and Wireless' wish to increase their shareholding to 55%.

It is not yet clear whether BP will accept this proposal. We do know that they would be happy to reduce their shareholding to as little as 20% although they had hoped that a third party, preferably with telecommunications experience, could be recruited to the Mercury consortium. The prospects of such a third partner appear to be diminishing.

Our competition policy towards telecommunications is based on the expectations that Mercury will develop into a national network in competition to BT. The seven year period of protection for Mercury, the duopoly, was designed

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CONFIDENTIAL

- 2 -

to give Mercury every chance of achieving this objective.

Norman Tebbit refers to the need to secure assurances from Cable and Wireless that they are prepared to devote the necessary management resources to Mercury. In view of the significant changes in the ownership and control of Mercury since our competition policy was confirmed last year, we recommend that the Prime Minister should also seek assurances that Cable and Wireless fully intend to develop Mercury as a national competitor to BT, subject to commercial considerations.

If this is not the case and the shareholders are having second thoughts about their willingness to invest on the scale required, we shall need to re-assess the duopoly policy.

We suggest that the Prime Minister could also enquire whether there are any prospects for a third partner. Both AT&T and Pacific Telesis have expressed interest in the past and we consider that the addition of an international telecommunications company would be just the sort of boost which Mercury requires to move it into the big league.

DLP.

DAVID PASCALL

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MARKET SENSITIVE



6
cc:dp

10 DOWNING STREET

From the Private Secretary

7 June 1984

Mercury

The Prime Minister has seen your Secretary of State's minute of 6 June and agrees with the line he proposes to follow.

I am sending copies of this letter to David Peretz (HM Treasury), Hugh Taylor (Home Office), Len Appleyard (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry

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10 DOWNING STREET

Prime Minister ^①

C & W want to raise their shareholding to 55%. The remaining 45% could be held by BP if they are prepared to have a large investment without management & involvement. Alternatively BP's shares could be sold in blocks to other investors.

DTI do not believe there are any security implications provided

- (i) no foreign investors are involved and
- (ii) the investors have no say in day to day management.

Agree to Tebbit's proposals?

Yes  AT 6/6



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cc DP

JU482

PRIME MINISTER

MERCURY

Eric Sharp came to see me yesterday to let me know that Cable & Wireless (C&W) have reached a firm decision that they must now either increase their interest in Mercury to the point where they can exercise complete control over its development and management or else withdraw from the Mercury project.

2 They consider the present situation in which ownership and control is divided 50/50 with BP is totally unsatisfactory and cannot be expected to produce the clear and forceful direction of Mercury activities that will be necessary if it is to mount an effective competitive challenge to BT. Mr Sharp asked me to let him know as soon as possible whether we would be prepared to accept such a change in the ownership and control of Mercury (my approval would be needed for such a change under the terms of Mercury's licence).

3 I have been concerned for some time that Mercury's management has not been showing itself to be as strong and resourceful as is necessary if it is to be successful in tackling the BT monopoly. There is no doubt that the equal division of responsibility between C&W and BP has seriously slowed down the taking of

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important decisions and left the management of Mercury itself unsure of the degree to which they have authority to run the business.

4 I believe therefore that there would be advantage from our point of view in seeing clear responsibility pass to C&W. Moreover I am very doubtful whether Mercury could survive if C&W withdraw, so we have little option in practice but to acquiesce in what Eric Sharp is now proposing. I shall tell him, however, that he must make clear to BP that this is a C&W initiative, not that of Government. I should hope that it proves possible for us to avoid having to intervene, although I do not exclude our doing so if this proves a necessary way towards solving a difficult problem. Ideally, however, our position should be simply that we shall not stand in the way of a C&W take over if they can reach agreement on such an arrangement with BP.

5 I shall want to secure assurances from C&W that they will be prepared to devote the necessary management resources to Mercury so as to give it the best possible chance of success. I shall also want to consider further the question of what licence or other conditions may be necessary to prevent C&W from abusing the monopoly position it will hold on some international telecommunication routes if Mercury becomes a C&W subsidiary while other C&W subsidiaries are responsible for telecommunications in important overseas centres (e.g Hong Kong and Bahrein).

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6 I should be grateful to know as soon as possible whether you are content that I should speak to Eric Sharp on these lines. I am sending copies of this minute to the Chancellor of the Exchequer, the Home Secretary and the Foreign and Commonwealth Secretary; and to Sir Robert Armstrong.

NT
NT

6 June 1984

Department of Trade & Industry

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MARKET SENSITIVE



Pa
DWB
5/6

10 DOWNING STREET

From the Private Secretary

Prime Minister (2)

mt

POST OFFICE DISPUTE

Mr Baker has today suspended the Post Office monopoly in relation to European Election cards, and the Portsmouth by-election. Otherwise it remains in place.

DWB
4/6

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N6PM

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MR TURNBULL

2 May 1984

BT AND ALAN WALTERS

We share Alan's concern that Mercury should be seen as a credible competitor and should have rules of the game that enable it to be so.

Today's announcement does not pre-judge these licence questions in any way. BT and the DTI are still locked in debate about the form of the licence and we will be arguing in favour of a fair deal for Mercury in the normal course of business on this issue.

The nature of RPI-X is in broad outline being announced today. I have explained in a telephone call to Alan the arguments on both sides, the value of X that has been determined and he agrees that it was right to go for the wider basket. On the issue of BT using the freedom of the wider basket to juggle tariffs and rentals to the detriment of Mercury, this should become a matter for the Director General of OFTEL. Again this point does not seem to be prejudiced unduly by the statement made in the House today and it is another good point.



JOHN REDWOOD

SECRET

DASAAA

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SECRET
FM WASHINGTON 011937Z MAY 84
TO IMMEDIATE FCO
TELEGRAM NUMBER 1339 OF 1 MAY

FROM SIR ALAN WALTERS, FOR J REDWOOD, AND A TURNBULL ONLY, NO 10
DOWNING ST.
BRITISH TELECOM.
TELECOM.

1. THE MAIN CONCERN IS MERCURY'S PROSPECTS AS A CREDIBLE COMPETITOR OF BT, AND THE NEED TO ENSURE AN INCREASINGLY COMPETITIVE ENVIRONMENT FOR BT.
INTERCONNECT.
2. IN THE BT LICENCE THE PRINCIPLE OF NON-DISCRIMINATION SHOULD BE WRIT LARGE. I BELIEVE THAT THE BILL PROSCRIBES QUOTE UNDUE DISCRIMINATION UNQUOTE. THE LICENCE SHOULD SPECIFY THAT DISCRIMINATION WILL BE DEFINED AS QUOTE UNDUE UNQUOTE IF DIFFERENCES IN PRICES ARE NOT JUSTIFIED BY DIFFERENCES IN QUALITY OR COST. IN PARTICULAR DISCRIMINATION SOLELY ACCORDING TO CUSTOMERS IS QUOTE UNDUE UNQUOTE. THE PROOF THAT ANY PRICE/QUALITY DIFFERENCE IS NOT UNDUE SHOULD BE ON BT, NOT ON ITS COMPETITORS.
THE REGIME.
3. THE SECOND MAJOR ISSUE FOR MERCURY WHERE ITS REQUIREMENTS HAVE BEEN NEGLECTED IS THE LICENSING POLICY TO WHICH ITS CUSTOMERS WILL BE SUBJECTED. MERCURY'S CUSTOMERS WILL BE OBLIGED TO FOLLOW THE RULES DEVISED BY BT FOR ITS OWN CUSTOMERS IN A MONOPOLY ENVIRONMENT (WITH FEW EXCEPTIONS).
4. IT SEEMS THAT PUBLIC OPERATORS' LICENCES ARE THOUGHT OF AS BEING SYMMETRICAL WITH RESPECT TO THE LEASING RULES. SO IN EFFECT, MERCURY HAS TO BASE ITS COMMERCIAL POLICY ON BT - ORIENTED RULES. THIS IS POTENTIALLY A GREAT HANDICAP. MERCURY'S TECHNIQUES AND PRICING NEEDS, PARTICULARLY AS IT IS GETTING GOING WITH SPECIALIZED BUSINESS SERVICES, ARE VERY DIFFERENT FROM BT'S. IT NEEDS A MUCH FREER HAND THAN IT SEEMS LIKELY TO GET.
THE X FACTOR.
5. THE FINAL MAJOR THREAT FOR MERCURY ARISES FROM THE DEAL, JUST CONCLUDED WITH BT, ON PRI - X. THE KEY ISSUE HERE IS THE RELATIONSHIP BETWEEN THE BUNDLE OF SERVICES TO WHICH THE RPI - X CONSTRAINT APPLIES AND THE DEVELOPMENT OF COMPETITION. THE BUNDLE IS IMPORTANT - MORE IMPORTANT THAN THE SIZE OF QUOTE X UNQUOTE - NOT ONLY BECAUSE IT DEFINES THE SCOPE OF PRICE CONTROL, BUT BECAUSE IT ALSO DEFINES BT'S SCOPE FOR MANOEUVRE VIS A VIS THE COMPETITION UNDER REGULATION.
6. TO COVER THE DANGER THAT BT WILL RAISE RESIDENTIAL RENTALS TO FINANCE DISCRIMINATION AGAINST COMPETITION, BT HAS BEEN PREVAILED ON TO SAY IN ITS PROSPECTUS (NOT AS A LICENCE CONDITION) THAT IT WILL NOT INCREASE RESIDENTIAL RENTALS MORE THAN 1 PERCENT A YEAR. BUT MERCURY IS OPEN TO THE FOLLOWING KIND OF PLOY:- BUSINESS RENTALS RAISED, TRUNK CALL PRICES KEPT LOW. ALL BUSINESSES- MERCURY'S MAIN PROSPECTIVE MARKET- HAVE TO RENT FROM BT. TRUNK PRICES CONSTITUTE A MERCURY ADVANTAGE. FOR THIS KIND OF REASON, MERCURY WOULD PREFER THE AVERAGE RESIDENTIAL BILL APPROACH, TO REDUCE BT'S SCOPE FOR MANOEUVRE ON TRUNK CALLS.
CONCLUSION.
7. UNLESS BT CAN BE BROUGHT TO AN ATTITUDE MORE MINDFUL OF THE GOVERNMENT'S NEED TO PROMOTE EFFECTIVE COMPETITION IN TELECOMS, THE GOVERNMENT WILL BE PREY TO THE QUOTE WORSE MONOPOLY UNDER PRIVATE OWNERSHIP UNQUOTE THEME. BT'S WHOLE ATTITUDE IS QUITE PREPOSTEROUS. WITH THE FAIREST WIND FOR COMPETITION, THEY ARE THE DOMINANT INCUMBENT IN A VERY FAST GROWING INDUSTRY. BT'S MARKET MUST INCREASE RAPIDLY WHATEVER HAPPENS. THE LINE SHOULD BE QUOTE MORE COMPETITION EQUALS A MORE ALERT BT OPERATION, WHICH IS GOOD FOR STOCK MARKET RATINGS UNQUOTE. THE CITY IS LOOKING FOR A NON-UTILITY GROWTH STOCK, NOT A DULL ONE.

WRIGHT

cc AT

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CC DP

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PS/
Secretary of State for Trade and Industry

1 May 1984

Margaret O'Mara
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Margaret,

BT : ANNOUNCEMENT ON 2 MAY

attached

Following my Secretary of State's letter of 30 April and the Chancellor's letter of 1 May to my Secretary of State, I now enclose the agreed text of the Statement which my Secretary of State proposes to make to the House tomorrow, 2 May immediately following this Department's PQ's. *attached*

2 The announcement will also be made in the House of Lords by Lord Cockfield.

3 I am copying this letter and the enclosure to Andrew Turnbull (No 10), Janet Lewis-Jones (Lord President's Office), Charles Marshall (Lord Privy Seal's Office), Alex Galloway (Chancellor of the Duchy's Office) and Murdo Maclean (Chief Whip's Office), and to Richard Hatfield (Cabinet Office).

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Enc

JH1A00

MASTER

STATEMENT ON BT PRIVATISATION

With permission, Mr Speaker, I should like to make a statement about privatisation of British Telecom.

2 As the House will know, it is the Government's intention to sell a majority interest of the ordinary voting shares of British Telecom.

3 I wish now to set out the broad outlines of the capital structure with which BT plc will enter the private sector. We have concluded that the initial debt of the company to the Government should be in the form of debentures with a capital value of £2750m, carrying interest at between 12 $\frac{1}{4}$ % and 12 $\frac{3}{4}$ %. The Government will assign sufficient of these debentures to the residual statutory corporation to enable it to meet the deed of covenant obligation to the BT and Post Office Staff Superannuation Schemes as required by the Telecommunications Act 1984.

4 BT plc will also issue to the Government preference shares to the value of £750m. These preference shares carrying a gross dividend of 11 $\frac{3}{4}$ % will be non-voting and redeemable at BT's option or in any case after 30-35 years. Apart from BT's continuing overseas and short-term borrowing, the remainder of the company's assets will be financed by ordinary shares and reserves.

5 Turning to BT's future operating environment - we announced last year that the tariff increases on some of BT's services should be kept below the rate of inflation. We have now concluded that the services concerned will include local calls, business and residential rentals and trunk calls. The constraint will apply for five years to a weighted average of these services. Its level will be RPI minus 3, that is 3 percentage points less than the increase in retail prices generally over the

preceding year. We are satisfied that this will reassure BT's customers - while allowing BT to adjust tariffs on these services to reflect market demands. The Board of BT has given the Government an assurance that BT plc intends during the same period that the level of its residential rental charges will be held within a ceiling of 2% over RPI; and that they further intend during that period to continue to give rebates to low users, broadly comparable in overall financial effect to the present scheme.

6 Details of the operation of the RPI minus X provision will be set out in the BT licence which will be laid before Parliament soon.

7 The Government intends that the BT flotation should provide an opportunity to encourage wider share ownership by both the public and employees of the company.

8 Employees who work at least 16 hours per week for BT and who have been in continuous employment with BT from 2 April 1984 until a date shortly before the flotation will benefit from a special scheme.

9 They will be offered about £70-worth of free shares and, for every share purchased by the employee, the Government will provide a further two free shares, up to a maximum of £200 of free shares for £100 of purchased shares. Employees will therefore have the opportunity to acquire about £370-worth of shares for an investment of about £100. As in past sales, these shares will have to be vested in a trust for a minimum of two years.

10 In addition, a discount of 10% off the public offer price will be offered to all employees at the time of flotation on purchases of up to £2,000-worth of shares, provided that they are held for a specified period.

11 Further, we have decided to offer special incentives to telephone subscribers. One possibility would take the form of vouchers which could be used to offset part of the cost of quarterly telephone bills for a subsequent period. Details will be announced closer to the flotation.

12 As a result of these measures we are confident that very many of BT's employees and customers will become shareholders in BT plc. The financial framework for BT plc is now set and work on the flotation is on schedule for a late autumn launch.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

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1/5
1 May 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry

Dear Secretary of State,

BT: ANNOUNCEMENT ON 2 MAY

You wrote to me on 30 April enclosing a copy of Sir George Jefferson's letter to you of 25 April and the draft of the announcement which you propose to make tomorrow. I am pleased that we have now reached agreement with BT on RPI-X and capital structure and very much agree that an early announcement of our decisions is essential if we are to quieten press speculation and move BT successfully towards flotation.

I am broadly content with the draft statement, and only have one general comment on presentation, and two detailed points on substance. I suggest that the statement might be improved if the sequence were reversed and it referred first to the capital structure and RPI-X rather than to the incentive schemes. Capital structure and RPI-X are the key components of the announcement and it would look a little odd to leave them to the end, while the arrangements for employees and customers should provide an effective punch-line.

On the detail, I am rather uneasy about your description of the proposed rental voucher scheme. So far, we have only agreed in principle to some form of incentive to telephone subscribers. You will recall that one of the options we have asked officials to work up includes arrangements for subscribers to receive share bonuses as an alternative to a rental voucher and I am concerned that your statement as currently drafted could preclude this option. I would therefore prefer the second complete paragraph on page 2 to be redrafted as follows:

"Second, we have decided to offer special incentives to telephone subscribers. One possibility would take the form of vouchers which could be used to offset part of the cost of quarterly telephone bills



for a subsequent period. Details will be announced closer to the flotation".

My other detailed comment refers to the description of capital structure. Here I suggest that the second sentence of the final paragraph on page 2 should be redrafted to read:

"We have concluded that the initial debt of the company to the Government should be in the form of debentures with a capital value of £2750 million"

This would make it clear that BT's present liabilities are being converted into debentures.

I understand that you propose to confirm, if asked, that we continue to expect to sell 51 per cent of BT's ordinary voting shares this Autumn and that payment will be by instalments. I would have no difficulty with a confirmation of these features of the sale on the understanding that you would make no reference to the details of any instalment arrangements nor to Kleinworts' proposals.

I am copying this letter to the Prime Minister.

Yours sincerely

Margaret O'Hare

NIGEL LAWSON

*(approved by the Chancellor
and signed in his absence)*



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10 DOWNING STREET

From the Private Secretary

1 May 1984

BRITISH TELECOM: RPI-X

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 30 April, together with the letter from Sir George Jefferson of 25 April and the draft of the statement which your Secretary of State wishes to make. Subject to any points which the Chancellor may raise, she is content with the proposals and with the statement which is to be made on Wednesday.

I am copying this letter to David Peretz (H.M. Treasury).

ANDREW TURNBULL

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



10 DOWNING STREET

Prime Minister ①

Mr Tebbit wishes to make a
statement on Monday. I
believe the Treasury are
content as are Policy
Unit.

Content?

AT

30/4

PS. I can understand
why Sir George Jefferson
does not want his
wingeing letter to be
made public.

MT MS

SECRET

Copy no 2 of 3



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4

Secretary of State for Trade and Industry

30 April 1984

SECRET AND PERSONAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

D. Nigel.

BRITISH TELECOM - RPI-X

The Board of British Telecom discussed yesterday our proposals for BT's capital structure and the RPI-X formula. I enclose a copy of the letter that Sir George Jefferson sent to me after that board meeting. (I must emphasize that I have given an undertaking to Sir George that only three copies of this letter will be made - one which Sir George is retaining in his safe, the copy which I now enclose and the copy which I am sending to 10 Downing Street. I have promised Sir George that my Private Office will retain the original and I must ask you to do the same).

2 You will see that the BT Board has concluded that it can live with our proposals. This is welcome. But it is clear from Sir George's letter that we have not obtained BT's wholehearted support: this could have implications for the flotation. Nor is BT prepared to provide the assurance in respect of residential rentals that we would have found politically attractive. I regard both developments as unfortunate. I appreciate that you felt unable to agree to my proposal that we should reduce the formula to RPI-2 if inflation fell to 3 per cent or less. I remain of the view that a relatively minor concession of this kind would have secured BT's full commitment to the package.

3 Sir George Jefferson suggests that we should carry out informal discussions among institutions about our proposals. I see no advantage in this. I propose instead announcing the principles of our decisions on capital structure, RPI-X, the subscriber voucher scheme, and employee incentives by means of an oral statement in the House of Commons next Wednesday, 2 May. I am enclosing a draft

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SECRET AND PERSONAL

of a statement on which I should be grateful for early comments. I shall also be consulting Sir George Jefferson on the terms of the announcement.

4 I am copying this minute, and the attachments, to the Prime Minister.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a large flourish above the name.

NORMAN TEBBIT

Encls

JH2AFP



from the Chairman
Sir George Jefferson CBE

British Telecommunications

2-12 Gresham Street
LONDON
EC2V 7AG

Copy No 2 of 2

Telephone
National 01-432 4020
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Prestel Page 383

IN STRICTEST CONFIDENCE

The Rt Hon Norman Tebbit MP
Secretary of State for Trade & Industry
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H 0ET

25 April 1984

Dear Norman,

"RPI-x" AND CAPITAL STRUCTURE

As you know, I put the position we have reached in our negotiations on these issues to our Board this morning. The Board were conscious that the four issues of "RPI-x", the capital structure, dividend policy and the regulatory regime all interact and that they all need to be considered as a whole.

The Board's concern is, of course, to establish a satisfactory basis both for the flotation of BT and for its future existence as a robust private sector company, while at the same time recognising that those customers whose network services will not be subject to significant competition in the next few years will need reasonable reassurance on our pricing strategy.

Having considered the present proposals, the Board remains most concerned at the lack of flexibility in managing the business, as well as the potential impact on the marketability of the shares.

In particular, on "RPI-3" the Board has asked me to emphasise the downside risks to the company in respect of income and expenditure over the five year period and the potential adverse consequences on cash flow for our modernisation programme and the development of new ventures. Any radical reassessment of our modernisation programme would have, quite apart from the implications for our customers, serious consequences for our supply industry. The risks arise from the very high element of fixed costs and the serious problem in the short term of being able to cut costs to match a shortfall on call income, which as you know is largely dependent on the general level of economic activity.

Furthermore the Board's own belief, reflecting the advice of its advisers and brokers, is that a figure of x greater than 2 will be a significant factor in the market's perception of the acceptability of this issue, and is at best likely to require a significantly higher yield than would otherwise be the case and could affect the ability to achieve a satisfactory take up.

The Board

The Board, therefore, very much doubts the wisdom of the proposed RPI-3, and feels that the Government should give serious further consideration to these points. At the very minimum it feels you should follow the suggestion, which I have already made to Kenneth Baker, that further soundings should be made in the financial markets before any announcement or irrevocable decision is made.

On the supplementary assurance you sought on residential rentals, the Board fully recognises the political and consumer difficulties. Nevertheless, it is concerned about the restraint which a ceiling of RPI+1 on our residential rentals would place on our ability to rebalance our tariffs during the five year period, given the failure of residential rentals to cover marginal costs, let alone make an adequate return, and the difficulties likely to be faced by BT if it is forced to maintain markedly unbalanced tariffs in a competitive environment. The Board therefore concluded that it would prefer a ceiling of RPI+2 with the assurance itself expressed in terms of the Board's intention.

Given the Government's determination to reduce still further the rate of inflation, should you decide to proceed on the basis of RPI-3, the Board feels that the change to RPI-2, if inflation were to fall to 3% or less, is an important safeguard and would be of some reassurance to the market.

Furthermore, the Board has also asked me to make clear that with RPI-3 it would not be prepared to agree a higher opening dividend than that currently assumed, since it is already concerned about the cash flow implications of price constraint and would not be prepared to contemplate a further cash drain through increased dividends. Clearly this could have significant implications on the issue price.

As I said at the outset the capital structure, dividend policy RPI-x and competition policy issues all need to be seen together and the Board is concerned in particular that there should be a mutually satisfactory solution to the competition issues, set out in my letter of 13 April to Kenneth Baker.

In conclusion the Board has asked me to restate its view that it would be more appropriate to proceed on RPI-2 rather than on RPI-3 and feels that the Government should give serious and urgent consideration to this point for the reasons stated, before finalising its position.

However should the Government having weighed all the factors conclude that it can only proceed on the basis of RPI-3, and that it can successfully launch the company on that basis, the Board would be prepared, subject to an acceptable resolution of all outstanding issues, to give its support to the Governments plans.

Yours sincerely
George
SIR GEORGE JEFFERSON

DRAFT STATEMENT ON BT PRIVATISATION

With permission, Mr Speaker, I should like to make a statement about the privatisation of British Telecom.

The Government intend that the BT flotation should provide an opportunity to promote wider share ownership by both the public and employees of the company.

Employees who work at least 16 hours per week for BT and who have been in continuous employment with BT from 2 April 1984 until a date shortly before the flotation will benefit from a special scheme.

They will be offered about £70 worth of free shares paid for by the Government. For every share purchased by the employee, the Government will provide a further two free shares, up to a maximum of £200 of free shares for £100 of purchased shares. Employees will therefore have the opportunity to acquire about £370 worth of shares for an investment of about £100. As in past sales, these shares will have to be vested in a trust for a minimum of two years.

In addition, a discount of 10 per cent off the public offer price will be offered to all employees at the time of

flotation on purchases of up to £2000 worth of shares, provided that they are held for a specified period.

Both BT employees and those in receipt of a BT Staff Superannuation Scheme pension at the time of the flotation will be given priority allotment rights when applying for shares.

Second, there will be a special offer to telephone subscribers in the form of vouchers which can be used to offset part of the cost of their quarterly telephone bills for a subsequent period. The details of this offer will be announced closer to the flotation.

As a result of these measures we are confident that very many of BT's employees and customers will become shareholders in BT plc.

I turn now to the broad outlines of the capital structure with which BT plc will enter the private sector. We have concluded that the initial debt of the company to the Government in the form of debentures should have a capital value of £2,750m, carrying interest at between 12 1/4% and 12 3/4%. An order under Section 62 of the Telecommunications Act 1984 effecting the replacement of BT's present debt will be laid before Parliament in due course. The Government will assign sufficient of these debentures to the residual statutory corporation to enable

JH2AGD

it to meet the deed of covenant obligation to BT and the Post Office Staff Superannuation Schemes, as required by the Telecommunications Act 1984.

BT plc will also issue to the Government preference shares to the value of £750m. These preference shares carrying a gross dividend of 11.75% will be non-voting and redeemable at BT's option, or in any case after 30-35 years. Apart from BT's continuing foreign and short-term borrowing, the remainder of the company's assets will be financed by ordinary shares and reserves.

Turning to BT's future operating environment - we announced last year that the tariff increases on some of BT's services should be kept below the rate of inflation. We have now concluded that the services concerned will include local calls, business and residential rentals and trunk calls. The constraint will apply to a weighted average of these services. Its level will be RPI-3, that is 3% points less than the increase in retail prices generally over the preceding year. We are satisfied that this will reassure BT's customers and ensure real pressure for efficiency - whilst allowing BT to adjust tariffs on these services to reflect market demands. [To protect low users BT has given an undertaking that the residential rental charge will be

SECRET

BT are still resisting a
commitment to the low user rental
scheme. If agreement is not reached
tomorrow, this sentence will be
dropped.

kept as low as possible; ~~and~~ will in any case not exceed
RPI+2 in any year; and that a low-user rental rebate scheme
will be maintained.]

Details of the operation of the RPI-X provision will be set
out in the BT licence which will be laid before Parliament
soon.

SECRET

JH2AGD

ACR OR 1/5.

CONFIDENTIAL



70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/1283

30 April 1984

My dear Julian,

-with TR?

Thank you for your letter of 27 April.

I agree that you should let John Fretwell know about Attali's approach to me over the timing of Sir George Jefferson's visit to Paris.

I also agree that George Jefferson should be told of Attali's approach and of the concern expressed. In the interests of a successful meeting between the Prime Minister and the President on 4 March, I hope that George Jefferson will be asked to put what he has to say to his French counterparts as positively as possible.

I am sending copies of this letter to Brian Hayes and John Coles.

Yours ever
Robert

Sir Julian Bullard KCMG

CONFIDENTIAL



30 APR 1984

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

27 April 1984

Sir Robert Armstrong GCB CVO
CABINET OFFICE

Dear Robert,

1. Thank you for your letter of 19 April to Antony Acland, who is away this week, about Anglo-French collaboration on telecommunications, and in particular about M. Attali's concern over the timing of the visit by Sir George Jefferson of British Telecom to Paris.
2. The specific proposal from the French PTT is that they should buy the British System X switching equipment for 10% of the French market, while British Telecom should buy the French E10B equipment for 10% of the UK market. We understand from the Department of Trade and Industry that British Telecom have evaluated the E10B and find it wanting. Sir George Jefferson will therefore wish to give a negative answer to the French on this point.
3. However, he will have other positive things to say, including probably suggestions for the possible manufacture of System X in France, and the purchase of one or two E10Bs for BT's use in the UK. He also proposes to explore the scope for longer-term cooperation between BT and the French PTT and to make it clear that BT wants such cooperation.
4. In the light of this, we believe that there will be enough of a positive element in what Sir George has to say and that he should not be asked to put the visit off. BT's decision against the reciprocal marketing proposal will probably be no surprise to the French. Moreover, to postpone the visit at this late stage would look a little odd and could give a false impression of what BT have to say. It could also reinforce French suspicions about the extent of HMG's influence over BT.
5. We would like, if you agree, to let John Fretwell know about Attali's approach. It would also be useful if Sir George Jefferson could be told of it before he goes and asked to have a word with the Embassy before he sees the French.
6. I am copying this letter to Brian Hayes and John Coles.

Yours ever
Julian

J L Bullard

CONFIDENTIAL



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Treasury Chambers, Parliament Street, SW1P 3AG

Tim Flescher Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1A

25 April 1984

Dear Tim

BRITISH TELECOM: CAPITAL STRUCTURE AND REGULATORY REGIME

Both the Chancellor and the Financial Secretary have been closely involved in the process of reaching agreement with the chairman of BT on the future capital structure for the p.l.c. and the coverage and size of the RPI-X price control formula. These are on the point of being settled but BT are still pressing for further last-minute concessions on RPI-X.

The Financial Secretary thinks it is important that in advance of seeing Mr Tebbit this morning, the Prime Minister should be aware of the substantial concessions the Treasury has already agreed. These are:

1. We have agreed that the liability to meet the pension fund deficit inherited from the Post Office should be left with Government. This was a point of enormous importance to BT.
2. We have agreed to a massive re-profiling of BT's existing £4 billion debt obligations to Government so that they will not have to re-pay these until much later this century. This also is of considerable help to BT but in the short-run will mean that the PSBR will benefit less than it would otherwise have done from BT's debt and interest payments.
3. We have agreed to BT writing down the value of its assets by nearly £1 billion in its accounts;
4. We have further accepted the inclusion in BT's balancesheet of £750 million of preference shares not redeemable for over 30 years;
5. We have reluctantly also agreed that £250 million of BT's debt should be written off and, although some of this may be recouped in a higher value for the equity that is sold, it is unlikely to be more than partially recouped this way - there are equivalent direct costs to the PSBR. It is an awkward

precedent for other privatisations.

6. As regards RPI-X, we have acceded to pressure to reduce from our basic view that this should be RPI-5 to RPI-3, but only on the understanding no further concessions would be made.

7. We have accepted the broad inland services coverage for the formula which gives BT added flexibility.

8. We have accepted a generous scheme for employee share purchase preference - likely cost to Government £50 million.

9. We have accepted in principle the need for substantial government-financed inducements to investment in BT shares by the wider public - potential cost £90-100 million.

10. We also face exceptionally large costs for brokerage and other expenses in order to achieve the maximum possible coverage for the BT sale here and overseas - potential cost £140 million.

11. Finally we have accepted that the Government will undertake not to market further tranches of BT equity for at least 3 years (no previous privatisation has included a commitment beyond 2 years); or to market our holdings of BT debentures for more than 5 years and then only after consultation with BT.

The Financial Secretary would like the Prime Minister to know that he strongly shares the Chancellor's view that this already represents an extremely generous package of concessions to Sir George Jefferson. He doubts the need or the justification for going further.

I am copying this to Andrew Lansley (PS/Secretary of State for Trade and Industry, and to Richard Hatfield (PS/Sir Robert Armstrong).

yours sincerely

F P Bogan

MISS F P BOGAN
Assistant Private Secretary

PRIME MINISTER

You saw the DTI letter about the BT regulatory regime over the weekend. As the Policy Unit note attached explains this essentially comes down to a disagreement between the Chancellor and Mr. Tebbit on the DT pricing formula. Mr. Tebbit will presumably seek to persuade you tomorrow to accept his rather than the Treasury's views. Unfortunately the Chancellor is not in the country at the moment and I understand that John Moore, who will be seeing the papers tomorrow morning, is unlikely to feel able to shift from the Chancellor's position. In these circumstances the Policy Unit advise that you should not agree to Mr. Tebbit's proposal without the agreement of the Chancellor. Mr. Tebbit is likely to say that further delay will lose the privatisation in October or November: hence the need for agreement to BT's suggestions before their Board meeting tomorrow afternoon.

As the Policy Unit imply this would normally be a matter for DTI and the Treasury to sort out and agree advice to you. The essential point for your decision is whether the circumstances (and Mr. Tebbit's case) are strong enough to override the normal process of consultation and agreement.

JA

24 April 1984

CONFIDENTIAL

MR TURNBULL

24 April 1984

BRITISH TELECOM CAPITAL STRUCTURE AND REGULATORY REGIME

Mr Lansley's letter to Andrew Turnbull representing Norman Tebbit and Ken Baker's views on BT privatisation attempts to speed up a deal with BT on the pricing formula.

The Treasury, who have not been consulted on this latest proposal, started the bidding at wanting RPI-5% as the formula governing future price increases for the agreed basket of telephone calls. They have been dragged down to RPI-3%. The case in favour of a high value for X is:

1. It makes the privatisation of BT much better news for the customer: it guarantees that on the major monopoly services, prices will go up very slowly. Under the original RPI-5% formula, it would have been possible to say that on this year's inflation rate, there would be no price increase for telephone calls at all.
2. The original 5% figure had the virtue of being equivalent to the projected efficiency improvements BT could generate from improving technology each year.
3. A side effect of having a high value for X is to lower the future profits of the business and therefore to lower the market valuation of the business to be sold. Whilst this is bad news on strict Treasury criteria of wanting to maximise sale proceeds, it is good news in that it eases the problem of sale to the stock market. The DTI letter does not mention this consequence of a higher value of X.
4. The views of the advisers to BT are probably heavily influenced by the view of BT itself. Of course, BT wants to minimise the value of X, thereby leaving itself greater freedom to put up prices and maximise returns. It does not mean this is the best policy for the Government to follow.

The argument concerning the balance sheet is more evenly balanced. If more pressure is put on price increases and profits are consequently reduced, there is a stronger case for reducing the amount of debt relative to the amount of equity. The letter as set out, however, conceals the relatively low gearing of BT. The 49% gearing figure represents debt as a percentage of shareholders' funds (according to Mr Lansley in my telephone conversation with him). This means borrowing as a percentage of total capital is around 30%, very much in line with many corporations. The £1.3 billion of new borrowing by 1989 is for the five-year period. £260 million a year of extra borrowing is quite modest for a group the size of BT, and would lower the

MINACN

gearing on the figures given me, somewhat uncertainly, by Mr Lansley.

They are:

1985	Shareholders	£6.25 billion
	Borrowings	£3.1 billion
	Gearing	49%
1989	Est.Shareholders	£9.25 billion
	Est.Borrowing	£4.4 billion
	Gearing	47%

We recommend that:

- i. The Prime Minister does not agreed without consulting the Treasury view.
- ii. When settling the RPI-X formula, due weight be given to the customer interest.
- iii. It should be remembered that by limiting price increases, future profits will be constrained, but that there is a price for everything in the stock market. This does not necessarily make it more difficult to sell.



JOHN REDWOOD



cc D. J. EOL

10 DOWNING STREET

THE PRIME MINISTER

24 April, 1984

Dear Mr. Read.

I am most grateful to ITAP for producing their recent confidential report on this important issue in such a short time. It is a valuable input to our deliberations on a difficult problem. My colleagues in the Department of Trade and Industry will take its conclusions into account in reaching their decisions.

Yours sincerely

Margaret Thatcher

C N Read Esq CBE

CONFIDENTIAL



ccpc

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

Mr Coles to see of
M/S.

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/1227

19 April 1984

My dear Antony,

I have had two recent approaches from the French Government about the possibility of a joint arrangement between British Telecom and its French counterpart.

The French Ambassador spoke to me in the course of a social function on 17 April. He spoke in very general terms, but the objective was clearly to emphasise the importance which the French Government attached to a co-operative venture in this area. He very much hoped that Sir George Jefferson's forthcoming conversations in Paris would be successful.

On the evening of 18 April I was rung by Monsieur Attali from the Elysee. He too said that the French Government, right up to the President, set great store by a successful co-operative venture in this area. He understood that Sir George Jefferson was personally in favour of it, though "some elements in his administration" were not. He hoped that Sir George Jefferson could be given a positive steer by the Government.

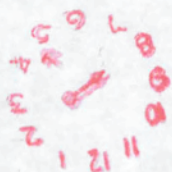
Sir George Jefferson was due to visit Paris on 3 May. Speaking personally, Monsieur Attali said that, if Sir George was coming with a positive answer, or an open answer, well and good; but, if the answer which he would bring was negative, it would be better that he should come after rather than before the Prime Minister's visit to the President on 4 May, since this was a matter to which the President himself attached much importance, and a disappointing answer would not help the talks which the President and the Prime Minister were to have.

I am sending a copy of this letter to Brian Hayes, and also one to John Coles.

*Yours ever
Robert*

Sir Antony Acland KCMG KCVO

CONFIDENTIAL



26 APR 1984



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET 5422

Telephone (Direct dialling) 01-215)

GTN 215)

(Switchboard) 215 7877

PS Secretary of State for Trade and Industry

CONFIDENTIAL

17 April 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A

Prime Minister

Mr Tebbit would like a word
with you about this on Wednesday.
He has not yet consulted the
Chancellor.

Dear Andrew,

Sub
25/4

BT CAPITAL STRUCTURE AND REGULATORY REGIME

A difficulty has arisen in connection with the current negotiations with BT over the future capital structure and regulatory regime for the company which, after consultation with my Secretary of State (who is at present out of the office), he wishes to have brought to the Prime Minister's attention. I have not had an opportunity to show this letter to my Secretary of State.

2 BT have naturally been pressing for as loose a regulatory regime under the "RPI-X" formula as possible, and as much headroom within the capital structure to allow the borrowing they perceive as necessary for future expansion into a major IT company. This process culminated in a long negotiating session between Mr Kenneth Baker and Sir George Jefferson on 17 April, and two short meetings yesterday and today. Sir George was particularly concerned at the high gearing ratio and borrowing requirements the PLC would have to have, and argued strongly that, while the Government had been helpful in offering a conversion of £750 million debt into redeemable preference shares, a moratorium on debt repayments for five years and waiving of the first year's dividend payment, this still left the PLC with a requirement for new borrowing of £1.3 billion in 1989, and gearing at 49 per cent in March 1985. He argued that the only way in which the PLC would be able to operate with any headroom to withstand market reversals or industrial action would be by a conversion of £500 million debt into equity and a price regulation formula allowing prices to rise at 2 per cent below the RPI.

3 Mr Baker continued to insist on a formula of RPI-3. In an attempt to clinch the deal, he offered a conversion of £250 million debt into equity, on condition that BT accepted a price regulation

JH2AEE



of RPI-3. The response to this was encouraging but still negative, and the advice of Warburgs, BT's merchant bankers, was that a formula of RPI-3 would represent an insuperable barrier to a successful flotation of the company. Our advisers, Kleinwort Benson and Hoare Govett were less pessimistic on this point but still felt that it would be a handicap.

4 When Mr Baker saw Sir George yesterday, Sir George said that BT were content with the capital structure, and would be prepared to accept RPI-3 if they could add international call charges to the basket of services covered by the formula. This would give them more flexibility to carry out the necessary restructuring of their tariffs while retaining the RPI-3 figure. Mr Baker, with my Secretary of State's agreement, rejected the proposal since the price of international calls is dropping in real terms already and what was proposed would have the effect of bringing the formula down to around RPI-2½.

5 In discussion it was suggested that in order to meet BT's concerns about the credibility of RPI-3 to potential underwriters of the issue, and in recognition of considerable fixed costs which BT would have to bear (including £3 billion fixed coupon Government debentures) the Government might consider a reduction in the formula to RPI-2 if inflation falls to 3 per cent or below. At any level above this, the formula would remain at RPI-3. Mr Baker discussed this with my Secretary of State and told BT that he was willing to put this to colleagues.

6 Sir George saw Mr Baker again this morning to say that, on this basis, he was willing to recommend this package to his Board, who would be meeting on Wednesday, 25 April. It is clear that Sir George, while playing down the significance of the concession on RPI-3, views it also as integral to his agreement to proceed in this way. BT's concerns on this point reflect a similar apprehension expressed earlier in the week by our stockbrokers, Hoare Govett. Without the concession, the package would be likely to be rejected. My Secretary of State is strongly of the view that we must now strike this deal with BT or certainly lose the privatization in October or November. He regrets that the progress of negotiations did not allow prior consultation with Treasury.

7 My Secretary of State would wish to point out that what is now additionally proposed would not affect the income from the sale of BT and, if the argument that it has strong presentational advantages is correct, would tend to increase the proceeds. The proposal does not incur a cost for Government and would have no effect on the regulatory regime unless the RPI were to fall below 3 per cent over the next five years.

8 My Secretary of State would wish to stress that RPI-X was initiated by this Department, following the Littlechild Report, as



a way of safeguarding the consumer in those areas where BT's activities would not be subject to significant competition in the first five years after privatization. He therefore views it as ultimately for DTI to administer. He is very conscious of the Treasury's important interest in regard to the sale of BT but feels it is for this Department to judge what is necessary and, in this respect, acceptable in order to achieve the successful sale of BT.

9 My Secretary of State hopes to speak to the Prime Minister on the morning of Wednesday, 25 April, and afterwards discuss the issue with the Chancellor, prior to the BT Board that afternoon.

10 I am copying this to Margaret O'Mara (PS/Chancellor) and to Richard Hatfield (PS/Sir Robert Armstrong).

yours ever,
A. D. Lansley

ANDREW D LANSLEY
Private Secretary



FROM: MISS M O'MARA

DATE: 19 April 1984

cc Sir P Middleton
Mr Monck
Mr Burgner
Mr R H Wilson
Mr J Williams

PS/FINANCIAL SECRETARY

BT: CAPITAL STRUCTURE + RPI-X

The Chancellor telephoned Mr Baker this afternoon about the latest state of play in negotiations with BT.

2. The Chancellor said he had been disturbed by reports that DTI Ministers might be moving away from the position of RPI-3. Mr Baker explained that he had had a lengthy negotiation with BT on Tuesday, when Sir George Jefferson had opened discussion by asking for a £500 million debt-equity conversion and RPI-2. BT were clearly concerned that the company could not be sold for less than RPI-2, as were Warburgs. In the course of the negotiations he had offered BT a £250 million debt-equity conversion in the course of the negotiations which would give a saleable gearing ratio but Sir George Jefferson was still not prepared to accept RPI-3 and had said he would be unlikely to recommend the Government's package to his Board next Wednesday. In response, Mr Baker had stressed that this negotiation needed to be completed by Easter and that nothing more was on offer.

3. Mr Baker explained that Sir George had returned yesterday with further proposals on RPI-3. In his view, this was not purely a negotiating ploy; they were also worried about the marketability of the formula and Hoare Govett shared their doubts. Sir George had proposed the inclusion of international calls in the basket of services but Mr Baker had rejected this. Sir George had then pointed out that the RPI-3 formula would be very difficult for BT if inflation fell to 3 per cent or below, because of the very large proportion of fixed costs which the new company would face, without benefit from falling interest rates. Mr Baker said he had discussed this proposal with his Secretary of State who had agreed that the concession could be made if it would secure the Board's endorsement of the package.



4. The Chancellor said that he believed RPI-3 to be perfectly saleable and that BT had in addition been offered an excessively generous capital structure. As he had told DTI Ministers at his earlier meeting, he had only been prepared to concede a debt-equity conversion as large as £250 million if that would clinch the deal. He believed it unnecessary for a successful flotation. BT were bound to press the Government for as many concessions as they could get.

5. Mr Baker explained that he had told BT at a stormy meeting yesterday that he would consider the proposals sympathetically provided it secured the Board's agreement to the whole package. At that stage, Sir George Jefferson had not been proposed to agree and he had therefore threatened postponement of the sale. The Chancellor detected an element of bluff in BT's tactics and stated his firm view that the Government must stick at RPI-3. Mr Baker said that he had warned Sir George at a meeting this morning that the offer to adapt the formula if the annual increase in the RPI fell below 3 per cent was not on the table and that the Chancellor had reservations about it.

6. The Chancellor said that he would be prepared to consider adapting the formula in this way, if as a quid pro quo the debt-equity conversion were reduced from £250 million to £100 million. Mr Baker thought that this would produce an impasse in negotiations. The Chancellor said that in this case RPI-3 must be the final offer. He noted that Kleinworts regarded this as marketable. If BT were concerned about their higher proportion of fixed costs then the flexibility in the formula must be two-way. Mr Baker suggested that the concession he was mooting could be costless. The Chancellor said it would also be meaningless in market terms because the market did not expect inflation to fall below 3 per cent over the next 5 years.

7. Mr Baker then expressed this concern that the Government might be faced with a minute from BT's Board meeting next week, rejecting the Government's proposal. This would be bound to leak. The Chancellor, for his part, expressed concern that if the Government made a further concession now, they would be pressed to make yet another by BT. RPI-X was a critical element in BT's regulatory framework. Mr Baker noted that if the Government stood firm, as the Chancellor was insisting, Sir George Jefferson would carry over the dispute on RPI-3 to the negotiations on resale and interconnect which were in any case likely to be very difficult. There was a real risk that as a result the October/November slot for the flotation could be lost. The Chancellor said that this reinforced his view that



the Government should stand firm. Ministers were privatising a monopoly and had a duty to impose a proper regulatory regime. He was not prepared to make any further concession and believed that the Government had already been pushed far enough. He did not believe any further concessions were necessary to secure a successful flotation. The time table pressures applied just as severely to BT as to the Government.

8. Mr Baker said that he would have to report the Chancellor's view to his Secretary of State.

9. In the light of this discussion, the Chancellor would be grateful to know whether Officials think that the fixed costs problem is a genuine one for BT. If so, he suggests that this implies a different type of formula - perhaps one with a lower limit of 0 and an upper limit of 4. But he has stressed that it should certainly be symmetrical. He would also like to know the position on resale and interconnect.

JS

PP. MISS M O'MARA



DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State
for Industry and
Information Technology

RT HON KENNETH BAKER MP

David Barclay Esq
10 Downing Street

18 April

Dear David

IBM AND BT

Thank you for your letter of 10 April.

I attach as requested a draft letter for the Prime Minister to send to Charles Read thanking him for the effort put in by ITAP in producing their report.

Yours sincerely

Steve Mummery

STEVE MUMMERY
ASST PRIVATE SECRETARY

GP
PL type for PM's
signature
AF 15/4

DRAFT FOR THE PRIME MINISTER

C N Read Esq
Director, Information Technology
The Post Office
St Martins le Grand
London EC2A 1HQ

IBM AND BT: ITAP REPORT

I am most grateful to ITAP for producing their recent confidential report on this important issue in such a short time. It is a valuable input to our deliberations on a difficult problem. My colleagues in the Department of Trade and Industry will take its conclusions into account in reaching their decisions.

Post & telecom : Future A8.



London E12 1JH
at 11.15 am on 19th April 1984
The Post Office
London E12 1JH

POST AND TELECOM : FUTURE A8

The enclosed report is for your information in respect of the proposed changes to the postal services in the London area. It is a copy of the report to the Board of the Post Office and is not intended for publication. The Board will take the decision on the proposed changes.

19 APR 1984
10 11 12 1 2 3 4 5 6 7 8 9



10 DOWNING STREET

From the Private Secretary

10 April, 1984

IBM and British Telecom

Thank you for your letter of 5 April about the ITAP Report on British Telecom and IBM. I discussed this briefly with one of your colleagues last evening.

Unless you disagree, I think there is a case for the Prime Minister sending a short letter of appreciation to Mr. Read - not least because the panel is appointed by her. I should be grateful if you could provide an appropriate draft to reach this office by Wednesday, 18 April.

DAVID BARCLAY

N. M. McMillan, Esq.,
Department of Trade and Industry

15T



ce DP

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP
Charles N Read Esq CBE
Director of Information
Technology
St Martins le Grand
LONDON EC1A 1HQ

cc PS/Secretary of State
PS/Mr Butcher
PS/Sir Brian Hayes
PS/Mr Sterling
Mr Croft
Mr Willott (or)
Mr Macdonald
Mr Ellison T
Mr Smith IT
Mr Bartlett ITSU
Mr Taylor
Mr Vinall 6 April 1984
Dr Hubble

John Chambers

IBM AND BRITISH TELECOM

attached

I am grateful to the IT Advisory Panel for the report provided under cover of your letter of 18 March. I have noted that the Panel have not directly approached either BT or IBM and that its report is therefore not based on knowledge of any specific joint venture propositions. If such proposals materialise, I hope that there will be an opportunity to consult the Panel further. The report contains many interesting thoughts on policy towards IBM and BT, the impact of which goes beyond any specific ventures. We shall be giving careful consideration to these points.

Ken Baker
Kenneth Baker

KENNETH BAKER

M40/M40AAH

The Post Office

Postal Headquarters

Mr Charles N Read ^{CBE}
Director of
Information Technology

St Martins le Grand
LONDON
EC1A 1HQ

Telephone 01-432 3287

Telex 888746 (PO PHQ LDN)

Girobank account 501 0101

Date 16 March 1984

Our reference

Your reference

CONFIDENTIAL

The Right Hon Kenneth Baker MP
Minister of State for Industry &
Information Technology
1-19 Victoria Street
LONDON
SW1H 0ET

Dear Kenneth,

Mr Duguid
PSIB Polsec
Mr Croft
Mr Wilby
Mr Macdonald
Mr Smith
26/3

IBM AND BRITISH TELECOM

When you met the IT Advisory Panel over dinner on 20 December last, we discussed the implications of the withdrawal by the US Administration of the anti-trust case against IBM and at the conclusion of the evening you invited the Panel to consider the subject further, with particular reference to prospective joint ventures between IBM and British Telecom once privatised.

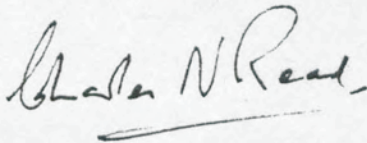
Because of the sensitivity of this subject, the Panel did not feel able to approach either BT or IBM directly. We did, though, receive presentations from several consultants knowledgeable of IBM and its future moves and of the future of telecommunications markets.

... I now attach the result of our deliberations. The Panel, as you will recall, was set up to provide a market-related input to IT policy and we have therefore approached this subject very much from the point of view of people engaged in the marketplace for IT products and services. Through its telecommunications policy, the Government had sought to create a competitive market for IT products and services, thereby encouraging the development of vigorous and efficient suppliers. We are in complete agreement with this aim. Whatever policies are adopted, BT and IBM will, of course, be highly important participants in this country's IT markets for the foreseeable future. However, the Panel see a considerable risk that, under present policies, they can severally and jointly exercise complete market dominance over a wide range of IT products and services. This is very far from being the free and open competition which the Government desires.

The Panel have therefore suggested some ways in which the Government's licensing and procurement policies might be used to try and prevent this dominance from occurring. We have based these on an examination of the factors that underpin BT and IBM's market strengths, rather than on knowledge of the specific joint ventures that are under consideration. Clearly our proposals could be "tuned" to meet specific requirements, but we believe that our principles provide a sound basis for future policy. We are, of course, very ready to supplement the attached note with a discussion of its conclusions and proposals.

The Panel is, as you know, appointed by the Prime Minister. Because of this, and because of the importance of this subject to the nation, I am sending the Prime Minister a copy of this letter and of our report.

Yours sincerely

Handwritten signature of Graham N. Reed, underlined.

CONFIDENTIAL

POA Phil: Inkw of Pt 8

File

Telecommunications Bill
Consideration of Lords
Amendments

Monday 9th April 1984

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This bill is substantially the same as the Telecommunications Bill which lapsed at the dissolution of the last Parliament. Significant new amendments are mentioned in the appropriate sections below.

PURPOSE OF THE BILL

Information Technology (IT) is a rapidly growing and rapidly developing sector of the economy. Its development demands access to a modern telecommunications network. The Government is determined that:

- * the telecommunications supply industry should not be held back unnecessarily in responding to expanding IT markets;
- * that BT should be free to participate on equal terms with private sector companies in this expansion;
- * that BT's customers should be relieved of the need to finance investment through charges, where this could be done by the markets;
- * that BT's customers should benefit from free and fair competition in the supply of telecommunications services.

Already, telecommunications is being liberalised. Arrangements are being made for users to have a choice:

- of network - Mercury and the private sector radio telephone companies will give business and some other users a choice of telephone company for their calls;
- of services - users will have a choice of company when they want a service provided over the telephone;
- of apparatus - users will have the choice of whether to buy or rent most of their telecommunications apparatus, from BT or other suppliers.

The present Bill will take the process of liberalisation to its logical conclusion.

PROVISIONS OF THE BILL

Ownership

BT will be changed from a nationalised industry to a public limited company, BT plc. All its existing assets and liabilities will be transferred to the successor company. In Autumn 1984 the Government plans to sell 51% of its shares.

Monopoly

The present exclusive privilege of BT to run the telecommunications system will end. BT and the other operators will run under licences issued by the Secretary of State, and BT will no longer have powers to license other operators. One rival, Mercury, has already been licensed under the British Telecommunications Act, 1981, and expects to begin operating soon.

License Provisions

* See Lords Amendments

BT's licence will contain safeguards to prevent the company from abusing the monopoly that it is likely to enjoy in the provision of most telephone services before competition develops. These safeguards have been strengthened by the Government's acceptance of the main proposals of the Littlechild Report, which examined ways of curbing

BT's monopoly after privatisation. These were announced in the House by Mr. Kenneth Baker, Minister for Information Technology on 7th February. The main points are:

a) BT will have a duty to provide a telephone service throughout the country. Rural areas need not fear being deprived of their service. At the moment BT thinks (its accounts are drawn up in such a way that it cannot be sure) that the rural services, which are easier and simpler to run than their urban counterparts, are profitable. Should this cease to be the case the services will be safeguarded by the income BT will derive from the access fees it will charge Mercury, the radio-telephone networks, and Hull for the right to interconnect with its system.

* See Lords Amendments

b) Income from the access fee will also be used to run the 999 emergency service, which is free, and the call box service. BT acknowledges that it loses about £80 million on the latter. BT will have a duty, imposed by the licence, to maintain these 'social services'

c) BT will be obliged to keep price increases for installation charges, domestic rentals and local calls to a figure fixed below the Retail Price Index for five years. This will ensure a continuing reduction in the real cost of telephone services to the consumer, and a spur to continuing improvements in BT's efficiency. These regulations will be policed by OFTEL, the new Office of Telecommunications that is being set up to monitor BT.

d) BT will lose its present monopoly of the first telephone in each home or business. Customers who have standard sockets will be free to purchase or rent their phone from the supplier they choose.

e) Mercury, the private telecommunications service that the Government has licensed to compete with BT, will have the right to interconnect with BT (see above), as will any other competitors.

f) The maintenance of new equipment will be opened to competition by the Department of Industry. BT will be able to offer its own service, on a fair commercial basis.

g) The Bill also provides for the Telegraph Acts, most of which date from the nineteenth century, to be replaced by a new Telecommunication Code, which will provide for telecommunication operators to be authorised to install their plant in private land, streets etc. The Code has been drafted so as to make sure that no person should unreasonably be denied access to a telecommunications system because of difficulties in connecting his home or business to a public telecommunications system. * See Lords Amendments

h) The Bill also seeks to amend some provisions in the Wireless Telegraphy Acts.

Cable TV

The new Bill contains a new section, Part 1V, which updates and replaces the existing provisions in The Post Office Act, 1969, on the licensing of cable TV services. These new licensing arrangements are an interim measure as it is likely that responsibility for this will eventually pass to the new Cable Authority. It is necessary to amend the Post Office Act in advance of the Cable Bill in order to remove BT's present exemption from licensing, and thereby fulfill the Government's intention of placing BT on an equal footing with its competitors.

BT RESULTS

	<u>1973-9</u>	<u>1979-80</u>	<u>1980-1*</u>	<u>1981-2</u>
Turnover £m	3,243.9	3,558.9	4,554.2	5,708.1
Profit/(loss) £m	336.4	129.1	123.9	457.8
Capital requirement £m	1,045.8	1,352.1	985.0	1,837.6
Self-financing ratio	106.1	79.2	111.9	88.8
Capital employed £m	11,995.1	13,540.1	14,574.6	15,285.4

Return on capital
employed at replacement
cost:

Target %	6.0	5.0	5.0	5.0
Achievement %	6.9	4.6	4.4	6.5

Tariff index (1970 = 100)
adjusted for inflation 32.6 74.0 76.8 82.5

*Accounting policies were modified in 1981, so some figures are not strictly comparable.

The results and accounts for 1982-3 are due out on Wednesday July 20th.

The Corporation reduced its real unit costs by an average of 2.9% pa in the four years 1978-9 to 1981-2, and the figure in 1981-2 was 2.1% below that in 1980-1. The target set in 1978 (currently under review) was a reduction of 5% pa. over the five years 1978-9 to 1982-3.

CAPITAL PLANS

The target real rate of return for 1982-3 and 1983-4 is 5½%. The EFL for 1982-3 has been revised to £310 million, and capital expenditure in 1982-3 will be £1.59 billion. The EFL for 1983-4 has been set at minus £100 million. BT's capital expenditure programme for 1983-4 will be substantially less at £1.72 billion than was earlier expected - partly because the recession has reduced the demand but also because BT has been able to negotiate lower contract prices and pay settlements.

POINTS TO MAKE

Rural Areas

1. Rural Services will not be rundown. BT will have a duty, enforced by OFTEL (see below) to provide a universal service. Anyone who has or wants a telephone will be able to get it. In the new Bill Clause 3 which incorporates this duty, has been redrafted to make it clearer that the requirements to safeguard the rural and other socially necessary services which the bill places on the Secretary of State and the Director General of Telecommunications are statutory duties.

* See Lords Amendments

2. Charges for Rural Services. BT indicates that the rural services are probably profitable. If they do make a loss they will be financed by the access fees, in the same way as the call box and 999 services. At present BT have a standard rate for rentals and local calls throughout the country, and after privatisation BT will be prohibited by its licence from unfairly discriminating against rural customers.

* See Lords Amendments

3. Installation Charges. At present BT charges £70 for a domestic connection, and there is no extra charge for the first 100 hours of work needed. Last year only 0.1% of all installations required more than this. The Bill strengthens the hand of the potential rural customer by allowing him to complain to OFTEL if the installation charge is higher than the standard one. OFTEL can instruct BT to

reduce the charge if the Director decides BT is asking too much. At present POUNC can take up these complaints, but it has no powers over BT. So the new arrangements strengthen the rights of the potential rural customer.

4. Remote call boxes. If a box produces less than £185 per annum it becomes a candidate for closure since the maintenance costs are about £2000. BT closed 32 boxes in 1979-80, 30 in 1980-1 and 63 in 1981-2. Local authorities have the power to pay a subsidy towards the maintenance of uneconomic boxes and 7 are so maintained in Wales, maintenance of the call box service will be a social obligation of BT under this Act. This is the first time that this obligation has been imposed by law. The losses on the service will be financed by the access fees (see above), and the provision of call boxes will continue as at present.

Consumer Protection * See Lords Amendments

Prices: The introduction of competition is an effective curb on prices; BT has already reduced charges on its 100 most densely used trunk routes and on many international calls. Following liberalisation there was also a significant reduction in the price of telex teleprinters. However, the Government accepts that BT will dominate some telecommunications sectors. Because of this BT will be obliged to keep price increases for domestic rentals, installation charges and local calls to a figure priced below the Retail Price Index for five years. This will ensure a continuing reduction in the real cost of services.

OFTEL: The Post Office Users National Council (POUNC) will no longer deal with telecommunications once BT enters the private sector. A new Office of Telecommunications (OFTEL) will take over these responsibilities. OFTEL will be charged with policing BT's licence and, unlike POUNC, will be able to enforce the remedies it suggests for consumers problems.

Legal Redress: At present BT does not normally provide services under contract and customers cannot normally sue BT for negligence etc. The Bill requires BT to provide services under contract and removes, in most cases, immunity from civil action. Customers will be able to sue BT just as, for example, they can sue shops which supply faulty goods. In order to ensure that BT complies with its licence, and to prevent anti-competitive activities by BT, the new Bill sets out clear provisions for anyone (including BT's competitors) to seek unlimited damages in the courts for losses they incur if BT or any other licensee fails to comply with an order by the Director General of Telecommunications. * See Lords Amendments

The Disabled: A new provision in the Bill recognises the needs of the disabled, both those working as telephonists and the disabled or elderly domestic subscriber. It will allow the Government to fund the cost of developing variants of standard equipment to make it suitable for disabled users. This, combined with standards requiring equipment to be adaptable to the needs of the disabled, and the grants already available from the Manpower Services Commission for carrying out the actual adaptation of the equipment, should go a long way to allay the unfounded and misleading fears raised in some quarters about the effect of privatisation on the disabled.

* See Lords Amendments

The Sale

The precise method of sale will be decided in the light of market conditions at the time. The issue will be the largest ever carried out in this country. The Government hopes that many of BT's 250,000

employees and 10 million subscribers will buy shares. Ways of encouraging them are being considered.

* See Lords Amendments

The Articles of Association of BT plc will prevent foreign or domestic takeovers. The claims of BT, the pre-1969 pension deficiency and the taxpayer will be considered in relation to the proceeds of the sale. It is hoped that the sale will take place in Autumn 1984.

The Workforce

Telecommunications is a major growth area. The removal of restrictions on financing will allow BT to take maximum advantage of this, along with the other telecommunications firms. There should be more, not fewer, jobs in the industry.

There has been talk of a cut of 45,000 in BT jobs. It is certainly true that BT does need to improve its efficiency. It could provide the present level of services with fewer people. However the BT Bill offers chances to expand the service.

The telecommunications manufacturing industry has lost 40,000 jobs in the last ten years. That shows that the mixture of monopoly and protection does not pay. Since liberalisation, the prospect of an expanding industry has opened up:

1. On the equipment side, new market entrants, such as Mitel, GTE/ Ferranti & Harris, have already put down plants and are generating new jobs in manufacturing. Retailers such as Discoms, Tandy and many other smaller people are already expanding into the liberalised market and are recruiting new staff.
2. Value added services will provide a whole new industry. An increasing number of businesses wish to provide new services on the network and these are expected to provide many new jobs. The recently announced 'Total Access' radio telephone system, to be provided by two companies, Racal and a new consortium BT-Securior, is expected to produce up to 12,000 jobs by 1990.
3. Mercury itself will create new jobs as well as pull through more on the supply side. BT in response has created new posts to provide competitive digital services.

The legislation will safeguard existing employee pension rights, and will in no way disadvantage employees or weaken their pension position. The Government cannot guarantee how pension arrangements will evolve in the future, even in the nationalised industries.

POLITICAL POINTS

* Nationalisation has had an unhappy history in this country. It has cost over £40,000m at today's prices in grants and capital write-offs since the war (Hansard, 9th November 1982, Col.456). Nor is it popular. A survey by NOP in August 1982 showed that 65% of the electorate and 35% of Labour voters want no more nationalisation. The recent Labour manifesto contained sweeping proposals for further nationalisation, but during the actual campaign Labour leaders tried to play these down.

The nationalised industries' record of service to the customer has often been patchy and their prices have risen more rapidly than prices as a whole. In February 1983, for instance, the overall rate of inflation was 5% but in the public sector it was 13%. Nor in the long run does

nationalisation protect jobs. Under the last two Labour Governments about 200,000 jobs disappeared in coalmining and about 40,000 jobs at BSC went during the 1974-1979 Labour Government.

Some of the practical day to day problems that have beset BT as a nationalised industry are illustrated by the following extracts from a letter sent by its Chairman to his staff in December 1981:

'In the past management hasn't laid sufficient emphasis on labour efficiency and output....'

'...over 40 per cent of field supervisors' time is spent on paperwork. There's more emphasis on reporting up than on securing useful and timely information for the work in hand'.

'We've been hampered by things like inter-union arguments on operating computer terminals in mixed clerical/engineering work areas...'

'...For every two hours spent on installation in the field, one hour is spent in control, line plant allocations and replacements. The number of survey officers has remained unchanged for 20 years, although the need for them has reduced. In America, AT & T installation and maintenance staff average seven visits a day, compared with our average of three'.

'....despite reductions in such things as travelling time over the last two years (ineffective time) still represents 40 per cent on cost'.

'In exchange maintenance, studies show that manning levels could be reduced by better work organisation'.

'Then there's grade drift - people being paid a grade or so higher than their work deserves'.

'The problems are compounded by:

- demarcation problems;
- inflexible work practices;
- rigidity on manning levels; and
- slowness to accept changes'.

'A succession of surveys show that BT salaries are generally above the average; at best, they're near the very top of the market '.

'In addition to the staff's contribution of 6% of salary, BT also contributes to the Pension Fund at the rate of 15½% - much more than most other large organisations'.

'There are many other ways in which the business overspends, eg:

- THQ staff has grown by over 10 per cent since 1978.
- Over 30 per cent extra SSS staff (half of them in THQ) in the same period.
- There are 25,000 THQ staff, some 8,000 RHQ staff, to say nothing of Area HQs.
- Over-generous accomodation, compared with commercial firms, particularly with so may HQ staff in London.
- Slow and expensive promotion and appointments procedures, with seniority often more influential than merit'.

* The recent Labour Manifesto paid lip service to the need for technological development but at the same time made clear that Labour would only really countenance it provided:

1. That it can be nationalised. Their Manifesto promised not only to retain BT in the public sector, but to forcibly incorporate Mercury into it and then extend the resulting monopoly by giving it the exclusive right to provide cable TV and other cable services. It also promised that Labour would establish a significant public stake in electronics - a pledge that could cost up to £12 billion if the country's top seven electronic companies were to be nationalised.
2. That it can be placed under the control of the unions by making it subject to new technology agreements dictated by them. Labour's luddite instincts are never far from the surface, in their Manifesto they said:

'new technology has brought major job losses in some sectors. Only Labour can plan new technology to meet our commitment to full employment'.

The real objective of new technology agreements is to increase the powers of trade unions and ensure that new technology is not allowed to disturb the employment patterns on which their system is based. This was made clear in Labour's Programme 1982, which was endorsed by last year's Labour Conference and formed the basis for the 1983 Manifesto. It said:

'Trade unions have been relatively successful over the post-war period in extending joint control over day-to-day decisions in their enterprises. Although progress has been uneven, they have in many places extended the frontier of negotiation beyond terms and conditions of employment to include issues formerly within the managerial prerogative. Among these issues are the organisation and pace of work; staffing levels; recruitment and deployment of labour; demarcation and labour flexibility; quality, stock and financial control; grievances and discipline; and health and safety. Workforce influence in these areas has been enlarged mainly through developments in the scope of collective bargaining. Much of the impetus for these developments has come in recent years from the negotiation of New Technology Agreements. These have been accompanied by significant changes in trade union structure. The shift to plant and company bargaining has led to the growth of Joint Union Committees which have strengthened the ability of workforce representatives to pressurise management on key issues relating to the organisation of production'.

The recent experience of the printing industry's attempts to negotiate new technology agreements with the unions is not encouraging. If other unions were enabled by a Labour Government to exercise a similar veto over developments in their industries the results would be disastrous.

* British Telecom's performance under the last Labour Government was notably lacklustre and contrasts strongly with its performance since 1979. BT's profits have increased rapidly from £123.9 m in 1979-80 to £457.8m in 1981-2. This has been achieved at the same time as tariff increases have been kept below inflation, rebates introduced for low users and many charges for trunk and international calls reduced. When BT is privatised it will continue to hold many of its price increases below inflation (see above). This compares with the

situation under the last Labour Government when charges for local calls doubled in their first year in office, and charges in general rose by 60 per cent between 1975 and 1976 alone.

Furthermore under Labour BT was starved of investment whereas under the Conservatives investment has increased substantially.

Capital Requirement £m

Outturn

1976-7	1977-8	1978-9	1979-80	1980-1	1981-2	1982-3
816	844	993	1,215	1,545	1,898	1,590*

*estimate

ALLIANCE VIEW

The SDP-Liberal alliance take the view that it is irrelevant whether industry is state owned or privately owned and that therefore, as Mr William Rogers has put it, 'a further programme of privatisation...is wholly irrelevant to the major economic and industrial needs of the country' (Hansard, 9th November 1982 Col. 464). In their recent Manifesto the Alliance argued in favour of leaving the present boundaries between the State and private sectors exactly where they are and said the Government should concentrate instead on making the nationalised industries more efficient. They also put forward a scheme of committees and commissions which they hoped would succeed where all others have failed, and would accurately simulate the pressures of the market. This, however, flies in the face of all past experience for, as Mr Patrick Jenkin, the then Secretary of State for Industry, has said:

'Anyone who argues in the light of nearly 40 years' experience that there must be a way of managing State monopolies that will increase their efficiency, satisfy their customers and yield a return on the taxpayers' investment instead of being a burden on the taxpayer must believe in fairies...Every device has been tried and none has solved the fundamental problem of the State industries...The system has failed. Are we to sit back and do nothing about it?' (Hansard, 9th November 1982, Col. 457)

The problem of the nationalised industries is not just one of management but also one of ownership. The three fundamental weaknesses in the public trading sector - monopoly, finance and accountability - are all primarily questions of ownership. The Alliance ignores these problems when it argues that BT's status should remain unchanged.

RE/AM
12.7.83

Major Lords Amendments

Details of flotation The Government introduced provision in the Lords to make it possible, in the special circumstances of the flotation, for application forms to be distributed other than with full prospectus. This is consequential of the unprecedented size of the flotation and the number of potential subscribers. The Secretary of State will be required to make arrangements to publish the prospectus in four national newspapers and to make it generally available in public places eg. major banks or post offices. This is in line with European Community regulations. The aim of this amendment is to remove, in this single instance, a barrier to wide ownership of shares that would otherwise not be possible.

Approval of Licences The licence of British Telecom, Mercury and other operators will now be subject to debate and approval by Parliament.

Rural Areas Protection for rural areas has been reinforced. A specific requirement for operators not to show unfair discrimination against persons in rural areas, both in respect of the service provided and in relation to charges of all kinds, has been written into statute.

Competition The Secretary of State and the Director of OFTEL will have a specific duty to carry out their functions in such a way as to encourage effective competition within the United Kingdom. In addition they will be required to assist United Kingdom companies to compete effectively abroad, and to assist them in developing new markets overseas.

Directory Information Services The Secretary of State and the Director of OFTEL will be under a specific duty to ensure that telecommunications operators provide a directory information service. This provision will in any case encourage greater use of the system. There is now a specific requirement that this service should be provided free of charge for blind persons or other persons where disability prevents them from using printed telephone directories.

Consumer Protection The statutory provision for the establishment of advisory bodies to assist the Director of OFTEL, has strengthened and extended for the protection of consumers. The Secretary of State will now be responsible for their establishment. He will be under a specific duty to ensure that special attention is given to including on these bodies, members who are "familiar with the special requirements and circumstances of consumers, purchasers and other users" of the telecommunication network. In addition provision has been made to establish two further bodies to cover the interests of small businesses and those who are disabled or of pensionable age.

Telephone Tapping The Government has given a firm commitment to bring forward legislation on the interception of communications in the next session of Parliament. It will include matters covered specifically in the Lords amendment which was subsequently reversed and will also take account of the European Court of Justice ruling on the "Malone" case. In the interim the Government will regard itself as bound by the criteria and procedures set out in the White Paper "The Interception of Communications in Great Britain".

Disruption of the Network Action to wilfully disrupt telephone and other communications will produce a liability for civil damages on a breach of licence conditions. The previous provisions for criminal sanctions against strikes and similar actions has been dropped.

Extension of the Right to sue on a breach of licence This amendment, Passed against Government's wishes, extends the right to sue for damages of anyone suffering a loss because an operator has breached a licence. The original provisions of the Bill allowed claims for damages only for the period after action had been taken, against a breach of licence conditions, by OFTEL. This limit is removed by this amendment .

The Government's view has been that licence conditions should be a matter for the Director-General of OFTEL and his staff.

Lord Mackay of Clashfern made this clear in the report stage of the Bill:

"It will not be possible for licensee not to comply with their licence conditions for significant periods of time without being subject to the director's power of enforcement and hence subject to action for damages"

(House of Lords 19/3/84 Col 997)

If a licence fails to comply with the terms of a provisional order made by the Director of OFTEL, anyone suffering damage will be able to claim compensation from the date of that first order.

The Governments reasoning behind not making licence conditions directly enforceable in the courts by individuals affected, was fourfold:-

- The use of OFTEL with its specialist staff would ensure that the enforcement procedures were effective, swift and cheap so far as those concerned are affected by them.
- Individuals, whether individual subscribers or small firms, do not have sufficient technological and legal understanding to mount effective actions themselves.
- The Government has sought to avoid the problem of excessive litigation.
- In some areas it is not possible to draw up precise licence conditions. Interpretation will therefore be open to a degree of uncertainty. The Government's view is that the Director of OFTEL is best placed to make the necessary judgements rather than, for example, the competitors of the licensee (See also below)

Action to prevent intermittent Contraventions of licence Conditions

Government has strengthened the enforcement procedures open to the Director of OFTEL when taking action against a breach of licence conditions. The loophole whereby licensee are able to circumvent the enforcement procedures by intermittent acts in contravention of their licence obligations, is closed. Under the new provision the Director will be able to institute enforcement procedures, where he decides that, although a breach has been remedied, on the evidence before him it is likely to be repeated.

Installations made on Private Land

This alters the requirement of operators to seek the consent of an occupier before installing his apparatus on private land. Under this amendment an operator will have to seek the consent of the freeholder in all cases other than straight forward cases involving service lines. However a landlord will be prevented from raising unreasonable objections to a tenants' desire to have a telephone service.

As Lord Cockfield has said:

"We have been even handed in ensuring that the rights of the owner are protected when lines and apparatus are installed, at the same time ensuring that the tenant who wants a telephone cannot be frustrated by his landlord.

(House of Lords 24/3/84 col 402)



DEPARTMENT OF TRADE AND INDUSTRY
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*From the Minister of State
for Industry and Information Technology*

RT HON KENNETH BAKER MP

David Barclay
Private Secretary
10 Downing Street

5 April 1984

Sean Davis

Thank you for your letter of 19 March seeking advice on the handling of the ITAP report on British Telecom and IBM. You mentioned that Mr Read neglected to enclose a copy of his letter to Mr Baker and I am attaching a copy for your reference.

You will see that Mr Read makes it clear that this report is not based on detailed knowledge of IBM and BT's proposals for a joint venture. Nevertheless, Mr Baker considers that it contains some important points which he will be taking into account in our developing policy towards both organisations. So far as the joint venture proposition itself is concerned, Sir George Jefferson has told us that he intends to make a public statement outlining the kind of services that BT are contemplating providing in the future. Once this has been done, we hope to consult a wider range of opinions. This report will constitute an important part of that consultative process, and it may well be that ITAP wish to give further views when they have more specific knowledge. However our Secretary of State has made it clear to Sir George Jefferson that he is not willing to reach a view on the joint venture proposal until he has been able to consult more widely.

*Yours sincerely,
N M*

N M McMILLAN
PRIVATE SECRETARY

M40/M40AAH

POA + Tekcomm's : POA office

P48





Copies to:

PS/Sec. of State
PS/Mr Trippier
PS/Sir Brian Hayes
Mr Croft
Mr Leeming
Mr Parsons (on file)
Prime Minister
Members E
Sir Robert Armstrong

NBPN
AT
cc NO.
F

DEPARTMENT OF TRADE AND INDUSTRY
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From the Minister of State
for Industry and Information Technology

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1P 3AH

cc Mr Leeming
Mr George
Mr Croft
Miss Smith
Mr Parsons

28 March 1984

POST OFFICE TARIFFS AND PAY

Thank you for your letter of 23 March suggesting that the Post Office might be invited to recast its tariff proposals on the basis of a 3-3½% pay assumption. You raised the possibility of 16p/13p from July.

2 As I said in my letter of 23 March to the Chancellor, which crossed with yours, I have made it clear to Ron Dearing that I wanted to see a pay settlement at or below 4% and that he should not make an offer above that figure. My expectation is that he will come back to me during his negotiations with the UCW and report that he is unable to settle on that basis and that he needs to increase his offer. However, I have made it clear that 4% is not just a trigger point for reporting back on the way to a higher settlement: it is the maximum level to which the Government is prepared to see him go. It is my intention to press him hard on this point if he should come back to me and to stress that he should stand and fight at 4% and, if necessary, withstand any industrial action that might result.

3 In my view, the Post Office is being asked to play its part in our public sector pay strategy by holding the line at 4%. On present plans for volume growth it will add only 1½% to unit labour costs; and a 4% settlement would not undermine the position which British Rail are reported to be taking; nor would it give comfort to the NUM. It would continue the downward movement of settlements and improve on the local authority manuals. On that basis, I would not wish to go back to Ron Dearing and suggest that he looks for a 3½% settlement.

4 On the question of the tariff, Ron Dearing really would find it intolerable to have Government insisting not only on how much revenue he could raise but also on the detail of



the tariff structure by which he should obtain it. It is already too late to give the required three months notice for 16p/13p to raise enough revenue to cover a 4% settlement. The right course is to leave the tariff at the 17p/13p preferred by Ron Dearing for good operational reasons but to delay its introduction beyond 13 August in the event of a 4% settlement. In the circumstances, I would suggest that we might leave the tariff issue for a couple of weeks to see how negotiations with the UCW develop.

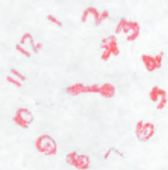
Turner

Smith

KENNETH BAKER

POST & TELE 158
future

2 APR 1984



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CC NO
PPS
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Mr Mock
Mr Burgner
Mr Scholar
Mr Redley
Mr Portillo Mr White

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Minister for Information Technology
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

23 March 1984

Kenneth Baker

POSTAL TARIFF INCREASES

I am concerned at the freedom the tariff proposals set out in your letter of 19 March would give Ron Dearing and his Board in the pay negotiations they are about to enter.

As you say, 17p/13p from 13 August would allow for a settlement this Spring of 4½ per cent. Such a high figure would not be welcomed given the general level of settlement we are seeking in other parts of the public sector.

In my view, Ron Dearing should be asked to reconsider the case for an earlier and lower tariff increase which would allow room only for a more acceptable settlement with a pay bill effect of some 3-3½ per cent.

I am advised that this could be achieved by a tariff package of 16p/13p effective from 9 July, which would also make it easier for the Post Office to meet its real unit cost target.

My proposal would reduce the tariff change to simply rounding up the 2nd Class stamp from 12½p to 13p (a move much predicted in the Press when we announced in February the withdrawal of the ½p coin from issue this month) leaving the 1st Class stamp at 16p, the level it was set at in April 1983. I would hope that the new tariff could then be held well into 1985-86.

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Bringing forward the tariff change to July would also keep a good separation between it and the formal announcement on the demonetisation of the $\frac{1}{2}$ p coin. This should be made in the autumn to take effect by the end of the year.

Given the need to allow 3 months for consultation, Ron Dearing must be put in a position to approach POUNC early next month if a tariff change in July is to be achieved. I trust that you, sharing my concern on pay, will be ready to put the 16p/13p proposal to him quickly as that which the Government is prepared to see go forward.

I recognise that the Post Office may argue that the change I propose would produce the wrong kind of differential between 1st and 2nd Class mail. However, given the way this differential has fluctuated in the past, I do not believe this could be an overriding consideration.

*Yours sincerely
Peter Rees*

PETER REES

CONFIDENTIAL

POST & Teles PT8

future

-2 APR 1984



CCNO

NBPN

AT 26/3

From: THE PRIVATE SECRETARY

~~CONFIDENTIAL~~



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

23 March 1984

Dear Callum,

MERCURY

The Home Secretary has seen a copy of your Secretary of State's minute of 15 February to the Prime Minister about a proposed change in the licensing arrangements for Mercury Communications. He is content for the change to proceed subject to the making of a direction, the terms of which have been discussed by officials, under what is now clause 92 of the Telecommunications Bill, to cover the national security interest in the matter.

Copies go to Andrew Turnbull (No 10), Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,
Hugh Taylor

H H TAYLOR

Callum McCarthy, Esq

~~CONFIDENTIAL~~

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10 DOWNING STREET

From the Private Secretary

SUBJECT FILED ON:

21 March 1984

NAC IND. Steel Pt 13

Industrial Issues

Your Secretary of State called on the Prime Minister today to give her advance warning of a number of difficult issues which were coming up.

He said that Mr. Haslam's preliminary look at BSC's Corporate Plan showed that the objective of freeing BSC from Government assistance by 1986 would certainly require closure of one major plant, probably Ravenscraig. If BSC were to be made sufficiently profitable to be privatised closure of two and even three plants might be necessary. He had warned Mr. Haslam that Government was unlikely to contemplate the most drastic closures and he had suggested that the Corporate Plan concentrate on a narrower range of options. The Prime Minister agreed. Even if world trade recovered very rapidly, there would still be a great deal of surplus capacity in the world steel industry, making it difficult to achieve a complete withdrawal of Government aid.

Your Secretary of State said that Mercury was in serious difficulties. These stemmed from the way it was financed and the way it was managed. There was a dispersion of responsibility and a lack of clear leadership. It was failing to attract customers. These difficulties would shortly become apparent though it might be possible to get the bill through the House before they did.

There were several responses. First, a new Chief Executive could be appointed. One possibility was to establish the job as a stepping stone to the Chairmanship of Cable and Wireless when Sir Eric Sharp retired. Second, additional shareholders could be brought in. AT&T had once expressed an interest but this had since been dropped. Pacific Bell were now thought to be interested but a shareholding by or sale to an American company raised problems of a kind with which you will be familiar.

Your Secretary of State mentioned that Sir William Duncan of Rolls Royce might ask to see the Prime Minister. Sir William accepted that the launch aid provided for the V2500 engine was

/adequate

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adequate for the project but insufficient to allow Rolls Royce to build up its balance sheet for privatisation. If the Government were serious about the latter, further aid would be needed. The Prime Minister remarked that privatisation of Rolls Royce was a project which would take some time.

I am not copying this widely and I assume you will be doing the same.

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.

PRIME MINISTER

Mr. Tebbit is coming to see you tomorrow to talk about:

(i) BSC Corporate Plan

He wants to warn you of the very difficult decisions which lie ahead and to seek your reaction to various courses of action;

(ii) Mercury

The Government's telecommunications policy depends on the successful development of the duopoly. The second leg is not thriving. This raises the question of whether additional backers should be found. If these included American companies, difficult questions of security could be raised. There will also be difficult decisions on channelling Government business through Mercury;

(iii) Middle East Contract

Although Mr. Tebbit told BAe not to pursue the contract he mentioned to you, it has resurfaced in an even larger and more lucrative form. With the politics of the Middle East, and particularly the Lebanon, constantly changing, Mr. Tebbit will want to check whether we should continue to turn this deal down;

(iv) A "Ministerial matter".

AT

20 March 1984



cc 100

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP

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Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AH

Prime Minister ⁽⁴⁾

To note. I have asked Treasury to ensure that date of increase in stamp prices is kept far away from announcement of implementation of sterling demonetisation of 1/2 p.

19 March 1984

AT
20/13

David [unclear]

[Handwritten signature]

POSTAL TARIFF INCREASES

The Post Office has sought our approval to put to the Post Office Users' National Council proposals to increase the first - and second - class postal tariffs from 16p/12½p to 17p/13p with effect from 13 August 1984.

With demonetisation of the ½p, the Post Office are faced with only two realistic options for the second class mail, 12p or 13p. I originally pressed Mr Dearing to consider the 12p option but I have been persuaded that the cash loss involved would be too damaging to the Post Office finances. Accordingly, I am satisfied that 13p is right for second class mail. On the same basis, I accept that the first class tariff needs to be increased to 17p. This then leaves the question of timing.

The increase in inland letters is equivalent to 4.5% on an annual basis, after allowing for some loss of overall traffic as a result of the price increase and some switching from first class to second class as a result of the widening of the differential. The Post Office also proposes to increase inland parcels tariffs by 2% and overseas mail by 5%. The weighted average increase for all of the mail services is 4.2%. Deferring the increase until 13 August reduces the revenue effect in 1984/85 to 2.6%.

The proposals are based on the Post Office achieving its 4% return on turnover target for 1984/85 and on meeting its EFL. In addition, they will need to deliver a reduction in real unit costs of around 2½% which, on current forecasts, will take them to 5½% over the three years to 1984/85 as opposed to the 5% target.

The Post Office had originally prepared its tariff proposals on the basis of meeting the 5% RUC target. But they also included a 5% pay assumption. When I saw Ron Dearing recently, I told him

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that we regard this as excessive and that somewhere in the region of 3% to 4% would be more appropriate. He sees real difficulties over pay this year and regards even 5% as ambitious. He pointed out that his budgets had been set on the basis of being able to control non-wage costs very rigorously while containing the pay bill increase to 5%. He expressed fears that a bitter pay campaign could lead to pressures on non-wage costs and indeed on overtime hours. Nevertheless, he agreed to recast his proposals on the basis of a 4½% pay assumption and as a result, to defer the increase to 13 August, from his original proposal of 9 July.

I believe that the proposed tariff increases are reasonable and that the Post Office's achievement in holding prices for a 16 month period is commendable. Although the pay assumptions are higher than we would wish, the assumptions on efficiency will be difficult to achieve without a great deal of effort on the Post Office's part. I would therefore like to tell the Chairman that he is free to put the proposals to the Posts Office Users' National Council. I should be grateful for your comments as soon as possible.

Copies go to the Prime Minister, to members of E Committee, and to Sir Robert Armstrong.

Zimmer

Kenneth

KENNETH BAKER



ACK 19/3

HL

10 DOWNING STREET

From the Private Secretary

19 March 1984

We had a brief word about the enclosed letter to the Prime Minister from Mr. Charles Read with which he enclosed a note by the Information Technology Advisory Panel on British Telecom and IBM. The letter to your Minister to which he refers was not enclosed.

BE // I should be grateful for your advice on how this letter should be handled, and in particular to know whether the substantive response should come from here or from your Department. Meanwhile we have acknowledged Mr. Read's letter and told him that it is receiving attention.

David Barclay

Neil Mcmillan, Esq.,
Department of Trade and Industry.

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The Post Office

Postal Headquarters

Mr Charles N Read CBE
Director of
Information Technology

St Martins le Grand
LONDON
EC1A 1HQ

Telephone 01-432 3287

ec DP
Telex 888746 (PO PHQ LDN)

Girobank account 501 0101

Date 16 March 1984

Our reference

Your reference

CONFIDENTIAL

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

R1713

Dear Prime Minister

BRITISH TELECOM AND IBM

Last December, Kenneth Baker invited the Information Technology Advisory Panel to consider the implications for the United Kingdom of the withdrawal by the United States Administration of the anti-trust case against IBM and the possibility that it would seek joint ventures with British Telecom once BT was privatised. The Panel has now submitted its views to Mr Baker, and I ... attach a copy of my letter to him and the Panel's report.

Briefly, we are concerned that under present policies, BT and IBM will exert a dominant influence on the market for IT products and services within the UK; joined together, their market strength could be overpowering. This would not bring about the competition in telecommunications products and services that the Government desires. We therefore consider that explicit policies to counter this possibility are required. These would be implemented through the Government's licensing and procurement powers.

We look forward to receiving the Government's reaction to our views and are, of course, ready to discuss them with you or any of your colleagues.

Yours sincerely

Charles N Read

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COPY NO 1

BRITISH TELECOM AND IBM - PROSPECTS AND POLICIES

A note by the Information Technology Advisory Panel.

Cabinet Office
March 1984

SUMMARY

1. To create more efficient telecommunications in Britain and a more vigorous supply industry, the Government has sought to introduce competition into the supply of telecommunications products and services. The Government also intends to transform BT into a private sector company, so that it may develop without the restraints of public sector finance and operation.
2. Microelectronics technology is bringing together suppliers of computers and of telecommunications equipment. Computers are increasingly being linked into networks, and the provision of Value Added Network Services (VANS), where there is manipulation of the data transmitted, is a growth point in telecommunications services. The policies of PTTs are therefore of great importance to computer suppliers; in particular, through the technical standards that they employ in their networks, PTTs can define the way that communications take place between computers.
3. In the supply of VANS and telecommunications products, PTTs have considerable advantages over their competitors through their control of final links to users, their large cash flow from voice services and their established technical and supply organisations. These advantages may be exercised in conjunction with suppliers of specialised equipment or of services. By forming commercial links with a particular supplier, a PTT may give them a corresponding market advantage over competitors. This is to the benefit of the selected supplier, but does not promote a wholly competitive environment. Regulation of such linkages is difficult because of the intertwining of the supply of voice and data network services with the supply of VANS and products in the organisation of a PTT. In the UK, the resources available to BT will far exceed those available to OFTEL; there is an appreciable risk that BT will come to dominate not only the supply of telecommunications services, but also of a large part of the IT market and will, by its choice of partner in new services, determine the

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"winners" in travel, retailing, information and other services.

4. A particularly important form of linkage is that between a PTT and a product supplier, in which that supplier's proprietary standards are used for transmitting information. This encourages users to purchase from that supplier, and other suppliers have to seek licences or otherwise emulate that supplier's standards. The only widely accepted, and reasonably comprehensive, high level set of standards for information transmission are those of IBM, called Systems Network Architecture (SNA). A new set, more suited to the computer networks of the future, is being developed by the International Standards Organisation under the name of Open Systems Interconnection (OSI); however, these will not be available before 1985 and, even if successful, will not have the world-wide acceptance of SNA for some years.
5. IBM has 70% - 80% of the World market for business computers. Each year, its turnover (1982: \$34.4 billion) grows by an amount equal to the total turnover of its largest competitor. It has 25% of the UK computer market in comparison to ICL's 15%. Its marketing policies have become noticeably more aggressive since the present US Administration removed the anti-trust suit against it, in order to allow it to compete more effectively against Japanese suppliers.
6. Such market dominance is not wholly bad. Small companies find it beneficial to have such a dominant power in computing; it provides a large potential market for IBM-compatible equipment and services. Nevertheless, the situation is not conducive to healthy competition, and a principal aim of IT policy in the UK (and EC) should be to contain IBM to approximately its present market share in order to allow room for competitors.
7. Two forces are therefore working against the creation and maintenance of a vigorous competitive environment for IT products and services: the market power of BT and the dominant position of IBM. We foresee BT, under present policies, extending its influence on the UK market for IT products

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and services as it extends its range of activities. It will be able, by its procurement policies and commercial alliances, to determine the success or failure of product or service suppliers. In particular, by deploying its market power in support of VANS based on SNA, it could substantially strengthen the already powerful market position of IBM. There are short term advantages for the consumer in this situation; some services will be provided rapidly and effectively through the immense resources of BT and IBM. In the longer term, however, we consider that consumers' interests are best served by having genuinely competitive suppliers of IT products and services.

8. The Government has, through its licensing of BT, direct power over its market position. The Government's influence over IBM is less direct, and it must be accepted that IBM will remain a powerful, and perhaps dominant, force in computing for the foreseeable future. Nevertheless, Government is not wholly powerless. In order to create conditions which maximise the chance of free and fair competition in IT products and services, we propose:

- New policy prohibition*
- i. BT should not be a VANS operator, i.e. its network services should be those of a "common carrier". This will prevent its marketing power being used to create dominant forces in other service activities.
 - ii. BT should have, as a declared aim, the use of "open" non-proprietary, internationally recognised technical standards. It will need to offer a service based on SNA, because of the widespread use of SNA. But it should seek through its market power to persuade IBM to declare SNA an open standard and to publish full information about it.
 - iii. BT's manufacturing and product supply activities should be monitored closely, with a turnover limit being applied and with BT divesting itself of activities that exceed this limit.

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- iv. Government should give every support to the OSI initiative in order that, in time, there may be a commercially attractive alternative to SNA which is not the property of any single computer supplier.
- v. BT should not participate in cable systems other than as a supplier of voice services. In the long term, cable systems could offer genuine competition to BT at the local level and it is therefore essential for their control to be independent of BT.
- vi. Government should use its purchasing power initially to persuade IBM to make SNA an open standard and in due course to persuade it to implement and support OSI standards. (This would ensure the success of the OSI initiative.) IBM would very much like to receive orders from the UK Government - they should give something in return.
- vii. If IBM applies to be a VANS operator, using its proprietary standards, a Monopolies and Merger Commission reference should be sought. There is a reasonable chance that this would result in its being prevented from extending its influence on the IT market through a VANS operation.
- viii. Since BT and IBM individually have such great market power, any proposal that they should combine to provide services to third parties should be treated with the utmost caution. It should only be sanctioned by the Director General of Telecommunications after rigorous enquiry into its possible consequences.

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BRITISH TELECOM AND IBM: PROSPECTS AND POLICIES

THE CURRENT SCENE

Competition in telecommunications

1. The Government's principal objective in telecommunications policy since 1979 has been to introduce market forces and consumer choice into the supply of telecommunications products and services. It has progressively reduced the monopoly that British Telecom previously enjoyed over the supply of these products and services. It has established a separate approvals organisation in order that equipment suppliers may have products certified as acceptable for connection to the BT network. Most radical of all in policy terms, it has licensed a competitor to BT in general network services in the form of the Mercury consortium.
2. At the same time, however, the Government is - through privatisation - intending to free BT from the constraints of public sector operation and is substituting for statutory and Parliamentary control a new form of supervision in the shape of the Director General of Telecommunications, whose responsibilities will include the monitoring and, where necessary, amendment of the conditions in BT's operating licence. On privatisation BT will become a private sector organisation which in 1982/3 had a turnover of £6.4 billion, with a current monopoly of links to final telecommunications users (control of "the last mile"), and with little constraint on the telecommunications products and services which it may supply, provided it does not abuse its market position, eg through unfair cross-subsidies.

3. It is noticeable that established UK suppliers of telecommunications equipment have been reluctant to market direct to the user for fear of upsetting their principal customer, BT. (Newer entrants are, though, offering equipment through both routes.) It is also noticeable that BT has over the past three years not only sharpened its performance considerably, but has extended its range of activities well away from the basic network services of voice and data transmission. It is now, for example, entering the market for complete office information systems. Whatever the theory behind the policy of liberalisation and privatisation, therefore, the current reality is that BT remains by far the dominant power in the telecommunications marketplace and, through its policies on procurement, on the services that it offers and on technical standards, and has the power to determine the shape of the UK market not only for telecommunications but for the wider IT sector.
4. Within Europe, the same trend to liberalisation is evident, but has not been carried as far as in the UK. No European PTT has either lost its monopoly of service provision or been privatised. Some have, though, relaxed their rules sufficiently to allow competition in the supply of terminal equipment.
5. One newcomer to the European telecommunications scene is AT & T, newly separated from its local operating companies; it has taken stakes in both Olivetti and Philips but its future position in Europe must be speculative. It has no base from which to develop the provision of telecommunications service and there are well established European suppliers of public switching equipment. It may be wishing to deploy its technical strength (Bell Labs etc) through European suppliers, but its likely impact on the principal suppliers of telecommunications services and computers would appear marginal, at least in the short and medium term.

Competition in computing

6. Computers come in a vast variety of sizes and powers, from the Sinclair ZX81 to the Cray computers used for meteorological forecasts. IBM has though for many years dominated the world market for general business computers. Its total turnover in 1982 was \$34.4 billion of which \$10 billion came from European sales. Each year, its turnover grows by a sum equal to the total sales of its nearest competitor, DEC. IBM equipment accounts for 70 - 80% of the world's computing power and it has more than half of every national "business" computer market with the exception of the UK and Japan, where its penetration is 25% and 20% respectively. In Europe, its revenues are equal to the total data processing revenues of its ten largest competitors.
7. IBM effectively entered the market for smaller computers only in 1982 but has so far captured around 30% of the US market and 10% of the European market for small business computers (costing £2500 - £5000). More recently, it announced a still smaller and cheaper model for "personal" computing. This illustrates a general trend for computer suppliers to extend their ranges - sourcing from outside, if necessary - in order to be able to satisfy the whole of their customers' requirements.
8. Because of its dominant position in the supply of mainframe computers to the US market, IBM was until recently the subject of anti-trust litigation in the USA. The present US administration withdrew the suit in order to allow IBM to compete more effectively against Japanese suppliers. Since then, IBM has adopted increasingly aggressive policies towards competitors. Much less information is now available about its Operating Systems software and so other suppliers whose equipment needs to link with IBM systems, and manufacturers of "plug compatible" computers that employ IBM software, will have more difficulty in designing their products in future. IBM has also conducted a successful legal case against Hitachi over the illicit use of its technology and as a result has - at least temporarily - checked the penetration of Japanese suppliers in the US market.

9. IBM is still, though, the subject of anti-monopoly proceedings instigated by the European Commission. It lost on first hearing, and in consequence is having to reveal technical information to competitors. An appeal is pending.
10. ICL's share of the UK market for larger computers has been similar to that of IBM, but it is now about 15%. Its position has been steadily slipping, and its users are concentrated in the public sector. Although it has linked with a number of overseas suppliers and collaborators; its prospects in the long term are not good. There must be doubts over whether it has the technical resources necessary to support its wide range, and its position in the commercial user market, where growth is buoyant, is weak. All UK suppliers are suffering from the general decline in UK preference in public sector purchasing. ICL is more vulnerable than most. Nevertheless, it remains the most significant European supplier of larger computers.

Technological trends

11. Semiconductor technology has now developed to the point where microprocessor chips are cheap, fast and reliable. It is cheaper and more efficient to handle information in digitised form. All PTTs are planning the conversion of their networks to digital transmission, thus enabling them to handle voice, data, text, video etc communications over the same network. In BT's case, this will eventually result in an Integrated Systems Digital Network (ISDN). New telephone exchanges are based on digital switching processes, and therefore are founded upon the same technology as digital computers. At the same time, computers are increasingly being linked into networks, and computer manufacturers therefore need expertise in the transmission of data over such networks. The convergence of computing and telecommunications technology is thus introducing telecommunications into computing and computer technology into telephone exchanges.

12. The PABX (Private Automatic Branch Exchange) is seen by many as the hub of the future office information system and computer suppliers have linked with telecommunications supply interests in order to gain access to digital switching technology. ICL have linked with Mitel while IBM has taken a 15% stake in Rolm, a US manufacturer of PABXs.
13. The linking of computers into networks will clearly provide extra service business for PTTs. Studies show, however, that even in the year 2000, more than 85% of the PTT service revenues in Europe will derive from voice services. Nevertheless, the provision of Value Added Network Services (VANS) which involve the transmission and manipulation of computer-held data will be an important area of growth for PTTs and in developing these, PTTs will seek associations with providers of specialised computing services. Computer manufacturers, through their proprietary hardware and software technology, can offer such services (eg Tandem with its "non-stop" computing) and so commercial links between PTT's and computer manufacturers are likely to become more common.

Technical standards

14. Data transmission protocols play a crucial role in telecommunications and computing systems. Inter alia, they define the way in which different pieces of equipment may communicate over a network. It is conventional to think of a hierarchy of technical standards, with the "lower level" standards defining the physical links between different parts of the system and the way that one part addresses another and the "higher levels" relating more to the way that the content of any communications is defined and interpreted. In the case of a PTT network, the higher level communication protocols employed over the network can be decided by the users themselves, but the PTT has control over the lower level protocols that control access to the network from users' installations, and can influence users' choice of equipment through the standards adopted within the network itself.

- Manufacturers of computer and telecommunications systems have either to develop their own standards or adopt those of other suppliers in order to ensure that all their equipment can intercommunicate. But with the rapid growth in information networks, with firms and other organisations needing to exchange information between pieces of equipment from different suppliers, there is a corresponding need for more generally accepted standards, preferably receiving international recognition. This has in recent years been an area of intense activity, whose importance has been recognised within DTI by the creation of the Focus committee and the IT Standards Unit.
16. IBM has developed a set of proprietary standards, called Systems Network Architecture (SNA), which will provide a substantial layered series of communication protocols. Because of IBM's world-wide dominance of business computing, SNA is already a de facto international standard. The principal non-proprietary alternative to SNA is the Open Systems Interconnection (OSI) model for communications, at present under definition by the International Standards Organisation. OSI theoretical standards are only now being published and an equivalent level of definition to that of SNA is not expected before 1985, and perhaps not then. It would then take supplies around two years to implement their version of a standard based on OSI concepts for new products. If the products had also to conform to that supplier's existing standards, this would become a four year programme.
17. The OSI approach potentially offers substantial technical advantages over SNA for truly distributed networks since OSI regards each contributor to the network as of equal importance. By contrast, SNA is tied to existing terminal/mainframe structures and assumes that one contributor controls the others. IBM currently shows no sign either of providing full support for OSI standards in its products or of adapting SNA to meet OSI standards. This policy may well be founded in technical difficulties, but there is no doubt that the existence of the proprietary SNA helps to support IBM's dominant market position.

18. There are advantages - particularly for small firms - in the dominant position of SNA in data transmission. Small suppliers of IT products and services need to be able to access major markets and they cannot afford to develop and promote new standards. By providing data links to SNA standards, they can potentially access the large majority of business computer users. OSI is not likely to affect this situation for some years.
19. The danger, of course, is that IBM can exploit SNA better than anyone else because it originated the concept - and can therefore develop new products and services that make full use of the capabilities of SNA. Moreover, it can through its market dominance create other de facto international standards, which will clearly suit its products better than those of its competitors, thus strengthening its market lead. The OSI initiative aims not only to provide a more appropriate technical basis for future IT standards than SNA, but also a supplier-independent framework in which other IT standards can be developed.
20. The most desirable situation in that it would provide an environment for fair competition and easy market access for new entrants, is clearly one where there are strong, well recognised standards, but not under the control of individual firms and not large in variety. The routes to achieving this lie (i) through making SNA an "open" standard, freely documented and available to all suppliers and (ii) through the OSI initiative. In subsequent sections we consider how these measures might be achieved.

TELECOMMUNICATIONS AND THE IT MARKET

21. PTTs, as the previous section showed, have a very large influence on the market for IT products and services. This comes from:
 - i. their monopoly over access to final users (and in the case of BT, we do not expect Mercury seriously to affect this for the next decade at

least). This provides suppliers linked to the PTT with a market nationwide;

- ii. their established organisational structure, which enables them to add new products and services on to an existing network of communications links, depots, maintenance staff, accounts centres etc etc. Even if no overt cross-subsidies take place, their way is smoothed - in contrast to that of the new supplier who has to establish such arrangements for himself (or through others);
 - iii. their guaranteed income from traditional voice services, which for the foreseeable future will dominate cash flows and which, in the case of BT, contribute to profits that rank with those of the largest industries and commercial enterprises (and which can be invested elsewhere in their operations);
 - iv. their ability to define the technical standards that users should employ if they wish to make connections through the PTT networks;
 - v. their deep technical understanding of the capabilities and potential uses and development of their network.
22. These market strengths may be exercised in association with other organisations. Thus a PTT may, for example, link with a service-providing organisation - in travel, banking, retail trade etc - in order to develop new services which exploit to the full the technological knowledge of the PTT and establish a dominant market position. Some travel companies have achieved success in the UK through their exploitation of telecommunications technology. Reuters has similarly demonstrated how, in the information business, the first firm to use telecommunications effectively may achieve market dominance. If that example were repeated in other parts of the news industry, there would be a threat to the free and diverse supply of information.

23. A PTT may also link with a hardware supplier who has access to proprietary technology in order to provide particular services. Users of that service may have to buy that supplier's products thus giving him market advantage. Even if other suppliers can provide equivalent products (eg working to the same interconnection standards), users will be attracted, other things being equal, to the original supplier who presumably understands the technology better than anyone else, and who will enhance it and provide new facilities on his equipment ahead of competing suppliers.
24. These kinds of linkages can be combined in many different groups. For example, service organisations using proprietary hardware could link with the PTT, leading perhaps to two kinds of market dominance.
25. We turn now to the specific case of BT. The examples cited above of firms establishing powerful market positions have come about in a period when BT (or the Post Office previously) was a publicly owned body, not entrepreneurial in character, and concerned more with equity of treatment than maximising revenues. BT is now, however, being transformed into an organisation which will deliberately exploit its strength in the market place in order to maximise its revenues. BT's activities in the past three years, and especially its move into the supply of office IT equipment, indicate its intention to establish a dominant position in many parts of the IT market.
26. The Government are relying on the licensing and regulatory framework under which BT will operate to achieve and preserve open competition in the market for IT products and services. A draft licence for BT has been prepared and OFTEL is being created to monitor compliance with its provisions and, by various means, to secure amendments in the light of experience. In principle, this must be the correct approach, and we support the intention to prevent cross-subsidies, to control the use made of proprietary intellectual property, etc. In practice, however, we have grave doubts about the effectiveness of OFTEL as a regulatory body over the range of BT's activities and we suggest that a more radical approach

may be necessary.

27. Our doubts stem from the following concerns:

- i. the market strength inherent in an organisation with a turnover of £6.4 billion, with virtually guaranteed income, and with so much of its equipment and investment relating to more than one aspect of the business. The problems of determining whether its commercial policies are fair in such circumstances are enormous;
- ii. the imbalance in resources available to OFTEL and BT, and particularly the small numbers of technical staff envisaged for OFTEL, since uncompetitive practices can be founded upon the technical aspects of equipment and services;
- iii. the difficulties inherent in:
 - a. identifying relevant intellectual property and ensuring that it is made available in a usable form;
 - b. detecting when VANS providers have exploited loopholes in standards or are providing extra services through non-standard protocols, in order to favour different users or suppliers;
 - c. controlling activities which combine the supply of products and services and the provision of different types of information (Figs 1 and 2 of "Making a Business of Information" illustrated the range of activities and regulatory approaches in the information industry; OFTEL will be concerned with aspects of many of these.)

28. The UK requires (i) an efficient basic communications network accessible to all, without discrimination, and (ii) competitive suppliers of VANS over this network and products that will link to it. The spur of competition through Mercury (whatever the actual performance of the

consortium) has already been successful in encouraging BT to provide the first. This "common carrier" role is the core of BT's operation. It is a natural monopoly, comparable to the operation of the national gas or electricity grids. It is in the provision of the second that the problem occur. And at their heart is the ability of BT to be a supplier of VANS and products, as well as basic services.

29. We have already pointed out that BT can control the UK market for many IT products and services. For its favoured suppliers, this brings benefits; a major contract with BT can in principle provide a launchpad for exports (just as the BBC contract gave Acorn its impetus). We are doubtful, however, whether an organisation so geared to the UK market is the right intermediary between suppliers and final users. Nor can we see BT as a major world force in IT. Moreover, it is already clear that BT is exploiting its position as both provider of equipment and provider of services to influence customers in their choice of equipment supplier. We suggest, therefore, that BT's hardware supply and manufacturing activities should come under severe scrutiny. A turnover limit - we suggest £20 million - might be set on activities outside the common carrier function with BT required to divest itself of sub-divisions that exceeded that limit.

- 30 We have also pointed out how the ability of BT to link with other organisation in providing VANS may effectively restrain competition in sectors far removed from telecommunications. Again, there may be benefits to the consumer in the short term, deriving from size, speed and efficiency of operation and convenience. But in the long run we cannot think that the user is best served by the ability of BT to create effective monopolies in services and we therefore consider that BT should be confined to a common carrier role. Such a move would prevent BT from deploying its market strength in support of any other organisation, be they hardware supplier or service provider by the creation of BT-led VANS. Hence there would be true competition in the supply of VANS, without any distortion caused by BT participation as a VANS operator. It would still

have a healthy and profitable future since voice services will continue to be the overwhelming source of its service revenues.

31. As a common carrier, BT would of course offer digitised data transmission services. The second element in a policy to create the maximum opportunities for competition in IT products and services would be the intention that these should use only internationally recognised and freely available standards . With the current dominance of SNA in data transmission networks, it is of course inevitable that these services should include data transmission to SNA protocols. But BT should use its market strength to persuade IBM to declare these "open" and provide all necessary information about them. A VANS operator could, of course, still offer services to proprietary standards, but BT's marketing power could not be used to support them.
32. We believe the above step to be immediately desirable. In the longer term, however, there is much merit in creating a truly product-independent set of standards and so Government should make every effort to accelerate the development of OSI standards and their adoption in all appropriate fora, with special reference to European markets, in order that UK equipment suppliers should be able to see a large market for OSI products.
33. In the long term, new competitors to BT may emerge. We have considered particularly the possibility that A T & T might wish to enter the UK telecommunications market. We see no evidence that they wish to do this, and no possibility that they would, even if licensed, achieve a significant stake in the foreseeable future. We have already commented that Mercury will be a minor player for many years.
34. There remains, however, the possibility that cable systems could offer effective competition to BT in the supply of telecommunications services to final users. We see this as a possibility, but only if BT itself does not impede the growth of this competition. Its involvement in the first cable franchises shows that it is aware of the market

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opportunities provided by these systems, and presumably of their potential for competition. A nationwide cable network, composed of local cable systems interconnected by gateways, could provide a genuine alternative to the BT network. However, if this is to be achieved, BT's participation in these networks will need to be constrained and, eventually, current policy on their interconnection will need amendment.

35. Our report "Cable Systems" envisaged a limited role for ET in cable systems; on further consideration we believe that this role should be very limited, in order to allow cable systems to offer genuine competition in providing links to the final user. We consider that BT should not be permitted to participate in cable operations other than as a provider of voice services.

IBM AND THE IT MARKET

36. We have outlined above (paragraphs 6 - 10) the powerful (and in most cases dominant) position of IBM in every national market for business computers. We have also emphasised that one effect of its market strength is the establishment of SNA as a de facto world communications standard. We see little prospect of significant erosion of IBM's market strength in at least the short and medium term; its success with the PC has demonstrated its ability to attract - by its reputation for reliability and service - customers in a totally different marketplace from its traditional products. None of the possible combinations of European, Japanese and American interests looks a plausible competitor. A principal UK policy objective towards IBM must therefore be to contain its market share to something like the present level, thus allowing room for other suppliers, some of whom, we would hope, would be UK owned. Such a policy requires (i) the avoidance of steps that will significantly enhance IBM's market strength and (ii) the creation of an environment in which other companies may compete fairly.

37. For the first, we refer to our suggested policy towards VANS. There is n

doubt that the use by BT of IBM equipment and proprietary standards in VANS which BT promotes will provide a boost for IBM. This can be avoided if BT is prevented from offering VANS. However, IBM itself might wish to become a VANS operator, with somewhat similar consequences. In certain markets, however, it falls within the statutory definition of monopoly, since it has more than a third of the relevant market. We suggest that if IBM does apply to be a VANS operator, the possibility of a reference to the Monopolies and Merger Commission should be investigated, since such a reference might well result in a decision against that extension of its market influence. (We note, however, that the deficiencies in statistics for the information industry to which we have previously drawn attention might prevent these markets from being defined adequately.)

38. The second aspect depends crucially on the development and widespread adoption of internationally recognised standards for data communications, and particularly OSI standards. UK (and European) equipment suppliers need a strong set of standards to provide the technical framework for an international market. SNA at present provides such a framework, but with the disadvantage of developments being controlled by a rival supplier and the standards being most suited to that suppliers' products. We have already pointed out the need for Government to give every support to the OSI initiative, and particularly to promote use of OSI standards within Europe. That is, though, a long term policy. The first need is to make the data transmission protocols that are currently of commercial importance freely available, ie to open up SNA. Government can assist this process by use of its purchasing power. IBM are sensitive about Government purchases and wish to establish a public sector user base; the opening up of SNA should be a condition of Government purchase. Secondly, once suitable standards have been developed the ability of Government computers to communicate using OSI standards should be a condition of purchase. It is evident that if by such pressure IBM could be persuaded to support OSI, that would guarantee the success of the OSI initiative.
39. There are, of course, factors that could slow the advance of IBM. It

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cannot make rapid changes to SNA because of its huge installed user base. This provides the opportunity for intelligent anticipation of changes. But its unique knowledge of SNA, coupled with its knowledge of its own operating systems, could enable IBM to exploit ambiguities or imprecision in the SNA specification in ways that would not affect its own equipment, but would prevent that of competitors from connecting to the network. Secondly, users may deliberately purchase from a range of suppliers in order to avoid dependence on one supplier. In order to have any major effect, however, this requires more co-operation amongst users than has hitherto been evident. Most like to buy from one supplier. If the competition never obtains any order, it cannot survive, and for most users, the attractions of buying from IBM, with its huge technical resources, are too great. "No DP manager was ever fired for buying IBM."

40. We therefore conclude that unless deliberate policies of the kind we have outlined above are introduced, and co-ordinated across Europe, all indigenous suppliers of IT equipment will be operating in a market framework defined by IBM - and we cannot believe that such a position is in the long term interests of the UK.

CONCLUSIONS

41. We have dealt in previous sections with the principles that should govern policy towards BT and IBM in order to create and maintain fair competition in the market for IT products and services. We have outlined the consequences of BT establishing links with selected suppliers over VANS and have forecast the continued market dominance of IBM even without forming an association with BT. It follows that any combination of these two organisations to provide services to third parties would be a most formidable market force, and such a combination should only be permitted after the most thorough study of its likely consequences.
42. For apart from all the questions of competition in IT markets that arise, issues of national sovereignty clearly enter. If SNA became established as

a national communications standard while still a proprietary standard, or IBM achieved a dominant share of the UK IT market, key aspects of the national infrastructure, and a major influence on UK suppliers of IT products, would pass out of the control of the UK Government. The recent letter from IBM to UK leasing firms emphasising their liability under US law to conform with the Export Administration Act, even within the UK, has illustrated this danger. The prospect of the UK being dependent on a communications network that uses the standards and equipment of a foreign-controlled firm is unlikely to be acceptable.

43. But our conclusions are more general - they relate not merely to the combination of BT and IBM but to the nature of the telecommunications market whether or not IBM is involved. We think there is a grave danger of BT becoming an "overmighty subject" and our proposal that it should be confined to a common carrier role is designed to prevent that from happening.
44. Neither IBM nor BT will readily accept the constraints that we propose. BT will probably claim:
 - a. that they will seriously reduce their prospects - and therefore their market value. However, we are satisfied that our proposals will have little effect on revenues - and may even increase profitability in the next few years; moreover, parts of BT such as Merlin would themselves have a sale value and it is not clear that the total market value of the present BT operation would be prejudiced by its being split into separate enterprises;
 - b. that they will prevent them being a world force in telecommunications - but we cannot see how this will develop from a background of being a UK monopoly provider and the UK has in any case a presence in overseas markets through Cable and Wireless;

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- c. that they will be a beneficial influence on IBM - but IBM operates on a world scale and although they might achieve some useful measures, they are unlikely significantly to affect its global policies.
45. IBM in turn will point to its commitment to the UK in terms of manufacturing and R & D facilities - but these will have to be put in the balance with the equivalent facilities of UK-owned firms. Moreover, if a similar policy were adopted by all EC governments, IBM's choice would be much more difficult. Our policy may well reduce IBM's UK investment below what it might otherwise be, but it will help to preserve that of other suppliers and the UK will still remain a good location for such functions.
46. There is, of course, no guarantee that our approach will prevent eventual dominance by IBM - market forces may yet mean that they can steadily drive out competition. If such a trend were observed, the Government would seek to obtain for the UK as large a share of IBM's manufacturing and R & D as possible. But control of the enterprise, and all that goes with it, would still lie outside the UK; it would be a second-best solution and we believe our proposals offer a preferable route for the UK.
47. To sum up, therefore, we believe - like the Government - that the national interest is best served by a free and open market for telecommunications services and associated products. Government therefore needs to be alive to the potential activities of all who can significantly influence these markets. Most attention must be paid to BT and IBM, and the immediate need is for a reappraisal of policy towards the privatised BT. The creation and preservation of genuine competition requires much more stringent limitation on BT's range of activities than the Government appears yet to have envisaged. The BT licence is yet in draft, and the legislative process still continuing; there is time to establish the correct foundation for the future. We urge rapid consideration of our proposals.

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Signed C N READ (Chairman)

M J ALDRICH

HENRY CHILVER

I H COHEN

C A DAVIES

D F HARTLEY

C G SOUTHGATE

Cabinet Office

15 March 1984.

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ecc

cc David Pascall
(Policy Unit)

10 DOWNING STREET

From the Private Secretary

15 March 1984

BT Flotation

The Prime Minister was most grateful for your Secretary of State's minute of 9 March setting out the timetable for the BT flotation and identifying the obstacles that need to be overcome. She shares your Secretary of State's wish to complete the BT flotation this autumn and hopes that all concerned will make the necessary efforts.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), John Kerr (Chancellor's Office), Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry

NR

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TURNBULLPrime Minister ⁽²⁾
To note this report14 March 1984BT FLOTATION

We agree with Norman Tebbit's assessment that the BT flotation can take place in late October or early November. Nevertheless there are formidable difficulties to be overcome and success will require a high degree of commitment from all concerned.

A greater emphasis now on the need for effective implementation rather than for creative ideas has been reflected in recent personnel changes at DTI. The detailed timetable and the close liaison among DTI, Treasury, Kleinwort Benson and the Bank of England are encouraging developments.

The reference to "subordinating some longcherished official concerns to our wider interests" in Norman Tebbit's paper emphasises a need to cut through red tape rather than to compromise on policy objectives.

Legislation

Our difficulties in the Lords are unlikely to cause any significant changes to the Bill although they will continue to attract public attention.

The amendment to Clauses 16-18 on the legal right to interconnect which the Prime Minister approved in February are to be discussed in the Report Stage on Monday. These proposals are controversial as we are taking legislative authority to thwart trade union action against interconnect in cases where trade union immunities would normally apply. Nevertheless, they are necessary to ensure Mercury's success.

Immediate Priorities

The key competition issues (interconnect and third party use of private circuits) and financial issues (RPI-X and BT's capital structure) need to be resolved by Easter to maintain the timetable and the City's confidence. There is a reasonable chance that this deadline can be met. The Prime Minister is only likely to become involved if the timing pressures require unwelcome concessions to BT.

OFTEL

The recent nomination of Professor Carsberg as the Director General of OFTEL is an important development. The role of OFTEL is critical in ensuring that our policy on liberalising telecommunications is effective.

Wider Share Ownership

Various proposals are being considered including a year's free rental with £1,000 of shares or a loyalty bonus on the lines of the Britoil offer. The Policy Unit will be assisting John Moore and Kenneth Baker in devising suitably imaginative proposals.

BT/IBM/ICL

Although not directly related to the flotation, the Prime Minister will be faced shortly with difficult and important decisions on

- whether BT procures ICL or IBM for its data processing requirements
- whether BT enters into a joint venture with IBM on value added network services.

We have been studying these questions in some depth in order to provide the Prime Minister with appropriate advice when DTI submit their proposals.

Conclusion

Our objective of floating BT in the Autumn is on target.

DLP.

DAVID PASCALL

CC NO

NBPM

AT 1213

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70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/799

12 March 1984

My dear Brian,

Thank you for your letter of 1 March about the licensing of Mercury Communications.

In the light of your letter and the documents attached with it, I am now content that the licensing should proceed as proposed, and do not wish to press for a further meeting on the subject.

I am sending copies of this letter to Antony Acland, Brian Hayes and Andrew Turnbull.

*Yours ever
Robert*

Sir Brian Cubbon GCB

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Post & telecom : future Pt 8.

12 MAR 1984

12 MAR 1984

13 MAR 1984

13 MAR 1984

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~~CCNO~~

7



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Handwritten signature

JU937

②

PRIME MINISTER

*To note Gov report and Policy Unit
Comments attached.*

AT 14/13

BT FLOTATION

The principal objective for my Department this year is the successful flotation of British Telecommunications. This is a mammoth task, with a very tight timetable indeed. The extent of the complexities and issues which must be settled, many in very short order indeed, is such that we shall need to make exceptional efforts to cut through the many difficulties. If we allow the timetable to slip, these problems will prevent the flotation. The danger of this is severe. I am therefore writing to give warning to you, and other colleagues most involved, of both the scale of the problems we must sort out and of the detailed timetable we must meet.

2 There are broadly three sets of constraints

- Parliamentary, industrial and financial (though they are interconnected). Next Monday we begin the Report Stage in the House of Lords on the Telecommunications Bill. In Committee the Lords created substantial difficulties for Leon Brittan, on the interception of messages, and for me. The remaining stages of the legislation will be far from



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easy. This week Kenneth Baker and I are opening discussions with Sir George Jefferson on a range of issues which are important to BT's future: the interconnection of BT and Mercury facilities; the third party use of BT's private circuits; the coverage and size of the RPI-X formula (which will affect BT's tariff policies); and BT's capital structure; each will determine to an extent BT's future market posture.

3 The juxtaposition of these discussions - in the House of Lords and within Government and with BT - illustrates the difficulties inherent in the privatisation of British Telecom. Before the flotation, we will have to introduce a new regulatory regime for all telecommunication operators, which will be administered by the Office of Telecommunications which we are establishing. We will have to finish complex negotiations with BT and Mercury on their draft licences. We will have to expose the BT and the Mercury drafts to the possibilities of debates in both Houses of Parliament. We must complete our financial negotiations, especially on RPI-X and on capital structure, in good time to allow the smooth transfer of BT from a nationalised industry to a public limited company which can be sold in the autumn. We must devise imaginative proposals to encourage private shareholders, especially telephone subscribers themselves, to invest in BT. Throughout the summer we shall have to market BT effectively. This we must do at home - to institutions and private shareholders - and probably in the United States and Europe.



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4 Our timetable necessarily allows us no margin for slippage. An autumn flotation will be extremely difficult if we have not secured approval of the Telecommunications Bill by both Houses by Easter. It will be impossible if the competition issues (interconnect; third party use of private circuits) and the financial issues (RPI-X and BT's capital structure) have not been solved by then. We must complete the Licence negotiations with BT and Mercury by the middle of May; we must lay the drafts before each House by the end of May, and allow for possible debates in the weeks that follow. I attach, as an annex to this minute, the detailed timetable. Only this timetable will enable the investing public sufficient time to assess BT plc, and its regulatory framework, before our autumn invitation to purchase shares. BT's management and our City advisers, as well as Kenneth Baker and I, will need many weeks for the marketing effort.

5 These constraints are formidable. Nevertheless I am certain that, if there is sufficient determination on the part of all those concerned, we can meet the timetable and succeed in our effort to commit BT to the private sector. But I must stress that it will be possible only if we all are determined to make this come about; and if all concerned recognise that the difficult decisions which will need to be taken must be taken on time. Inevitably, this will mean subordinating some longcherished official concerns



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to our wider interests. Unhappily, our recent experience over the detailed terms of the appointment of the Director-General for Telecommunications does not provide an encouraging precedent.

6 I am copying this minute to Willie Whitelaw, Nigel Lawson, Leon Brittan and to Sir Robert Armstrong.

NT
N T

9 March 1984

Department of Trade & Industry



ANNEX

BRITISH TELECOMMUNICATIONS FLOTATION

TIMETABLE

DATE

ACTION REQUIRED

During March

Decisions on nature of widespread share ownership measures

Decisions on details of employee share incentives

Ministerial discussions with BT on interconnect; third party use of private circuits; RPI-X; capital structure.

By 1 April

Publication of BT's 1983-84 interim results on basis of agreed depreciation policies

By Easter

Negotiations completed on

- competition issues
- RPI-X
- capital structure especially regarding debt profile and level of gearing

Parliamentary approval of Telecommunications Bill

BT prepared to launch employee communications programme



DATE

ACTION REQUIRED

April and
May

Commence marketing of BT to professional investors.

By mid-May

Complete Licence negotiations with BT

By end May

Lay draft Licence before Parliament

Decisions taken on broad structure of sale (fixed price offer or tender etc)

Decision on parallel flotation in North America

June/July

Investor advertising campaign launched.

First UK "road show" including BT sales train.

By end of
June

Complete preparations for vesting including:-

- Capital Structure
- Memorandum and Articles
- All other administrative matters.

Decision on possible flotation in Japan.

Decision on form of possible European flotation.



DATE

ACTION REQUIRED

First half
of July

OFTEL established.

Licence granted to BT.

BT business vested in successor company

By end of
July

Decision on level of generosity of
Government incentives for small
shareholders

Publication of Annual Report and
Accounts of BT for the year to
31st March 1984.

August

BT plc's financial projections to
have been updated.

Decision on whether "mini prospectus"
should be circulated to several
million households or not

September

Decisions concerning precise timing,
pricing and underwriting arrangements.

Preparation and review of any detailed
profit or dividend forecast for the year
to 31st March 1985 to be completed.

Preparation and review of working
capital position to be completed.



DATE

ACTION REQUIRED

Early
October

Finalisation of prospectus.

Publish "red herring" prospectus to financial institutions (if the US practice of a "red herring" - a final prospectus without the price - is followed)

Commence second UK "road show".

Second wave of TV and press investor advertising.

Late October/
Early November

Flotation

CF7
NBRM



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

From the Minister of State
for Industry and Information Technology

- Copies to:
 - ✓ PS/Prime Minister
 - PS/Secretary of State
 - PS/Mr Butcher
 - PS/Sir Brian Hayes
 - Mr Croft
 - Mr Macdonald
 - Mr Willott
 - Mr Martin
 - Mr Smith - IT1
- ON FILE

RT HON KENNETH BAKER MP

Peter I Marshall Esq FCA
Deputy Chief Executive
The Plessey Company plc
Millbank Tower
LONDON SW1P 4QP

| March 1984

Thank you for your letter of 22 February with which you enclosed a report of your discussions with M. Dondoux, Director General of the French PTT. I am also replying on behalf of Norman Tebbit to whom you also wrote.

Roy Croft had a meeting with M. Dondoux on 22 February after the discussions with British Telecom. M. Dondoux spoke in terms very similar to those which you report. As I am sure you are aware, BT is still evaluating the E10. Until they have completed their evaluation we are not in a position to take our discussions with the French Government a great deal further. I recognise the importance of an arrangement with the French to Plessey (and also to GEC) but I am sure that you will recognise in turn that if we are to reach a satisfactory agreement at the end of the day we need to carry British Telecom with us. My officials have agreed to meet again with M. Dondoux once BT has concluded its evaluation.

I have asked my officials to ensure that they continue to keep in close touch with Plessey, GEC and BT on this matter.

KENNETH BAKER

M34/M34AAZ

Post + Telecoms: Future pt 8

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SECRET

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HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

SIR BRIAN CUBBON ~~KCB~~ GCB
PERMANENT UNDER-SECRETARY OF STATE

1 March 1984

Dear Robert

Thank you for your letter of 22 February commenting on the Secretary of State for Trade and Industry's minute of 15 February about the licensing of Mercury Communications.

.....
The proposed transfer of the licence from Cable and Wireless to Mercury itself was discussed in January at a meeting here at which the Department of Trade and Industry, the Security Service and the Foreign and Commonwealth Office (PUSD) were represented. I attach a copy of Michael Partidge's letter of 25 January to Roy Croft which sets out the basis on which it was then agreed that DTI should proceed to seek the agreement of Ministerial colleagues to the proposed change.

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

I am afraid that we did not get the forewarning that we had asked for of the Secretary of State for Trade and Industry's minute. As a consequence Cabinet Office and others were not briefed in advance on the background. I hope you will agree that the matter has already been gone into thoroughly, and that there is no need for a further meeting on the subject.

Copies go to Antony Acland, Brian Hayes and Andrew Turnbull.

Yours ever
Brian

Sir Robert Armstrong GCB CVO

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SECRET



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

Mr Pilling
Mr Fulton

25 January 1984

R H F Croft Esq
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

cc Mr Pilling
Mr Caffarey

Dear Roy,

MERCURY LICENCE

Thank you for your letter of 30 November about a proposed change in the licensing arrangements for Mercury Communications. I am sorry not to have been able to reply sooner but we have had to consult a number of interests about the implications for them of what you propose. You will also no doubt have heard that Ian Ellison came to a meeting chaired by Joe Pilling here on 17 January, at which the matter was discussed.

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

SECRET

Under these conditions on which much more detailed work is needed we believe that our requirements could be met under your proposed new licensing arrangements for Mercury as well as they are under existing arrangements. We should therefore be content for your Secretary of State now to seek the agreement of Ministerial colleagues to the proposal in the usual way. I should be grateful if you could let us know when your Secretary of State is about to write, so that we can brief the appropriate private offices and Tony Duff on the handling of the correspondence.

We shall be giving thought now to the precise formulation of a direction under clause 87.

*Yours ever,
Michael*

M J A PARTRIDGE

SECRET



CCNO

NBPM AT 27/2

FCS/84/58SECRETARY OF STATE FOR TRADE AND INDUSTRYMercury Licence

1. Thank you for sending me a copy of your minute of 15 February to the Prime Minister. I have since seen Mr Turnbull's letter of 17 February which sets out the Prime Minister's views.

2. I agree with the arguments in paragraph 9 of your minute, and your conclusions. The power to make directions to Cable and Wireless would not absolve the Government from financial responsibility: indeed, the Bill provides that compensation may be paid should directions be made.

3. As you know, we welcomed the inclusion in the Bill of a power to give direction to Cable and Wireless in respect of its overseas operations. Nevertheless, we always recognised that the power would have its limitations - for example, its use might well prove contentious, and it might prove difficult in some circumstances to give effective directions as regards operations conducted by a Cable and Wireless subsidiary. I am prepared to accept the change you propose provided that it is generally recognised now that circumstances may arise in which we shall need to influence Cable and Wireless's decisions on its overseas operations through a commercial arrangement of the kind you mention in paragraph 9 of your minute. In effect, this is one consequence of the privatisation and liberalisation of telecommunications which the Bill seeks to achieve.



4. As to national security concerns, I note that Sir Robert Armstrong has pointed out (his letter of 22 February to Sir Brian Cubbon at the Home Office) certain problems which can perhaps be discussed by officials. Provided they can be resolved, I am content to proceed on the basis of the understanding set out in paragraph 10 of your minute.

5. I am copying this minute to the Prime Minister, Leon Brittan and Nigel Lawson, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
27 February 1984

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10 DOWNING STREET

From the Principal Private Secretary

22 February 1984

I enclose a copy of a letter which I have received from the Deputy Chief Executive of Plessey, together with my acknowledgement.

E. E. R. BUTLER

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



JO R
COT

10 DOWNING STREET

From the Principal Private Secretary

22 February 1984

Thank you for your letter of 22 February enclosing a copy of your letter of the same date to Sir George Jefferson about your offer of System X to the French PTT. The Prime Minister will be interested to see this.

E. E. R. BUTLER

Peter I. Marshall, Esq.

PETER I. MARSHALL F.C.A.
Deputy Chief Executive



The Plessey Company plc
Millbank Tower · London
SW1P 4QP

22nd February, 1984

F.F. Robin Butler, Esq.,

10 Downing Street,
London SW1.

Dear Mr Butler,

We have made proposals to the French PTT to supply System X equipment and I visited Paris last Friday to discuss the position with M. Jacques Dondoux.

I have discussed the position with Sir John Clark, who is presently in Australia, and he asked me to write to you enclosing a copy of my letter to Sir George Jefferson expressing our views of the proposal.

Sir John thought that whilst it is not the practice of Plessey to trouble your office in the normal course of events, this matter is of such national importance that you may wish to bring the subject to the attention of the Prime Minister.

Yours sincerely,

P.I. Marshall
Deputy Chief Executive



PETER I. MARSHALL F.C.A.
Deputy Chief Executive



The Plessey Company plc
Millbank Tower · London
SW1P 4QP

22nd February, 1984

Sir George Jefferson, CBE,
Chairman,
British Telecommunications,
2-12 Gresham Street,
London EC2V 7AG.

Dear Sir George,

France

I had the pleasure of meeting Jacques Dondoux last Friday, in Paris, at his request to discuss our offer of System X to the French PTT.

As you are aware, Sir John is presently in Australia and was therefore unable to attend the meeting, but I have subsequently discussed the matter with him. We both take the view that the meeting was of such significance with important national implications that we should convey its content directly to you. Sir John has instructed me to inform you of the substance of the meeting and to advise the Secretary of State, Mr Tebbit and the Minister, Kenneth Baker, at the same time.

Jacques Dondoux stated that the French PTT are now prepared to purchase System X for their network provided British Telecom purchase the E 10-B system. He added that their proposals had the support of the President and the French people and it was seen as a moment of history in Anglo-French affairs and a major event in the history of European industrial collaboration.

I understand that you are due to meet with M. Dondoux and therefore I wished to let you know Plessey's view prior to that meeting.

We see great benefit for British industry in this plan:

- The first true pan-European collaboration in telecommunications in public switching, of a significance necessary to compete with North American and Japanese interests.
- System X would be adopted by the French PTT, which will greatly enhance its credibility in the eyes of other overseas telecommunications administrations. This would improve the prospects of lower unit prices over the years ahead.
- The adoption of System X as a competitive system by the French PTT could offer similar attractions of a second source to the existing world markets already penetrated by the E 10.



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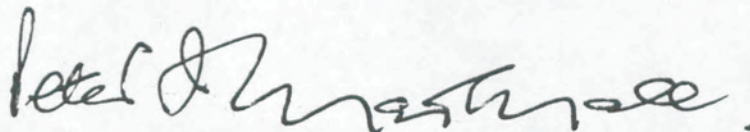
- The UK manufacturers will obtain a quid pro quo in France for the market entry given to CIT in the UK which would be unlikely to happen with any other second supplier you might chose with the possible exception of Siemens.

We believe that if this plan is not adopted then France will seek, and find, a partner elsewhere. This could then provide that partner and its country with the benefits I have already outlined and place the UK in a more isolated position.

We therefore support the plan to use System X and E 10-B as second source switching products in France and the UK respectively, and believe that this is in the best interests of British industry.

Please let me know if you would like any further information or if I can help in any way.

Yours sincerely,



P.I. Marshall
Deputy Chief Executive

POST+ TEL: Future Pt 7

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NBPM

AT 23/2

copy

Andrew Turnbull

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/604

22 February 1984

My dear Brian,

I have seen the Secretary of State for Trade and Industry's minute of 15 February, proposing that the Mercury licence should be granted to Mercury Communications Limited rather than to Cable and Wireless.

From the national security point of view I am not very happy about this proposal. The purpose of granting the licence to Cable and Wireless was not merely to provide a good legal basis for the matters with which we are concerned but also to ensure that knowledge of them could be restricted as narrowly as possible. It was argued that, if the licence was granted to Cable and Wireless (who are already familiar with activities of this kind), it would not be necessary to share knowledge of the activities with the other partners in Mercury.

I understand that the powers provided under the Telecommunications Bill provide the necessary legal basis. But there remains the question of restricting knowledge of the activities concerned, and I do not think that the new proposals meet that need.

I suggest that we should have a short meeting to consider this point.

I am sending copies of this letter to Antony Acland, Brian Hayes and Andrew Turnbull.

*Yours ever
Robert*

Sir Brian Cubbon GCB

CONFIDENTIAL

Post & Telecom : Future P+B.

22 JAN 1984



CONFIDENTIAL

bc. J. Redwood

l



10 DOWNING STREET

From the Private Secretary

17 February, 1984.

Mercury Licence

The Prime Minister has seen your Secretary of State's minute of 15 February. She is content that the Mercury licence should be granted direct to Mercury Communications Limited on the understanding that satisfactory agreements are reached with the Home Secretary and the Foreign and Commonwealth Secretary.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), Hugh Taylor (Home Office), John Kerr (HM Treasury), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

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

CONFIDENTIAL

CT



JU707

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

16 February 1984

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

Prime Minister (2)

DTI have met your concerns about retaining criminal sanctions for phone tapping and interception of mail and are making the amendments set out below

AT 16/2

Dear Andrew,

TELECOMMUNICATIONS BILL: LEGAL RIGHT TO INTERCONNECT AND DELETION OF CLAUSE 45

Thank you for your letter of 10 February about the Prime Minister's reservations on the deletion of Clause 45 of the Telecommunications Bill. My Secretary of State has also received and is grateful for comments from a number of colleagues in response to his letter of 3 February to the Secretary of State for Employment. Your letter recorded the Prime Minister's wish to be sure that the Home Secretary and Sir Robert Armstrong are content with what is proposed. You will have seen the Home Secretary's letter of 14 February. Further, I understand that Sir Robert Armstrong has no objection. On this basis, and in view of the need to act quickly on this during the Lord's Committee Stage of the Bill, my Secretary of State will be asking Lord Cockfield to table amendments to the Bill today. Our specific proposals are set out below.

2 The deletion of Clause 45 would have no effect on the offences of telephone tapping, which are contained in Clause 46 of the Bill, and of tampering with mail which are contained in sections 45 of the Telegraph Act 1863 and 20 of the Telegraph Act 1868. The only connection between Clauses 45 and 46 of the Bill is that they are adjacent in the Bill and were drafted in parallel and in very similar terms, partly in the hope that Clause 45 would detract attention from Clause 46. This tenuous connection would be safeguarded by the amendment to Clause 45 which my Secretary of State now proposes to make.

3 My Secretary of State has reconsidered his proposal to delete Clause 45 in its entirety in the light of the Attorney General's letter of 9 February and now thinks it appropriate to delete only part of the Clause. As drafted Clause 45 deals with two separate activities. Clause 45(1)(a) makes it an offence for a person engaged in the running of a public telecommunication system intentionally to prevent, delay or interrupt the transmission or reception of a message. It is this provision which criminalizes those kinds of industrial action that are made subject to civil proceedings under the amendments which the Prime Minister has agreed to in Clause 16 to 18.



4 Clause 45(1)(b) on the other hand makes it an offence for a person engaged in the running of a public telecommunication system intentionally to modify or interfere with the contents of a message. This is a different type of offence, being more akin to fraud, and ought not arise during an industrial dispute; if it did arise a decision to prosecute would be easy to justify. The ending of the BT telegram service would appear to have rendered the offence obsolete but liberalisation could result in a private telegram service being established in which case the offence might serve a useful purpose. Moreover, retention of Clause 45(1)(b) would leave public telecommunications employees more nearly on the same footing as Post Office employees. It is therefore proposed to delete Clause 45(1)(a) and retain Clause 45(1)(b). Otherwise the proposals will be as described in the paper attached to my Secretary of State's letter of 3 February.

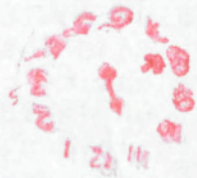
5 Copies of this letter go to the recipients of yours.

Yours ever,

A handwritten signature in cursive script, appearing to read 'Andrew Lansley'.

ANDREW LANSLEY
Private Secretary

Post + Tel : Inhil d P.O. Pte



1984

CONFIDENTIAL

File

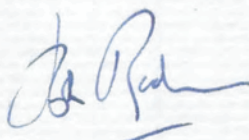
MR TURNBULL

MERCURY LICENCE

I have telephoned Mr Taylor in the DTI and asked whether it mattered that the licence would now be passing from a financially strong profitable group to a start-up company experiencing substantial cash outflow.

He countered by saying that the important thing was the commitment of the two principal shareholders, Cable and Wireless and BP and that they saw it as a way of bringing BP more fully into the net. They had considered this aspect and were satisfied.

In view of this I do not think we should trouble the Prime Minister concerning this pedantic question and can see no other objection to the proposal as set out by Norman Tebbit.



JOHN REDWOOD
16 February 1984

CONFIDENTIAL

NBPM
AT
1512

Ref. A084/552

MR TURNBULL

In your letter of 10 February to the Secretary of State for Trade and Industry's Private Secretary you said that the Prime Minister would wish to be sure that I was content with the proposal to delete Clause 45 of the Telecommunications Bill.

2. It is important that Clause 46 should be retained, but from my point of view there will be no objection to the deletion of Clause 45. I understand that the Home Secretary is also content either to delete Clause 45 or alternatively to retain Clause 45(1)(b) only.

3. I am sending copies of this minute to the Private Secretaries to the Home Secretary and the Secretary of State for Trade and Industry.

RA

ROBERT ARMSTRONG

16 February 1984



JH 875

PRIME MINISTER

CONFIDENTIAL

Prime Minister ①

Mr Tebbit wishes to transfer the Mercury licence from C&W (with Mercury as agent) to Mercury itself. Neither I nor policy unit can see any objection, though FCO may have reservations. Agree, subject to colleagues?

Yes no

AT 16/2

MERCURY LICENCE

I am increasingly concerned that the present arrangements, whereby the Mercury licence is granted to Cable and Wireless (C&W), with Mercury Communications Ltd as its agent, may be damaging Mercury's prospects.

2 Our present policy is for Mercury to be the only network competitor for BT. We hope that by the end of the decade Mercury will have emerged as an effective second network giving telecommunication users a choice of network. The Mercury venture is, however, full of risks and we cannot afford to put any unnecessary obstacles in its way.

3 We adopted the present licensing arrangement because allowing a second network was an unprecedented step and we wanted control to rest in the hands of an established telecommunications operator over half of whose shares were owned by the Government and with whom there was an established basis of trust. We were also influenced by considerations of national security.

4 Mercury has now progressed to the point where it has started to do a limited amount of business. Major construction



contracts have been let and in recent discussions C&W and BP have agreed in principle to accept licence obligations requiring them to install the Mercury network on a more extensive basis than planned hitherto. This obligation will require Mercury to invest large sums of money, possibly as much as £600 million. The precise sums and the nature of the obligation are not yet fixed, however, and the Mercury partners have been slow to reach decisions.

5 Some of this may be attributable to the arrangement whereby Mercury is merely C&W's agent, which generates commercial tensions between BP and C&W. One of the partners, C&W, is the licensee and as a result appears to have the upper hand in the venture even though it puts up less than half the cash. BP puts up an equal amount of cash but finds itself as the minor partner.

6 Legally, the agency arrangement adds complexity. There is a series of joint-venture and management agreements which mean that lawyers have to spend time considering the legal implications of decisions and even how they are to be taken. There are complications for the new licence which Mercury will need under the Telecommunications Bill.

7 C&W and BP have now joined together to ask that the new licence should be granted to Mercury Communications Ltd direct and not to C&W. I would welcome your agreement that this should



be done. It would provide a much simpler arrangement, enabling the venturers to put their money into a single company which could get on with the job of installing the new network and attracting customers from BT.

8 Since we granted the original licence the Government's shareholding in C&W has been reduced below 25% and is lower than the 31.75% shareholding in BP. Mercury is an established company and its new Chairman, Air Chief Marshall Sir Douglas Lowe, formerly Chief of Defence Procurement, is someone we can trust completely to handle national security issues. Moreover, the Telecommunications Bill will provide a watertight legal basis for giving Mercury specific directions in the interests of national security and international relations. This was lacking when the Mercury licence was first granted. I understand that the Home Office are content that these new powers would be adequate for their purposes.

9 One possible objection to giving the licence to Mercury is that Mercury itself and not C&W would then be designated as a public telecommunications operator. As a consequence, the Government would not be able to give C&W directions about its other activities overseas, for example in Hong Kong. I understand that the Foreign and Commonwealth Office would prefer to retain arrangements under which C&W could be directed to continue operations in Hong Kong even if the company wanted to



pull out for commercial reasons. I do not think this is a realistic concern. At present C&W is investing heavily in Hong Kong for the long-term future. If eventually C&W did want to withdraw for good commercial reasons, it would be wrong in principle for the Government to use powers of direction to overrule the company's judgement. I would also resist any idea that we ought to keep C&W in a position where it would be directed to remain in small colonies and other overseas territories; if in future the Government wanted to secure that C&W provided telecommunications service in any overseas territory, we should surely do this under a commercial arrangement.

10 Against this background I would be glad to have your agreement that when the Telecommunications Bill enters into force I should grant the Mercury licence direct to Mercury Communications Ltd, on the understanding that the text of the licence itself and of any direction that needs to be made in the interests of national security or international relations was agreed with the Home Secretary and the Foreign and Commonwealth Secretary.

11 Copies of this minute go to Geoffrey Howe, Leon Brittan and Nigel Lawson and to Sir Robert Armstrong.



N T

15 February 1984

15 FEB 1964

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COMMUNICATIONS

15



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

14 February 1984

2 Norman,

TELECOMMUNICATIONS BILL: LEGAL RIGHT TO
INTERCONNECT AND RETENTION OF CLAUSE 45

Thank you for copying to me your letter of 3 February
to Tom King.

I would have no objection to your proposal that clause
45 should be deleted from the Bill. I should also be content with
the alternative option which I understand you are considering of
retaining clause 45, but deleting sub-section (1)(a), with
consequent drafting amendments.

I am copying this letter to the recipients of yours

Norman,
Norman

The Rt Hon Norman Tebbit, M.P.

Post + TELE

Future of P.O.

R.

S.

CCNO

NDPM

14/12



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (LlInell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

14 February 1984



De Kenick

THE POST OFFICE COUNTERS NETWORK

Thank you for copying to me your letter of 23 January to Peter Rees.

Post Office closures are inevitably contentious at local level though perhaps less so in towns than in rural areas. It would be helpful if you would let me know should the Post Office revise its forecast, especially if that suggested Welsh closures much in excess of the 120 now likely. We will need too, to look at the balance within Wales.

Copies of this letter go to the recipients of yours.

*I have for a recent Cardifney
case how explain this can be!*

J. B.

Nick

Rt Hon Kenneth Baker MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET



CCNO

NBPM

AF

14/2

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1

14th February 1984

Da Nam,

TELECOMMUNICATIONS BILL: LEGAL RIGHT TO INTERCONNECT AND
DELETION OF CLAUSE 45

Thank you for your letter of 3 February about the amendments
you propose to make to the Telecommunications Bill.

It seems to me to be the right course to provide BT with a
defence against failure to observe licence conditions in
circumstances beyond its control while at the same time
providing a clear remedy against anyone organising industrial
action which is designed to cause a breach of a licence
enforcement order. Subject to the outcome of the
consultations between our officials about the precise form of
the amendment, I am happy to give your proposal my support.

I also agree that if the Bill provides an effective civil
remedy against selective industrial action, there are no
strong arguments for retaining clause 45 and persuasive
reasons for deleting it.

I am copying this letter to the recipients of yours.

2
—
h

CCDP

NBM AT 13/2



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

13 February 1984

De Norman

TELECOMMUNICATIONS BILL: LEGAL RIGHT TO INTERCONNECT

Thank you for copying to me your letter dated 7 February 1984 addressed to Tom King.

I agree that the existing clause 45 is not entirely satisfactory. The amendments you propose to the draft licence and to clauses 16-18 would appear to achieve our objectives with greater precision and I doubt whether we will need clause 45 in addition even if modified as you suggest.

/ Copies of this letter go to recipients of yours.

[Handwritten signature]
EJW
Nick

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

HOUSE OF LORDS,
SW1A 0PW

*With the
Lord Chancellor's Compliments*



NDPH
BT 1312
GGDP
HOUSE OF LORDS,
SW1A 0PW

10 February 1984

Telecommunications Bill

My dear Norman:

Thank you for copying to me your letter to Tom King of 3rd February and the accompanying papers.

I have also seen the replies of Arthur Cockfield and Michael Havers. Like them, I agree with you that trade union disruption would best be dealt with by civil rather than criminal sanctions, and I therefore would be happy to see clause 45 deleted, and the amendments you propose made to clauses 16 - 18.

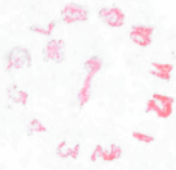
Michael Havers draws attention to the anomaly which this would create with regard to offences by post office workers, and I agree with him that this is something which should be dealt with when time permits.

I am copying this letter to the recipients of yours.

yrs.

The Right Honourable
Norman Tebbit MP
Secretary of State for Trade & Industry
Department of Trade & Industry
1-19 Victoria Street
London S.W.1

Post a few future P's



103 FEB 1904

CONFIDENTIAL



Jo H
bc: J Pascale

10 DOWNING STREET

From the Private Secretary

10 February 1984

Dear Andrew,

Telecommunications Bill: Legal right to interconnect
and deletion of Clause 45

The Prime Minister has seen your Secretary of State's letter of 3 February to the Secretary of State for Employment. She is content with the proposed amendments to clauses 16-18 which would make selective action by unions to frustrate interconnect with Mercury and other operators a tort. She recognises the case for deleting clause 45 but, before this is done, she would wish to be sure that the Home Secretary and Sir Robert Armstrong are content. She would not wish the deletion of this clause if the effect were to remove phone tapping (and by analogy tampering with mail) from the Criminal Law.

I am copying this letter to David Normington (Department of Employment), Janet Lewis-Jones (Lord President's Office), John Kerr (H.M. Treasury), Richard Stoate (Lord Chancellor's Office), Hugh Taylor (Home Office), John Graham (Scottish Office), Colin Jones (Welsh Office), John Lyon (Northern Ireland Office), Henry Steel (Attorney General's Office), Alex Galloway (Office of the Chancellor of the Duchy of Lancaster), Christine Duncan (Lord Advocate's Department) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Andrew Lansley, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

YC

Yes - provided
Sir Robert Armstrong



is happy
about deleting
Clause 45

10 DOWNING STREET

mt

Prime Minister ①

Mr Tebbit is proposing two changes
to the BT Bill

(i) amending clauses 16-18
so that any union action
directed at frustrating
interconnection with Mercury
becomes actionable (at present
it is immune if found to be
in furtherance of a legitimate
industrial dispute).

(ii) deleting Clause 45 which
makes interfering with a
telephone call a criminal
offence (the civil remedies of
Clause 18 would be available).

Mr Pascalis note attempts a
simple explanation. Lord
Cochfield supports package as
being balanced in treatment
of unions. Attorney General
is also content.

Agree tabling of revised
clauses?

AT 9/2



ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

The Rt.Hon.Norman Tebbit MP
Secretary of State for Trade & Industry
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

9 February 1984

Dear Norman.

TELECOMMUNICATIONS BILL: LEGAL RIGHT
TO INTERCONNECT AND DELETION OF CLAUSE 45

With AT

Thank you for copying to me your letter of 3 February to Tom King.

The proposed amendments to Clauses 16 to 18 of the Bill will clearly be controversial. I am satisfied, however, that they will not operate on the current litigation between Mercury and the Post Office Engineering Union in such a way as to cause a serious legal policy problem.

So far as the deletion of Clause 45 is concerned, I think I should point out that this will introduce an apparent anomaly. Employees of the Post Office will continue to be liable to prosecution for interfering with the delivery of messages or letters, whereas analogous action by BT employees will be immune. I am not suggesting that this should in any way determine your policy on Clause 45. I do, however, think that the Government will need to have prepared a line to take if the question is raised in debate and that, in the longer term, we should review the Post Office legislation.

I am copying this letter to the recipients of yours.

Yours GC

Michael.

—

Post + Telecoms. Future Pt 8.

EC DP

MR TURNBULL9 February 1984cc Mr Redwood
Mr LetwinINTERCONNECT: CLAUSE 45

The proposals are intended to ensure that industrial action aimed specifically at preventing interconnect with Mercury does not succeed. Interconnect is essential to the commercial success of Mercury.

The suggested amendments to the Telecommunications Bill would expose the trade unions to civil remedies if they take any action which resulted in a breach of an order by the Director General requiring compliance with a licence condition about interconnect.

It would not be acceptable simply to make the breach of a statutory duty a tort. Any industrial action which breached the licence would then qualify and the practical effect would be to deny the unions any opportunity to take industrial action.

The current position is also unclear as legal opinion is divided about the likely outcome of the forthcoming Mercury v POEU trial in the High Court.

The proposed solution would leave the union free to withdraw their labour generally but would expose them to civil actions for any selective action aimed at Mercury.

It is also proposed to amend the Telecommunications Bill to safeguard BT's position when failure to interconnect is not the fault of BT. Although this does reduce the incentive for BT to ensure that interconnect is carried out, it will help the flotation and will be balanced by a change in the force majeure clause in the licence. BT will not be able to claim that they are not in breach of a licence condition because failure to interconnect arose from union activity. This will ensure that any breach of the interconnect terms could be the subject of an immediate enforcement order by the Director General.

These changes also provide an opportunity to delete Clause 45 of the Telecommunications Bill which makes it a criminal offence to interfere with a telephone call. Provided that criminal activities such as phone tapping are covered elsewhere, it is entirely consistent with our policy to make industrial disputes the concern of civil rather than criminal remedies. The amendments proposed above would provide a civil remedy for selective trades union action.

The deletion of Clause 45 will also enable us to argue that the package as a whole introduces some desirable reforms. This will help to counterbalance the hostile union reaction to our other proposals.

Conclusions

We support Norman Tebbit's proposals which are necessary to ensure the success of our telecommunications policy.

Nevertheless we are proposing to take legislative authority to thwart trade union action against interconnect in cases where trade union immunities would normally apply.

We should not underestimate the likely political controversy over these moves. We shall no doubt be accused of pre-empting the outcome of the Mercury v POEU High Court case by overriding the distinction between a normal trade dispute and political action.

The powers conferred upon the Director General need to be clearly defined to ensure that there is no question of the removal of union immunities in normal industrial trade disputes.

The deletion of Clause 45 is a sensible reform which will also be helpful in rebutting union opposition to the proposals.

D. Scala

pp DAVID PASCALL



10 DOWNING STREET

From the Private Secretary

8 February 1984

The Prime Minister has asked me to thank you for your letter of 3 February, enclosing a copy of the memorandum which Barclays Merchant Bank Ltd. have sent to the Secretary of State for Trade and Industry. The Government is concerned at the low level of direct share ownership and is anxious to ensure that more people have a stake in the success of the enterprise for which they work. The privatisation programme is an opportunity to tackle both problems. The Prime Minister was, therefore, very grateful to you for the trouble you have taken in developing your ideas.

Andrew Turnbull

The Lord Camoys

HL

cc. Karr (HWT)
Hudson (FinSec
HWT)
McLarty (BTI)

✓



Chancellor of the Duchy of Lancaster

NBHM RT 7/2 ca/10
CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

7 February 1984

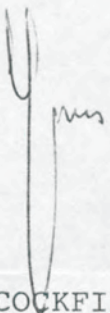
Miss Norman,

TELECOM BILL: LEGAL RIGHT TO INTERCONNECT AND DELETION OF CLAUSE 45

Thank you for copying to me your letter of 3 February to Tom King.

The amendments to Clauses 16 to 18 will be highly controversial as they are clearly and specifically directed against trade union activity. It will only be possible to defend this if in fact we do delete Clause 45 - and delete it entirely - thus enabling us to argue that this is a package deal and as a package is advantageous, not disadvantageous to the unions. On this basis I would agree to your proposals.

I am copying this to the recipients of your letter.


COCKFIELD

The Rt Hon Norman Tebbit
Secretary of State for Trade
and Industry
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

Post + TEL: Future
A8





10 DOWNING STREET

Prime Minister (2)

Simply to be aware of the kind of ideas people are developing for widening market for BT shares. You may already have seen the proposed clause for the Bill, permitting a mini prospectus.

I will reply to Lord Camoys

AT

6/2

CONFIDENTIAL



CC/NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

6 February 1984

Dear Kenneth,

THE POST OFFICE COUNTERS NETWORK

Thank you for sending me a copy of your letter of 23 January to Peter Rees about the Post Office's proposals to close 80 Crown Offices and up to 1,000 sub-offices over the next two or three years in urban areas.

I have subsequently seen the letter from No10 of 26 January recording the Prime Minister's comments and Norman Fowler's letter of 2 February.

Like Norman, I would not wish to oppose the closures but I believe the correct presentation of them is vital. They are likely to prove highly unpopular and will fall particularly hard in the decaying urban areas which our inner city policy aims to sustain. I am sure that the advocates for those areas will argue, quite plausibly, that the loss of a sub-post office can be a death blow to a whole group of shops which are important both for providing facilities for old people and those tied down by small children and long hours of work.

I am copying this letter to the recipients of yours.

Your ever
Patrick

PATRICK JENKIN

POST + TELECOM: Future of Po: P&T

27 FEB 1984





JH 797

Secretary of State for Trade and Industry

NBPM AT6/2 a ✓
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

6 February 1984

The Rt Hon Norman Fowler MP
Secretary of State for Health and
Social Services
Department of Health and
Social Security
Alexander Fleming House
Elephant and Castle
London SE1

D Norman

THE POST OFFICE COUNTERS NETWORK

Thank you for your letter of 2 February. I can confirm that these proposals will not prejudice the pricing arrangements which your Department and other user Departments have in place with the Post Office under the provisions of the Agency Services Agreement.

2 I have written to Ron Dearing today giving him financial approval for the project on the basis set out in Peter Rees' letter of 27 January; and I have stressed the importance of ensuring that the public announcement is handled sensitively. On the one hand, I have asked him to try to avoid committing himself too rigidly to a maximum of 1,000 offices - Peter Rees referred to this as did the Prime Minister's Private Secretary in his note of 26 January; and I have also pointed to the dangers of the closures being linked in the public perception to recent publicity on the decline in Government business. I have asked him to keep in touch on the timing of the announcement.

3 I am copying this letter to the Prime Minister, to members of E(A), John Selwyn-Gummer and Sir Robert Armstrong.

Norman

NORMAN TEBBIT

BS1 + Ter : future v. 8

10 FEB 1984

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1

BARCLAYS MERCHANT BANK LIMITED

REGISTERED IN LONDON ENGLAND - REG. NO. 181866 REG. OFFICE: 54 LOMBARD STREET, LONDON, EC3P 3AH

TELEGRAPHIC ADDRESS: BARCLOSEA LONDON EC3V 0BA
TELEPHONE NO. 01-623 4321
TELEX: 8812124 BMB G

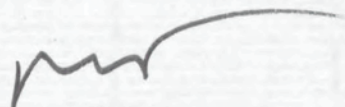
P.O. BOX NO. 188

15/16 GRACECHURCH STREET
LONDON, EC3V 0BA

PRIVATE AND CONFIDENTIAL

3rd February, 1984

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1



Dear Prime Minister,

THE PRIVATISATION OF BRITISH TELECOM ("BT")

I have pleasure in enclosing a copy of a memorandum which we have today submitted to the Secretary of State for Trade and Industry proposing a major role for the Barclays Group in the privatisation of BT. Conscious of your very active interest in widening share ownership, I thought it important also to bring it to your direct attention.

Yours sincerely

Camoys

LORD CAMOYS
Managing Director

Enclosure

BARCLAYS MERCHANT BANK LIMITED

REGISTERED IN LONDON ENGLAND - REG. NO. 181866 REG. OFFICE: 54 LOMBARD STREET, LONDON, EC3P 3AH

TELEGRAPHIC ADDRESS: BARCLOSEA LONDON EC3V 0BA
TELEPHONE NO. 01-623 4321
TELEX: 8812124 BMB G

P.O. BOX NO. 188

15/16 GRACECHURCH STREET
LONDON, EC3V 0BA

PRIVATE AND CONFIDENTIAL

3rd February, 1984

The Rt Hon Norman Tebbit MP
Secretary of State
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

PRIVATISATION OF BRITISH TELECOM

It is with pleasure that I submit to you the enclosed proposals which are designed not only to assist the privatisation of British Telecom (BT) but also to help widen share ownership in the UK. The British Telecom issue represents a major challenge to the City institutions and provides an ideal opportunity to introduce the concept of share ownership to a very wide audience.

We would like to place the retailing expertise of the Barclays Group at the disposal of the Government in its efforts to achieve the widest possible distribution of the shares. Barclays Merchant Bank (BMB) is not only an active and respected issuing house, but has particular skills in popularising the concept of share ownership. This was widely acknowledged in the comments on our ability to make the complexities of a prospectus simpler and intelligible when we produced the documentation for the very successful National Freight Consortium employee buy-out. We believe that this is another area of expertise which could be invaluable in capturing the interest of ordinary people in the BT issue.

The detailed proposals contained in our memorandum focus largely on marketing and distribution. They can be divided into seven phases:-

- Phase 1 - An educational publicity campaign on the benefits and risks of share ownership. This would be for a period of up to six months prior to the British Telecom issue.
- Phase 2 - A re-examination of the procedures of The Stock Exchange to see whether they could be simplified and made less expensive for individual share owners. The review should take place concurrently with Phase 1 but would be most unlikely to be implemented before the British Telecom issue.
- Phase 3 - A publicity campaign promoting the British Telecom corporate image through prestige advertising. This would be launched some three months before the issue.
- Phase 4 - The distribution of simple publicity material, possibly with telephone bills and through other suitable outlets, as an introduction to the full prospectus.
- Phase 5 - A carefully planned programme of 'road shows' explaining both the issue and the procedures. This will be principally aimed at local radio and television.
- Phase 6 - The use of television as an advertising medium for the prospectus.
- Phase 7 - The use of the clearing banks' networks both to distribute leaflets and prospectuses and to make available competent staff to explain to the public the procedure for subscription. Barclays, which alone has branches open on Saturday, has a unique ability to help in this way.

Not
attached.
AT

The memorandum also sets out the rationale for BMB to be appointed joint lead manager of the BT issue. As part of its overall commitment, the Barclays Group is willing to consider a significant underwriting position, a large proportion of which would be without recourse to sub-underwriting. I do not hesitate to say that Barclays is the only banking group in the UK which can offer a comparable combination of retailing power, financial muscle and merchant banking skills.

Since these proposals range so much more widely than the BT issue itself, I have taken the liberty of copying this letter and memorandum to the Prime Minister and to Treasury Ministers.

We would welcome a meeting with you in the very near future to discuss the proposals in greater detail.

Yours sincerely

C

LORD CAMOYS
Managing Director

c.c. Prime Minister ✓
Chancellor of the Exchequer
Chief Secretary to the Treasury
Financial Secretary to the Treasury
Minister of State, DTI
Parliamentary Undersecretary of State, DTI

Enclosure

STRICTLY PRIVATE AND CONFIDENTIAL

PROPOSALS FOR THE ISSUE

OF SHARES BY

BRITISH TELECOM

—

A NEW STRATEGY FOR WIDENING

SHARE OWNERSHIP IN

THE UNITED KINGDOM

BARCLAYS MERCHANT BANK LIMITED

CORPORATE SERVICES DIVISION

LONDON

2nd February, 1984

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COVERING NOTE

This paper puts forward some new proposals relating both to the sale of shares in British Telecom ("BT") by the Government and to the larger question of the need for wider share ownership in the UK.

Our proposals focus on the capacity of the personal sector to increase its investment in shares and the marketing and distribution methods by which such wider ownership can be achieved. The paper introduces, inter alia, the idea of a wider role for the clearing bank networks in the distribution of BT shares to the general public. Barclays Merchant Bank Limited ("BMB") seeks to be fully involved in all aspects of the BT issue as a joint lead manager, encompassing not only responsibility for the planning and execution of the marketing and distribution campaign but also a substantial underwriting position.

It should be emphasised that the proposals set out in this paper have not been discussed outside the Barclays Group. We would strongly recommend a meeting with the Government and BT, together with their advisers, to discuss our proposals in greater depth.

INTRODUCTION

The wider ownership of shares, particularly in newly privatised businesses, is a major political objective of the Government. In essence, the Government wishes to create a 'share owning democracy'. We believe that wider share ownership is no mere political or philosophical goal; it will provide a greater pool from which businesses of all sizes can raise capital to expand. Indeed, one of the great weaknesses in the development of companies in the UK, especially compared with their competitors in the US, has been the view of the greater part of the population that the ownership of shares is in some ways an elitist or rich man's hobby.

Unfortunately, the traditional practices of the City institutions, and in particular the merchant banks, have discouraged wider ownership to the detriment of the country's political and economic development. The City has been successful in many ways but it certainly has not taken the concept of capital to the people. The privatisation of BT, not least because of its very size, represents a chance to develop a 'share owning democracy'. The methods introduced can be applied to other equity issues whether by the Government or private industry.

The BT issue will certainly be very large in relation to the institutions' appetite for UK equities. The value of half the equity in BT has been estimated at £4 billion. The total net purchases of all UK ordinary shares by the institutions (mainly pension funds and insurance companies) have amounted only to some £2.4 billion in each of the last three years.

There will be factors which encourage the institutions to participate actively in the BT issue. Clearly, most will want BT's equity as part of their portfolios. It is possible that investment in overseas securities will be cut back to accommodate it, particularly if sterling remains weak against the dollar. To the extent that the BT issue reduces the Government's need to sell gilts, further funds will be available for BT shares. In addition, US and other investors may be encouraged by exchange rate considerations. Nevertheless, the Government will be looking for a sizeable investment by the personal sector, which, for the purposes of this paper, includes small institutions such as private company pension funds and charities. This paper proposes a new marketing and distribution strategy by which this can be achieved based on an analysis of the current pattern of savings and share ownership in the UK.

CURRENT SAVING AND INVESTMENT HABITS

1. Background

In considering the savings of the personal sector the most interesting feature, in relation to any share issue, is the discretionary rather than the committed element.

Detailed statistics on discretionary savings are only available up to 1980. Later data are available only for the personal sector as a whole and include both discretionary and committed elements. The underlying trends can, however, be discerned from the figures set out in Appendix I.

The savings ratio rose sharply between 1977 and 1980, accompanied by rises in both building society and bank deposits. Since 1980 the ratio has fallen sharply. However, building society deposits have gone on rising. Between 1980 and 1982 bank deposits made by the personal sector fell from £6.6 billion to £3.8 billion, while building society deposits rose from £7.2 billion to £10.0 billion. Indications are that 1983 was another good year for building societies.

2. The Distribution of Savings; An Analysis by Type

The trend towards building societies as a haven for discretionary savings is confirmed by a survey of personal finance recently published by Mintel Publications Limited comparing responses in 1969 with those in 1982. Asked where they would invest a £1,000 gift, respondents answered as follows:-

	<u>1969</u> %	<u>1982</u> %
Building society	35	54
Bank deposits	9	8
Stocks/shares	13	5
Unit Trusts	8	3
Investment Trusts	4	4

Most striking of all is that in January, 1981 an IFT Marketing Research study showed that whereas 46 per cent. of respondents had a building society account and 29 per cent. a bank deposit account, only 5 per cent. owned either stocks or shares. The equivalent figure in the US is about 24 per cent.

3. The Distribution of Savings; An Analysis of Savers

Figures in Appendix I indicate that the average value of bank and building society deposits at mid 1983 was about £5,600 per household. In the Mintel Survey referred to above, 25 per cent. of respondents had savings (including physical assets other than main residences, but excluding pension schemes) between £1,000 and £10,000 and 5 per cent. had more than £10,000. Obviously there is a clear correlation with age and social class. Nevertheless, there are some striking figures:-

(a) By age

- (i) 21 per cent. of 20-24 year olds had savings in excess of £1,000.
- (ii) 32 per cent. of 25-34 year olds had savings in excess of £1,000.

(b) By socio-economic group

- (i) Of those in group C1, 41 per cent. had savings in excess of £1,000 and 7 per cent. in excess of £10,000.
- (ii) Of those in group C2, 25 per cent. had savings in excess of £1,000 and 2 per cent. in excess of £10,000.
- (iii) Of those in group D, 19 per cent. had savings in excess of £1,000.

4. Conclusion

Clearly these figures show a considerable savings base which can be utilised to invest in equities not only by socio-economic group AB but also groups C1 and C2 and, to some extent, group D. Having established this large savings capacity, the paper now examines the pattern of share ownership in the UK.

SHARE OWNERSHIP

1. Background

Share ownership is increasingly uncommon in Britain despite rising living standards. The personal sector has been a substantial net seller of equities in recent years. This clear trend has persisted even during periods when discretionary saving as a whole has been rising.

Large numbers of people with high levels of savings do not invest in stocks and shares. Extrapolation of the figures in the Mintel survey indicates that, of those with savings in excess of £10,000, only 500,000 own shares; some 1.5 million in this upper savings bracket do not. Of the 10 million people with savings between £1,000 and £10,000, only 800,000 own shares. Certainly some will be saving for a house purchase but given the level of existing home ownership, many more will not be in this position.

2. Reasons for the Decline in Share Ownership

The factors leading to the decline in share ownership in the UK would appear to be the following:-

- (a) The redistribution of wealth towards social groups not traditionally owners of shares.
- (b) Lack of knowledge; those who do own shares are among the more sophisticated of personal savers.
- (c) The high cost and complexity of dealing in shares; Money Which? in December, 1982 put the cost of buying or selling £700 worth of shares at 5-6 per cent. of the investment, in addition to the difference between buying and selling prices.
- (d) The lack of reliable and easily accessible advice.
- (e) Loss of investor confidence during the recession; it should be noted, however, that, as shown in the article in Money Which?, shares generally have outperformed building society deposits since 1968, with the exception of the period from early 1974 to mid 1975.
- (f) The fiscal advantages resulting from indirect investment through pension and insurance schemes; the Stock Exchange recently reported that while the value of UK equities owned by individuals rose from £16.7 billion to £28.0 billion between 1975 and 1981, the proportion of the total fell from 37.5 per cent. to 28 per cent.
- (g) The increasingly widespread provision of occupational pension schemes, often non-contributory, reducing the perceived need for long-term investments.

We believe that a fundamental reason for this decline has been the lack of a proper retailing service for equities in the UK. In the US such a system does exist through organisations such as Merrill Lynch and Sears Roebuck. The lack of such a service has clearly inhibited socio-economic group AB from investing, let alone groups C1 and C2, which have a fast rising share of disposable income in the UK.

3. Trends

As profitability in industry has recovered, so too has investment in equities. 1983 was a record year for new issues. Despite adverse factors such as the trend to indirect investment, and despite lower savings, the net sale of shares by the personal sector could be reduced or reversed. Individuals continue to deposit in building societies; they could be persuaded to invest in shares in companies. The rebuilding of liquid assets which followed the high inflation of the 1970s seems to be nearing an end. Consumer spending is buoyant, so there are certainly funds to be tapped. The tax treatment of the 'unearned' income and capital gains of small investors has been radically improved since 1979.

The privatisation programme to date has brought the possibility of share ownership before the public eye and, as Appendix II shows, the performance of privatised shares has been reasonably good. In short, we believe that the time is ripe for a major resurgence of direct equity investment by individuals, and that the BT issue offers a unique opportunity to encourage it. As our statistics have shown, there is certainly an adequate savings base to support this.

LIKELY INVESTORS WITHIN THE PERSONAL SECTOR

The analysis in the paragraphs above sets out the potential market available. This potential must be fulfilled if the BT issue is to be fully subscribed and if the longer term aim of widening share ownership is to be achieved.

1. The Employees of BT

An obvious target group will be the employees of BT. Experience in previous privatisation issues, set out in Appendix III, points to a reasonably encouraging level of employee participation, both within and outside special employee schemes. It should be noted that, in some cases, this participation has occurred despite union opposition.

There are three methods by which employees can take shares in an issue. First, as in previous privatisation issues, eligible employees of BT could be offered, say, £60 worth of free shares each. Secondly, most privatisation issues have also included an offer to match a restricted number of shares purchased by employees. Since the issued capital per employee of BT is likely to be closer to that of Amersham International plc ("Amersham") than to any other newly privatised concern, a matching offer similar to the one available to Amersham employees would seem to be appropriate, i.e. about 1 per cent. of the issued capital would be available, on a 1 for 1 basis, subject to a limit on individual subscriptions of £250.

Thirdly, there is the use of pink forms for employees. We would envisage about 4 per cent. of the issued capital being available for this purpose. The total initial allocation for employees would then be 5.5 per cent. In all previous privatisations, this allocation has been between 5 and 6 per cent.

On the basis of past experience, perhaps 95 per cent. of employees would accept free shares. About 50 per cent. would apply for the matching offer, subscribing an average of about £220 each. 10 per cent. of employees might subscribe an average of £1,000 each on pink forms. This would dispose of 1.2 per cent. of the total issued equity (assuming that to be £8 billion). It would represent 2.4 per cent. of the issue and raise £52.5 million or about 1.3 per cent. of the proceeds.

A striking feature of the response by employees in previous issues has been the fact that relatively few use pink forms but that those who do so tend to subscribe relatively large amounts. A target for the issue might be to persuade more employees - perhaps another 20 per cent. over and above the 10 per cent. baseline identified above - to subscribe on pink forms at an average level of about £500. This would raise £25.0 million. However, even with this enhancement, employees would only take 3 per cent. of the shares sold, and contribute £77.5 million or 2 per cent. of the sale proceeds.

2. Telephone Subscribers

The 19 million telephone subscribers represent another group of potential investors. The possibility of owning shares in a business of which they are customers might appeal to individuals.

It is most unlikely that non-telephone subscribers will be able to afford to invest in equity. If special terms were available to people who do have telephones, they could probably be encouraged to participate in the issue on a significant scale. However, if special terms are ruled out, as seems likely for political reasons, there is an ethical problem with the active solicitation of all subscribers. Marketing would have to concentrate on those people, most of whom will be subscribers, for whom share ownership is a financially sound addition to their current savings and investments.

3. Private Investors

The Consumers' Association recommends that people should only invest in shares if they already have other less risky savings. Most investment advisers would recommend that at least the first £5,000-£6,000 of total savings and investment should be held in deposits and gilts. The minimum recommended equity investment is £700-£1,000 per company, at present dealing costs.

For those building up a portfolio like the one recommended by the Consumers' Association, an investment of £750 in BT would probably be a reasonable first foray into equities. Although many first time investors would place their funds in a unit trust, offering a spread of equities, we believe that BT, combining the solidity of a utility and the growth potential of a "high tech" company, is a viable low-risk alternative. A relatively attractive dividend yield would, however, be necessary.

The target of the BT issue is to ensure that it is fully subscribed. To ensure that this is the case the Government is correctly looking not only to the institutions but also to investors in the US. However, to be successful, the Government must ensure the widest possible participation by the personal sector in the UK. Previous experience with privatisation issues, set out in Appendix IV, indicates that private investors will be attracted in the greatest numbers by a fixed price issue thought likely to be fully subscribed. We, therefore, strongly advise the use of a fixed price rather than tender mechanism, especially as there is little danger of an embarrassing oversubscription.

4. Conclusion

Given a reasonable chance of full subscription, and without the support of our proposals, we believe that past experience supports an estimate that up to 150,000 people might subscribe £750 each. This would raise about £112 million. The target should be to enhance this present maximum figure by a factor of 4-5 to raise at least £500 million from private individuals, exclusive of BT employees. The most likely way of achieving this would be by increasing the number of applications rather than the amount subscribed by each investor.

We have shown that there are 1.5 million people with savings of more than £10,000 who do not yet own shares and an additional 9.2 million people with savings of more than £1,000 who are similarly without shares. The potential, therefore, certainly exists to encourage, say, an additional 500,000 people from these groups to raise the necessary £500 million. Obviously, realistic pricing and an attractive yield are essential elements to this plan.

To achieve this potential a new approach to marketing and distribution will be needed. This does not require a change in the law so much as a fundamental change in attitude. Such a change is totally compatible with Government policy. Details of our proposals are set out in the next section.

MARKETING STRATEGY

1. Background

New owners of shares can be recruited for the BT issue, and subsequent offers, so long as they can be educated and persuaded accordingly.

Identification of a wider social group which will include most of the target category should not be difficult. It is the questions of education, persuasion and distribution which require close attention. The measures required are both general, communicating the benefits of share ownership, and specific, selling BT.

2. General

On the general level, consideration should be given to:-

- a) An educational publicity campaign, sponsored by The Stock Exchange and the Government (and possibly the CBI and the Institute of Directors) on the benefits of share ownership for the individual. This would encompass, inter alia, the tax free nature of capital gains of up to £5,000 per annum, the indexation of capital gains and the relief from investment income surcharge for the first £7,100 of unearned income.
- b) A re-examination of the procedures of The Stock Exchange to see whether they cannot be made more simple and less expensive for individual share buyers. It is recognised that this may involve legislative change which is not practicable within the timetable of the BT issue.

3. Specific

On a specific level, in relation to the BT issue, we propose the following:-

- a) A publicity campaign, using all types of media, promoting the BT corporate image, with emphasis on the extra responsiveness to individual customers' needs which will result from privatisation. This should also carry the message that the opportunity to buy shares in BT gives the public the chance to make it their own company. Such a publicity campaign should be started up to three months before the issue.
- b) The publication of simple publicity material for distribution by direct mail, possibly with telephone bills, and through suitable outlets, as an introduction to the full prospectus. These leaflets should be made widely available well before the issue itself.

- (c) A carefully planned programme of 'road-shows' in major city centres explaining the issue and the procedure to the public at large. Such 'road-shows' will include senior national and regional members of BT, merchant bankers and other advisers. Although each 'road-show' will be aimed at the live audience the real target will be regional television, local radio and newspapers so that, for instance, the issue will be given considerable exposure on the early evening news magazine programmes.
- (d) The use of television as an advertising medium for the prospectus. This technique was used in the recent sale of Cable & Wireless shares, but we would advise a more penetrating approach for BT combining effective marketing with 'prestige' advertising.
- (e) The use of the clearing banks' networks for distribution of leaflets and prospectuses and to assist the public with the procedure of subscription. This is dealt with more fully below.

4. Incentives for Telephone Subscribers

There has been some discussion of direct incentives for BT shareholders in the form of discounts on telephone bills or 'gifts' of telephone equipment or service. We would regard this approach as undesirable since it is open to accusations of discrimination against non-telephone subscribers and of irresponsibility in soliciting shareholders with gimmickry.

5. The Need for Caution

The marketing strategy should be to inform those who have an adequate 'non-risk' savings base about the nature of holding shares and to persuade them that it is interesting and rewarding; that it is within their grasp; and that it offers the intrinsic benefit of direct ownership of productive assets. However, the marketing strategy should not attempt to include those without an adequate savings base except perhaps for employees, for whom the considerations are somewhat different.

USE OF THE CLEARING BANK NETWORK

The network of branches of the clearing banks in the UK is enormous. Although many branches are not equipped to assist in the BT issue, involvement by a significant number would radically increase the potential for selling shares in the retail market. We believe this to be the case for the reasons set out below, reasons which encapsulate the methods we propose:-

1. The Role of Adviser

Market research published in Money Which? in December, 1982, showed that 43 per cent. of share-owners had made their last share purchase through a bank whilst 35 per cent. had dealt directly with a stockbroker. In another survey, 45 per cent. of the general public said they regarded their bank manager as the best source of investment advice.

2. Geographical Spread

The clearing banks have the widest possible geographical coverage in the UK. The only comparable network is the Post Office. In some respects, however, it is preferable for BT to disassociate itself from the Post Office - as, indeed, it has done in other ways.

3. The Example of the US

The development of 'High Street Investment Shops', typified by the highly successful Sears Roebuck operations in the US, has recently been given encouragement by Alex Fletcher M.P, the Minister responsible for corporate and consumer affairs, who noted, on 25th October, 1983, that, "If the securities industry in this country is to grow, we must tap the savings of the community where they are to be found". The BT issue offers the banks an opportunity to test the concept in practice.

4. The Ability to give Technical Assistance

A system such as Barclays' 'personal bankers', available in 315 town centre branches, is almost tailor-made to assist the public with the filling in of the application form where necessary. Clearly, the banks could not be asked to recommend the shares or to solicit applications. Their role would be limited, but significantly more active than in the past.

If the clearing banks were to take an active role in the distribution of BT shares, we would expect them also to show their commitment by taking a significant underwriting position in the issue.

THE ROLE OF BARCLAYS MERCHANT BANK LIMITED

BMB would welcome the joint lead managership of the BT issue. Such a lead management role would encompass the following:-

1. BMB would take a significant underwriting position. Being a member of the Barclays Group, BMB could undertake a large proportion of this underwriting without recourse to sub-underwriters.
2. BMB would design and plan the role of the clearing banks' networks. BMB would then negotiate with the clearing banks the terms of their involvement in the issue and act as co-ordinator for them.
3. BMB would take a leading role in the planning of 'road-shows' and pre-issue publicity and in the drafting of the prospectus. BMB's experience in the National Freight Corporation employee buy-out is directly relevant - the NFC prospectus was widely admired for its clarity. For example, the 'Birmingham Post' of 19th January, 1982, commented, "It is a remarkable document worded and printed so as not to deter people who have never seen a prospectus before, yet backed up by 30 pages of appendices so as to offer (almost) as much in the way of safeguards and information as you would expect for a stock market launch".

It should be emphasised that these proposals form an integral package; we do not believe that it would be feasible to undertake any of the proposals in isolation.

We would like the opportunity, as soon as possible, to meet representatives of the Government, BT and their advisers to discuss our proposals in much greater detail.

APPENDIX I

SAVING AND INVESTMENT OF INDIVIDUALS

(a) Saving and Investment Flows

(i) Net Discretionary Saving through Liquid Assets

	1977	1978	1979	1980
	£m	£m	£m	£m
Bank deposits				
- sight	1,771	1,645	1,250	781
- time	(2,069)	662	3,307	2,771
- interest*	860	931	1,805	3,078
Building societies				
- deposits	4,215	2,922	3,064	3,201
- interest*	1,425	1,616	2,467	3,602
Other	<u>2,360</u>	<u>3,000</u>	<u>3,397</u>	<u>3,137</u>
Total net discretionary saving through liquid assets	<u>8,562</u>	<u>10,776</u>	<u>15,290</u>	<u>16,570</u>

(ii) Net Discretionary Saving through Securities

	1977	1978	1979	1980
	£m	£m	£m	£m
Company securities	(1,493)	(1,503)	(1,971)	(1,630)
Overseas securities	(408)	273	176	35
Unit trust units	25	117	(35)	(8)
British government securities	721	258	2,314	2,345
Other	<u>378</u>	<u>(53)</u>	<u>(227)</u>	<u>(37)</u>
Total net discretionary saving through securities	<u>(777)</u>	<u>(908)</u>	<u>257</u>	<u>705</u>
Savings ratio (%) **	10.8	12.1	12.9	14.8

* Interest accrued but not paid.

**Personal saving as a percentage of total personal disposable income.

Source: 'Committed and Discretionary Saving', 'Economic Trends' November, 1981.

(iii) Saving (Discretionary and Committed) of the Personal Sector

	1980	1981	1982
	£m	£m	£m
Deposits with banks	6,605	3,978	3,849
Deposits with building societies	7,175	7,082	10,055
Company securities	(2,902)	(875)	(2,022)
British government securities	1,948	2,029	1,199
Savings ratio	14.8	12.5	10.8

Source: 'Financial Statistics', table 9.2.

Note that discretionary saving is almost entirely attributable to households. However, a detailed breakdown of this savings component is not available after 1980.

The 'personal sector' includes individuals and a number of other non-corporate bodies.

Volatility in discretionary saving is largely responsible for volatility in the overall savings ratio. Building society deposits have continued to rise since 1980, despite the fall in the savings ratio. The personal sector has been a net seller of company securities even in periods like 1977-80 when the savings ratio was rising.

(b) Individuals' Stocks of Liquid Assets

End:	1980	1981	1982	(Q2)1983
	£m	£m	£m	£m
Building societies*	49,617	56,699	46,993	70,883
Banks (time and sight deposits)	27,744	35,969	38,405	40,876

* Assumes all 'personal sector' savings in building societies attributable to persons.

Source : 'Financial Statistics', tables 6.2 and 9.4.

APPENDIX II

PERFORMANCE OF SHARES IN PRIVATISED COMPANIES

	BP Nov 1979	BAe Feb 1981	C&W Nov 1981	Amersham Feb 1982	Britoil Nov 1982	ABP Feb 1983	BP Sep 1983	C&W Dec 1983
Offer/striking price	363p	150p	112p*	142p	215p	112p	435p	275p**
Closing Price 1.2.84	435p	233p	308p	219p	225p	257p	435p	308p
Price*** against FTA all share index	56	92	166	99	82	189	91	103
Range*** against FTA all share index in last 12 months:-								
High	61	115	199	151	102	191	103	127
Low	43	74	150	97	68	100	77	96

* Offer price of 168p adjusted for a one for two scrip issue in March, 1983

** 100p partly paid, to be completed on 17th February, 1984

*** Index = 100 at date of the issue

APPENDIX III

EMPLOYEE INVOLVEMENT IN PRIVATISATION

The following information has been supplied by the companies concerned and their sponsoring Departments.

(a) Summary

	<u>Issued capital per employee</u>	<u>% of issued capital initially reserved for employees</u>	<u>Initial employee shareholding</u>		<u>Proceeds from employees</u>	
			<u>% issued capital</u>	<u>% shares sold</u>	<u>£m</u>	<u>% sale proceeds</u>
BAe	£4,300	5.8	3.6	7.1	4.3	3.0
C&W	£55,000	5.0	1.4	2.8	6.4	2.8
Amersham	£46,000	5.0	3.7	3.7	2.3	3.6
Britoil	£542,400	6.0	0.1	0.2	0.8	0.1
ABP	£5,000	5.6	4.3	8.4	0.8	3.8
<hr/>						
BT baseline on estimates made on p7.	£32,000	5.5	1.2	2.4	52.5	1.3
BT target	£32,000	5.5	1.5	3.0	77.5	2.0

(b) Details of Employee Response

	Free shares	Matching Offer	Pink Forms*
<u>British Petroleum</u> Nov 1979	-	15,102 eligible employees (47%) applied. Average application £191 partly paid, £463 fully paid.	2,200 non-eligible employees (18½%)** subscribed an average of £165 partly paid, £400 fully paid.
<u>British Aerospace</u> Feb 1981	33 shares; £50. 90% of eligible employees applied.	27,000 employees (40%) applied. Offer twice subscribed. Average application £220. Average allocation £110.	1,290 employees (2%) subscribed an average of £750 each.
<u>Cable and Wireless</u> Nov 1981	35 shares; £60. Almost all eligible employees applied.	-	2,300 employees (20%) subscribed an average of £2,500 each.
<u>Amersham International</u> Feb 1982	35 shares; £50. Almost all eligible employees applied.	1,230 employees (80%) applied. Oversubscribed. Average application £360. Average allocation £250.	630 employees (40%) subscribed an average of £3,174 each.
<u>Britoil</u> Nov 1982	27 shares; £60. 92% of eligible employees applied.	1,229 employees (62%) applied. Average allocation £147 partly paid, £316 fully paid.	276 employees*** (11%) each subscribed an average of £620 partly paid, £1,325 fully paid.
<u>Associated British Ports</u> Feb 1983	53 shares; £60. About 90% of eligible employees applied.	3,430 employees (38%) applied. Average application £206. Average allocation £186.	268 employees (3%) subscribed an average of £700.
<u>British Petroleum</u> Sept 1983	-	-	1,270 employees (4½%) subscribed an average of £850 each.
<u>Cable and Wireless</u> Dec 1983	-	-	136 employees (1%) subscribed an average of £1,656 each.

* Generally all employees are eligible to subscribe on pink forms.

** Only employees ineligible for the BP share schemes subscribed on pink forms.

*** Employees of Britoil and BNOC were eligible.

APPENDIX IV

PERSONAL SECTOR INVOLVEMENT IN PREVIOUS PRIVATISATION ISSUES

There is little published information on this. However, the following information has been gleaned from press reports and other sources.

(a) Summary

Issue	Date	Estimated number of small investors	Number of times over/(under) subscribed	Estimated average amount subscribed per small investor
BP	(f) Nov 1979	n/a	0.5	n/a
BAe	(f) Feb 1981	150,000*	2.5	£800
C&W	(f) Nov 1981	120,000*	4.6	n/a
Amersham	(f) Feb 1982	57,000*	23.6	£440+
Britoil	(t) Nov 1982	37,000	(0.7)	£594 pp, £1,276
ABP	(f) Feb 1983	138,000**	32.6	n/a
BP	(t) Sep 1983	72,870***	0.3	£1,078 pp, £2,344
C&W	(t) Dec 1983	27,500***	(0.3)	£553 pp, £1,527

* Successful applications - many more would have been unsuccessful.

** Total applications - many of these would have been unsuccessful.

***Total applications at the striking price.

+ Assumes that the average holding of small investors was constant over the first months.

f = fixed price offer, t = offer by tender, pp = partly paid.

Note that in the undersubscribed issues, the number of small applications has been depressed to a greater extent than their average value.

(b) Details

British Petroleum - November, 1979. Fixed price £290 million issue, partly paid at 150p, 0.5 times oversubscribed. Applications for up to 1,100 shares were met in full. The extent of the involvement of small investors is, however, not recorded.

British Aerospace - February, 1981. Fixed price £150 million issue. The issue was 2.5 times oversubscribed and small investors were heavily favoured in the share allocation; they received 80% of available shares, worth £120 million. It is not possible to estimate the total value of applications by individuals, but BAe had 158,000 shareholders, of whom 150,000 held fewer than 1,000 shares, immediately after flotation. The average holding in this category was about £800. Small investors were very active in early trading. Their number fell to 27,000 within a few months.

Cable and Wireless - November, 1981. Fixed price £220 million issue, 4.6 times oversubscribed. The number and value of applications from small investors is not known. They were less heavily favoured in the ballot than they had been for British Aerospace. Nevertheless, Cable and Wireless had 150,000 shareholders after the issue, of whom 120,000 held fewer than 1,000 shares. Within a year this number was down to 26,000.

Amersham International - February, 1982. Fixed price £70m issue, 23.6 times oversubscribed. There was every indication of a large number of applications from small investors. The number of Amersham shareholders fell from 62,000 immediately after the issue to 10,000 a month later. At this point, just over 8,000 people held fewer than 1,000 shares, and their average holding was 312 shares, worth £444 at the offer price.

Britoil - November, 1982. Offer by tender of shares worth £548 million at the minimum tender price of 215p. The issue was partly paid at 100p. It was only 30% subscribed. 37,000 small investors subscribed for shares worth £22m partly paid, £47.2m fully paid. The average value of partly paid applications from small investors was thus £594. Small investors were offered a loyalty bonus of one share for each ten held for three years.

Associated British Ports - February, 1983. Fixed price £22 million issue. This issue was 33 times oversubscribed. Small investors accounted for 138,000 out of 156,000 applications. The value of small applications is not known, but a large number would have been unsuccessful.

British Petroleum - September, 1983. Offer by tender worth £526 million at the minimum price of 405p, partly paid at 200p. It was 0.3 times oversubscribed, and the striking price was 435p. 72,870 applications were made 'at the striking price', a facility offered only to small investors. These applications had an average value of £1,078 partly paid, £2,344 fully paid.

Cable and Wireless - December, 1983. Offer by tender worth £275 million at the minimum tender price. The issue was partly paid at 100p, and 70 per cent. subscribed. TV advertising of the prospectus was used (prompted by the threat of a national newspaper strike) and was considered to have been useful in attracting small investors. 27,500 applications were made 'at the striking price', worth £553 partly paid, £1,527 fully paid.



JF5565

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

3 February 1984

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister ②
To note a useful innovation, which
can be adopted in other cases.
AT 6/2

Dear David,

BT FLOTATION : WIDER SHARE OWNERSHIP

I am writing to confirm our conversation and the notice which I provided this morning of a new Clause to the Telecommunications Bill we are tabling in House of Lords Committee. (I told you that we would be tabling the Clause today but we are in fact leaving this until Monday). ms

2 The object of the new Clause is to allow application forms for shares in BT plc to be circulated to potential investors without a full prospectus. The application forms would have to be accompanied by a brief description of BT plc and of the terms of the offer; investors who wanted to would be able to refer to the full prospectus which would be published in several newspapers and be very widely available.

3 We have consulted the Stock Exchange about the change and see no great likelihood of it proving controversial, although some may object on the grounds that the Government is bending the rules to suits its own book. In reply to this, we would say that the BT sale is exceptional in its size, in the extent of publicity which will in any case accompany it, and that these changes need to be seen in the context of wider changes in prospect from forthcoming Community directives.

4 I am sending copies of this letter to the Private Secretaries to the Chancellor of the Duchy of Lancaster, the Leader of the House of Lords, the Lord Advocate and the Financial Secretary.

Yours etc,
Andrew Lansley

ANDREW LANSLEY
Private Secretary



JH 777

Secretary of State for Trade and Industry

NYSAM BT 6/2 → CC NO

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

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3 February 1984

The Rt Hon Tom King MP
Secretary of State for Employment
Department of Employment
Tothill Street
London SW1

D. Tom.

TELECOMMUNICATIONS BILL: LEGAL RIGHT TO INTERCONNECT AND DELETION OF CLAUSE 45

Our officials have discussed the difficulties which arise in ensuring that Mercury and other telecommunication operators secure a right to interconnect with the British Telecom system which cannot be frustrated by the trades unions.

... 2 The enclosed paper describes the problem. It is increasingly apparent that interconnection between the BT and Mercury systems is central to Mercury's commercial success and hence to the achievement of effective competition in telecommunications in this country. We cannot afford to leave a gap in the Bill which will allow the unions, or BT in tacit collusion with the unions, to prevent interconnection taking place. Apart from that, the recent sale of shares in Cable and Wireless - the licensee of the Mercury System - took place against a background of assurances that the Government would ensure that interconnect between BT and Mercury would take place.

3 We must, however, steer a middle course between two pitfalls. On the one hand we must not imperil the BT flotation. We must, therefore, leave BT itself with immunity from damages etc when the unions cause BT not to provide interconnection facilities in circumstances where BT either wants to provide them or take all practicable steps to provide interconnect but in either case is frustrated by the unions.

4 On the other hand we must be careful to fit so far as possible within the general framework of trades union legislation. If BT breached an order by the Director General requiring it to comply with a licence condition, eg the obligation to provide interconnect, it would be in breach of a statutory duty. The existing law may make it a tort to induce a person to breach a statutory duty. But there is doubt about the law on this point. One course might be to provide in the T Bill



that any inducement of a breach of a statutory duty was a tort and actionable accordingly. This would have the effect of making into a tort any industrial action by the BT unions which cause BT to breach a licence enforcement order by the Director. The unions would be liable for damages etc accordingly. This, however, would be tantamount to preventing most forms of industrial action within BT and would I think go too far. The resulting political controversy could imperil the flotation.

5 I am therefore preparing amendments to the Bill to provide BT with a defence where its failure to provide interconnect or to observe any other licence condition is attributable to any matters beyond its control and which it could not reasonably have made provision against. This will safeguard BT's position. The amendments will also provide that it would be a tort for any person (such as a trades union) to do or to omit to do, anything with the purpose of interfering with or inducing the breach of any enforcement order made by the Director General of Telecommunications requiring compliance with a licence obligation. This would leave the unions free to withdraw their labour generally but would make it clear that any selective action aimed at Mercury would expose the unions to damages, injunctions etc. This seems to me to find a middle way through the problem. As you will see I intend this to be without prejudice to the wider issue of whether inducement to breach other statutory duties is in tort. My officials will consult yours before the amendments are tabled.

6 I would welcome your agreement to the deletion of Clause 45 of the Bill, which provides that interference with the transmission or reception of a telephone etc call is a criminal offence. The offence is an anomaly and, so far as we can establish, the failure to repeal it in previous legislation was an oversight. The only reason for retaining the clause when the Telecommunications Bill was published was to deal with selective strike action directed at particular individuals or firms. This problem will now be dealt with under the proposed amendments to Clause 18, which will provide civil remedies against any trades union which prevents BT complying with the Director General's order to implement a licence condition to interconnect or to provide service to an individual customer etc who is subjected to blacking etc; and ensure that inducement to BT to breach its statutory duty to comply with the Director General's order is a tort to which the trades union immunities will not apply. Clause 45 does not bite on generalised strike action which might affect the BT system as a whole and BT assure me even without Clause 45 they have ample remedies against an individual employee who prevents or interferes with telephone calls etc.

7 I am attracted to the idea of deleting Clause 45 because it is increasingly obvious that it is a political embarrassment. Every time there is industrial action within BT the question arises whether to prosecute under Clause 45 and on every occasion



to date there have been compelling reasons for not doing so. The BT management, which handled the recent POEU dispute with exemplary firmness and defeated the union, are adamantly opposed to prosecuting because of the harm it would do to their already sensitive industrial relations. This passes the decision to Government, which would not I think wish to prosecute union leaders under any circumstances I can conceive, or to an individual citizen who might prosecute for what seemed to him to be excellent reasons but could thereby bring the whole union out on strike with serious consequences for our national telecommunications.

8 The deletion of Clause 45 would ease the passage of the Telecommunications Bill in the Lords and it might greatly assist us with the flotation of BT. The hostility of the unions to privatisation overhangs the whole flotation process and Clause 45 is probably opposed more strongly than any other provision in the Bill.

9 If you or other colleagues cannot agree to the deletion of Clause 45 I think it would nevertheless need to amend its provisions to ensure that they apply to industrial actions short of a full strike which prevent or hinder interconnect. This would be politically controversial but I see no merit in a criminal offence which applied only to messages sent entirely within the BT network and not to messages sent for connection to Mercury.

10 I am copying this letter to the Prime Minister, the Lord President, the Chancellor of the Exchequer, the Lord Chancellor, the Home Secretary, the Secretaries of State for Scotland, Wales and Northern Ireland, the Attorney General, the Chancellor of the Duchy of Lancaster, the Lord Advocate, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a horizontal line underneath.

NORMAN TEBBIT

TELECOMMUNICATIONS : THE LEGAL RIGHT TO INTERCONNECT

Ministers have given Mercury (and by implication other public telecommunication operators) assurances that they will have a more clearly established right to interconnect with the BT system which is not liable to disruption by the trades unions. (Interconnect is the term used to describe the connection of one telecommunication system to another so that messages pass from one to the other and vice versa). This submission outlines the most promising way forward and seeks Ministerial authority to draft the necessary amendments to the Telecommunications Bill. It also seeks guidance on whether Ministers would be willing to delete Clause 45 of the Bill which appears to be made unnecessary by the amendments we propose to the Bill. I must point out that our proposals affect trades union immunities and are therefore controversial.

Current Position

2 It is clear that we cannot offer Mercury a guarantee that interconnect will never be suspended or prevented by trades union action. If there were a general withdrawal of labour by BT employees which brought the BT system to a standstill or which caused extensive interruptions to the service provided by BT, then the interconnect with Mercury would break down. Similarly a new interconnection could not be established during a general withdrawal of labour. Mercury accept this. All that we can attempt to do is to deal with industrial action aimed specifically at preventing BT implementing an obligation imposed under its licence such as the obligation to interconnect.

3 The current position is as follows:

- (a) Clause 7 of the Telecommunications Bill gives the Secretary of State power to include in the licence granted to a telecommunication operator conditions requiring the operator to connect his system to other telecommunication systems and to permit others to use his system to provide services to others. Clause 8 requires that such conditions be included in his licence before an operator like BT or Mercury can be designated as a "public telecommunication operator";
- (b) Condition 13 of the draft BT licence (which is still the subject of negotiations with BT) is designed to force BT to connect its systems to other public telecommunication systems such as Mercury:
 - (i) on an agreed basis (ie under contract); or
 - (ii) failing agreement on terms laid down by the Director General.

Failure to agree or to interconnect on the Director's terms would be a breach of BT's licence conditions and render BT subject to an enforcement order by the Director General requiring it to provide interconnect;

- (c) if a union interferes with a contract to interconnect, that is a tort and actionable so that an aggrieved party can obtain a court injunction requiring the union to permit interconnect and damages. This does not apply - however, where trades union immunities apply which would be the case if the interference with the interconnect contract arose in pursuit of a trade dispute (e.g. a dispute wholly or mainly about terms and conditions of employment or a threat of redundancies as opposed to a political dispute like the recent POEU action);
- (d) if a union interferes with interconnect arranged under terms laid down by the Director General
 - (i) BT are not liable in contract and, as the licence is drafted at present, would not be in breach of its licence obligations if the failure to interconnect was the result of a matter beyond its control such as a strike or trade dispute and it took all reasonable steps to secure that interconnect did take place (condition 43). The union can therefore cause BT not to provide interconnect and can thus shelter behind the fact that BT is not then obliged to fulfil licence obligations to interconnect;
 - (ii) if the matter was within BT's control and the Director General made an enforcement order, compliance with the order would be a statutory duty. Interference with a statutory duty may be a tort, in which case the trades union immunities do not apply and the union would not be able to hide behind BT, but many lawyers do not think it is a tort;
- (e) Clause 45 of the Bill makes intentional actions by BT employees which prevent, delay or interrupt the transmission or reception of a message sent by means of the BT system an offence. Full strike action which disrupted the entire BT system would not be an offence even if it means no messages at all can be sent by the BT system but blacking of specific connections with Mercury might in certain circumstances be an offence. In cases where there was not yet an interconnection between the BT and Mercury systems and the BT employees merely

prevent such a connection being made (not the current case but feared by Mercury for the future) Clause 45 as drafted will not bite at all.

4 In practice neither BT nor the Government are going to prosecute under Clause 45 (even if it is amended to apply to interconnect). The Clause has long appeared to be a paper tiger and a source of embarrassment which might to advantage be removed from the Bill. However, Ministers have divided the House of Commons to retain the Clause and Mercury have raised the equivalent provisions of the Telegraph Acts (Section 45 of the 1863 Act and Section 20 of the 1868 Act) in their current litigation with the POEU, which will not be resolved until after Royal Assent for the T Bill.

5 In summary the Bill as drafted means that the unions may well be able to block or obstruct interconnect regardless of the way the BT licence is drafted. Mercury are strongly of the view that:

- (a) it is not sufficient for interconnect to be left to contract between BT and Mercury since it is open to the unions at any time to mount industrial action amounting to a genuine trade dispute which will render the union immune from action in tort for inducing a breach of contract;
- (b) it is unsafe to rely on the possibility that the courts will decide that it is a tort for a trades union to induce a breach of BT's statutory duty to interconnect following an order made by the Director General;

The doubts about unions' ability to block interconnect (i.e. is interference with a statutory duty a tort? and is obstruction of interconnect an offence under Clause 45?) are not sufficient for Mercury to believe that they have a secure right to interconnect and they believe that Ministers are committed to remedy the situation. It is indeed possible that the Court of Appeal's verdict in the Mercury v. POEU action may be overturned in the forthcoming trial in the High Court, thus exposing Mercury even more to the risk of selective industrial action by the POEU. Mercury's doubts are yet another disincentive to the Mercury partners to invest in the development of their system so that it becomes an effective competitor to BT; they say that customers are refusing to come forward without more solid assurance that they will get reliable interconnection with BT and will not expose their own PABXs and premises to blacking by the POEU.

6 The central question for consideration by the Secretary of State is whether he is prepared to take legislative authority to thwart trade union action against interconnect in relation to industrial action where the present trade union immunities would normally apply. If he is, we have concluded, from our discussions with Mercury and with Department of Employment officials that:

- (a) interconnect at least with ptos should be regulated by the Director General himself;
- (b) the force majeure provisions should be altered so as not to enable the trades unions to cause BT to breach its licence obligations and then to hide behind BT;
- (c) trades unions should be exposed to civil remedies if they take any action with the purpose of inducing BT or other operators to breach an order by the Director requiring compliance with a licence condition about interconnect;
- (d) consideration should be given to deleting Clause 45 altogether or to amending it so that it would be an offence for a BT employee to interfere with a message which is intended to be conveyed by means of Mercury or which has been so conveyed.

7 Specifically we would recommend that:

- (a) condition 13 of the draft BT licence should be amended to provide that interconnect between BT and any other pto (plus any system not covered by BT's published standard terms and conditions) should be on terms approved by the Director General from time to time. We would hope that the terms will normally be agreed by the ptos concerned but they would not be the subject of contracts;
- (b) condition 43 of the draft licence should be deleted or amended so that BT cannot claim that they are not in breach of a licence condition because their failure to interconnect arose from trades union activity. This will ensure that any breach of the interconnect terms by BT (whether voluntary or induced by a union) could be the subject of an immediate enforcement order by the Director General;
- (c) clause 16 to 18 of the Bill should be amended to relieve a person to whom a provisional or a final order under Clause 16 is addressed of the obligation to comply with it if and insofar as such failure is attributable to any matter which

is beyond his control and which he could not reasonably have made provision against. Such a provision is desirable in itself and would be an essential quid pro quo for BT in return for the deletion of condition 43. Sir George Jefferson has expressed serious concern about BT's vulnerability to Clause 16 orders when there is industrial action;

- (d) Clause 18 should be amended to provide that, without prejudice to whatever the position may be in relation to inducements to breach other statutory duties, any person who does anything with the purpose of interfering with the performance of or induces the breach of an operator's obligation to comply with a clause 16 order commits a tort (and is therefore open to court proceedings for an injunction to restrain his actions and for damages);
- (e) Clause 45 should be deleted entirely. This is possible because the amendments proposed at (c) and (d) would provide a person aggrieved by selective trades union action with a remedy. It would also decriminalise strikes in telecommunications and remove the embarrassment that the Bill continues a criminal offence which the Government has consistently decided not to prosecute. (The deletion would have the incidental advantage of giving a major concession to the unions, which could considerably ease the flotation, and to the Labour peers, which could ease the passage of the Bill);
- (f) if Ministers nevertheless wish to retain Clause 45, it should be amended so as to bite on industrial action directed at interconnect (by adding the words "or any telecommunication system to which it is or is to be connected" at the end of subsection 1(a)) and, possibly, by providing that any person adversely affected by the offence could obtain damages.

8 If we are to take the course outlined in Paragraph 6 above, we need to act very quickly to get amendments ready for the Lords Committee stage.

CONFIDENTIAL

CC NO



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Kenneth Baker MP
 Minister of State for Industry and
 Information Technology
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON
 SW1H 0ET

NSPAM

February 7th 1984

Dear Ken.

THE POST OFFICE COUNTERS NETWORK

Thank you for sending me a copy of your letter of 23 January to Peter Rees about the future of the post office counters network. You will appreciate that our considerable interest in the proposal made it impossible for me to reply in time for the announcement which I understand you wished to make on 27 January but which I was surprised to note was not mentioned in your letter.

As the Post Office paper recognises, the Government in general is a major user of the service. This is true in particular of this Department, which is responsible for about one third of all Post Office Counter business.

We understand the financial pressures which lie behind the Post Office proposals and, for our part, we have been carrying out a general and continuing review of DHSS administration costs. The Post Office is of course well aware of changes which we have introduced in the methods of payment of social security benefits. It is estimated that the combined effect of these changes, the introduction of statutory sick pay, and increased unemployment will have produced a reduction of 2.8 per cent in DHSS business in 1983/4 compared with 1981/2 and further reductions are expected.

However the reduction of DHSS business was anticipated and we were advised that the Post Office expected to attract new and additional business which would more than compensate for the DHSS shortfall. An estimate in 1981 suggested that additional business would be of the order of 10 per cent of total counter business. Patrick Jenkin, then Secretary of State for Industry, wrote to me on 11 November 1982 to say that the estimate had been revised to 7 per cent. Your letter gives no details of new and additional business.

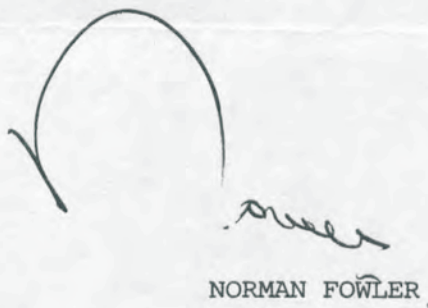
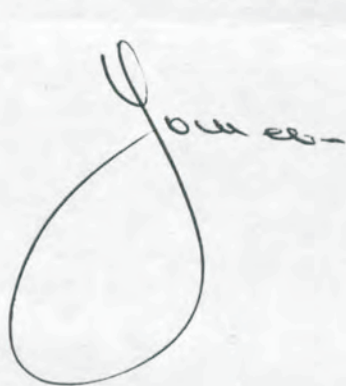
The failure to attract the additional business that was forecast will attract criticism. We should therefore do all we can to make it clear that the Government have not dragged their feet on this. For example, it might be helpful to ensure that the proposal that the Post Office should issue milk tokens on behalf of DHSS and DE should be made at the same time. This would at least demonstrate an earnest of the intention to attract new business. There might be other examples you could mention.

As for the effect on DHSS beneficiaries, the reduction in the urban network will cause a number of our beneficiaries some inconvenience since they will have to travel further to cash their benefit payments. However, I note that the reduction is not likely to add any great distance to the beneficiary's journey and although I regret any reduction in the service to the public, I will not oppose the proposal on this ground. It is of course very helpful that it is not proposed to reduce the rural network. I am very aware of the importance of the role of the Post Office in the social fabric in the rural areas and although I must seek to curb DHSS administration costs I hope that it will be possible to ensure that the Post Office will be able to continue to play that role.

As for the financial implications it is not altogether clear what effect your Department's proposals will have for DHSS. Our agreement with the Post Office on encashment fees requires the Post Office to reduce its costs by a stated percentage in 1984/85. I assume there is no question of this reduction not being passed on to us but I would be grateful for your confirmation that this is so.

Finally, I do think it is important that we do all we can to neutralise the critical response there will be to the prospect of substantial cuts in the urban counter network, which the Post Office paper recognises. An important element in our presentation will be the attraction of new business to replace the reduction of DHSS business. We do not want to get into a re-run of our troubles in 1981 when we were heavily criticised for the effect on sub post offices of our proposals for four weekly payments of social security benefits. What we said then about the network will be carefully scrutinised to make sure that as a Government we are not going back on our commitments. It will not be helpful if DHSS are regarded as responsible for the reduction in the urban network. I should be grateful therefore if you could put me fully in the picture in the presentation of these proposals.

I am copying this reply to recipients of your letter.



NORMAN FOWLER,

Post & Telecom : Future of Post office L78.

3 FEB 1984



CONFIDENTIAL

CC 100



NRPM

AT 30/1

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Kenneth Baker MP
Minister of State for Industry
and Information Technology
Department of Trade and Industry
1 Victoria Street
London SW1

27 January 1984

Dear Minister,

POST OFFICE COUNTERS NETWORK

Thank you for your letter of 23 January.

I am pleased to see that the PO have come forward with proposals to streamline the urban network. I did not know that Ron Dearing had committed himself in the past to retaining 95% of the present network until 1987. But even within his own criteria, he appears to be deciding to do less by way of closing uneconomic outlets than he might.

I believe the Government should give him full support for the steps he is proposing. But surely he could be pressed to do rather more to eliminate loss-makers while still preserving a very generous level of service in the towns. I understand Dearing is preparing some further detailed study. I would not object if this led to a somewhat larger programme and I certainly do not think it should lead to a smaller one.

It is important that the Post Office makes the maximum effort possible to constrain the costs of this closure programme within their published EFL. I am sure that the PO could do much to absorb these costs and I am pleased to see that you do not believe it necessary formally to revise next year's EFL. However, I am content, subject to the detailed costings, that you should indicate to Dearing that the Government will look sympathetically upon a modest shortfall on the 1984-85 EFL provided that the closure programme is well under way and he is able to demonstrate that the Post Office is absorbing much of the cost within agreed provisions.

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So far as the POs efficiency target is concerned, I am prepared to accept that the costs and benefits from this closure programme be excluded from the last year of the present RUC target which runs to 1984-85. But I do not think it is right that any new efficiency target for 1985-86 and beyond should completely ignore the effects of these closures. The negotiations on new efficiency targets which you are setting in train provide the proper vehicle for considering how the impact of these closures should be taken into account. I think we must ask for this to be done rather than settling for a blanket exclusion of both costs and benefits at this stage.

I am copying this letter to the Prime Minister, to members of EA, John Selwyn - Gummer, Norman Fowler and Sir Robert Armstrong.

yours sincerely
PRL

for P REES

(signed by Technical Secretary
& signed in his absence).

CONFIDENTIAL

bst + files PT8

future

30 JAN 1984





10 DOWNING STREET

From the Private Secretary

26 January 1984

POST OFFICE COUNTERS NETWORK

The Prime Minister has seen Mr. Baker's letter of 23 January to the Chief Secretary. When he mentioned this subject to her recently, the Prime Minister suggested that the Post Office should not commit itself rigidly to closing no more than 1,000 offices. It should retain the option of closing more should there be more than 1,000 volunteers for closure. There is no reference to this point in these papers - indeed paragraph 10 of the Post Office's paper is rather specific in its references to the figure of 1,000. She hopes this point will not be overlooked.

I am copying this letter to the Private Secretaries to members of E(A), to Stephen Godber (DHSS), Emma Oxford (Department of Employment) and Richard Hatfield (Cabinet Office).

(ANDREW TURNBULL)

Neil McMillan, Esq.,
Department of Trade and Industry.

SECRET



1
DA
cc Mr Sherbourne
fe

10 DOWNING STREET

From the Private Secretary

19 January 1984

Dear Neil,

Post Office Counters

Mr. Baker came to see the Prime Minister yesterday to take her mind on the Post Office's proposals for closures. Mr. Baker explained that there were 21,000 Crown and sub post offices, making the network the most intensive in Europe. Of these, 10,000 lost money and losses totalled £30 million. In towns, the criterion was that post offices should be about one mile apart, i.e. leaving no-one with a walk of more than half a mile. There were 2,000 offices which should be closed by this standard. The Post Office were proposing closure of 1,000, i.e. retention of 1,000 offices which were not strictly justified in economic terms. This programme would be spread over three years and would cost about £43 million. The saving in running costs would be about £15 million a year.

Mr. Baker went on to explain that, in contrast to earlier proposals for post office closures, care had been taken to negotiate arrangements in advance with sub post masters. On average these would receive compensation payments of £18,000. The Post Office had drafted an announcement with care. This would stress that there were no rural closures being proposed, that 95% of the existing network would be retained and that there would be an extensive programme of modernising post office counters.

The Prime Minister accepted the case for a programme of closures but advised that the announcement should not guarantee the continued existence of the 1,000 post offices which by strict application of the standard ought to be closed but which were being retained. If it turned out that more than 1,000 offices applied for closure and compensation, it should be possible to accept a greater number. She also asked Mr. Baker to consider the timing of the announcement very carefully.

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Neil McMillan, Esq.,
Department of Trade and Industry.

SECRET

fe

PRIME MINISTER

Post Office counters network

Mr. Baker's letter to the Chief Secretary does not include any reference to accepting more than 1000 closures if there were sufficient volunteers - the point you made to Mr. Baker when he came to see you. Indeed paragraph 10 of the paper at the back is rather specific in the references it makes to 1000 closures.

I have taken this up with Mr. Baker's office who assure me that your point was put to the Post Office who have taken full account of it. They will be stressing the maintenance of 95% of the present network. (Closing 5% implies a loss of 1100.) Agree I minute back saying you have noted the minute and hope that the option of more than 1000 offices will not be overlooked.

David M

AT

25 January 1984

80
B Prime Minister.

cc No.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

From the Minister of State
for Industry and Information Technology

RT HON KENNETH BAKER MP

CONFIDENTIAL

Rt Hon Peter Rees QC MP
Chief Secretary to the
Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

23 January 1984

Ken Baker

THE POST OFFICE COUNTERS NETWORK

The Post Office have approached us with proposals to reduce the size of their counters network by closing 80 Crown Offices and up to 1,000 sub-offices over the next two to three years. The proposals relate entirely to town offices and there are no plans to reduce the size of the rural network. Final details and costings have still to be worked out but before proceeding further, the Post Office are seeking acceptance by Government of the financial and political implications. I enclose a copy of the note outlining their plans together with a schedule indicating the likely geographical impact of the closure programme.

The proposals follow a review of the urban network which compared the actual provision of offices against a long-established criterion that no-one should have to travel more than half a mile to a post office in town areas. This identified some 2,000 offices surplus to this standard. When other criteria were taken into account, the Post Office felt that they could reasonably dispense with the 80 Crown and 1,000 sub-offices proposed.

The review of the network is now somewhat out of date and the Post Office would wish to consult their Regions again before going firm on which offices are to close. At that stage they will be able to come to us with precise costings; but preliminary work suggests that there could be savings in excess of £15m pa - which represents some 3% of total counters costs. Against this, it is estimated that once-off costs - to meet compensation and redundancy payments - will amount to some £43m. A payback period of only 2-3 years and a return on investment of some 30% is, in principle, attractive.

Government Departments are the main customers of the Post Office counters business and therefore stand to gain from action to

M28/M28AAP



CONFIDENTIAL

remove unnecessary costs. Much has already been done to improve the efficiency of Crown Offices; the recently introduced productivity scheme should reduce staff costs by 5% by the end of next year for example. However, the sub-post office network, which accounts for more than half the costs of the counters business offers little scope for savings other than through a reduction in the number of offices. In my view, therefore, the closure programme proposed by the Post Office is necessary as part of the continuing effort to increase the efficiency of the business in order to be able to offer competitive prices to its customers.

The Post Office are confident of reaching agreement with the National Federation of Sub-Postmasters on compensation arrangements. If this can be done, the Federation will positively support the moves and seek to sell the benefits to their members. However, the UCW can be expected to oppose the Crown office closures although the leadership accept the inevitability of the position. The Post Office are confident that they can successfully take on the UCW on this issue if need be.

Although most of the sub-office closures will result from the voluntary resignation of the sub-postmaster, we know from experience that closing a Crown or sub-post office can nevertheless engender strong local opposition. The Post Office are clear that we shall want the closest liaison with them on their public handling of the closures but, in my view, there are strong points to make. Although this will not remove all opposition, I believe that it can be contained, and that it is possible to rebut any false suggestion of Government pressure on the Post Office specifically to undertake such a programme. On the financial implications, you will recall that the possibility of network closures was raised during last year's EFL bilateral and you agreed to give sympathetic consideration to any proposals that might be brought forward. I should like to tell the Post Office that, subject to the detailed costings being consistent with their preliminary estimates, we would propose to exclude both the incremental costs and benefits from the RUC calculation and extend this principle to the post-RUC efficiency target which we hope soon to negotiate for 1985/86 onwards. In order to emphasise the view that they should seek to finance the programme as far as possible by extra internal economies, I would suggest that, rather than a formal change to the EFL, we might instead leave the EFL unaltered but inform Ron Dearing privately that a shortfall within a pre-determined limit will not result in recovery in the following year. The precise arrangements will, of course, have to await the detailed costings. But I should like to be able to confirm that the Government does accept the financial and political implications of his proposals. That is virtually certain to include a modest relaxation of EFL.

real
unit
costs

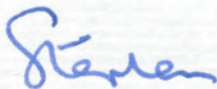
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PRIME MINISTER

cc. Mr. Turnbull

Your Meeting with Ken Baker on Post Offices: Wednesday,
18th January 1984 at 4.00 pm

1. Ken Baker wants to talk to you about the proposals that have been made by the Post Office to DTI on the closure of urban sub post offices and Crown offices.
2. Attached is the note I submitted to you last week together with the short memorandum from the DTI which you have also seen.



Stephen Sherbourne

17th January 1984

Prime Minister ①

Agree to a short meeting?

AT 12/1

Yes not

PRIME MINISTER

1. DTI have received a proposal from the Post Office which would involve the closure of 1,000 urban sub-post offices and 80 Crown Offices, and the down grading of 50 Head Post Offices, over the next two years. I attach a short note on this from the DTI.
2. Norman Tebbit and Kenneth Baker are only too well aware of the political sensitivity, especially after the difficulties Patrick Jenkin encountered with the rural post offices. (I should emphasise that there are no proposals to reduce the size of the rural network even though many of the sub-post offices in the country lose more than those in the towns.) Ministers have therefore talked about whether an announcement - which in any case would be made by the Post Office rather than by the Government - could be avoided and have come to the conclusion that an announcement would have to be made. Nothing so far has been picked up by the press except for one article in the Daily Mirror in January 1983. But Ministers believe that an attempt to avoid an announcement would be counter-productive and stories would rumble on probably in an exaggerated way.
3. Kenneth Baker, with Norman Tebbit's approval would like to take your mind on this matter before he proceeds further with administrative steps and formal proposals.
4. Would you be prepared to see him for 10 or 15 minutes?
5. Alternatively I could transmit to him any comment you minute.

Yes not

Stephen

Stephen Sherbourne

12th January 1984

① Mr Sherbourne
② Mr Turnbull

awarded for ~~Wednesday~~
1600 on Wednesday
18: January.

CR
13/1



POST OFFICE COUNTERS NETWORK PROPOSALS : AIDE MEMOIRE

Post Office Proposals: To close 1,000 urban sub-post offices and 80 Crown Offices and to downgrade 50 Head Post Offices over the next 2 years or so.

Reasons: The current network is too large and consequently inefficient. All the offices facing closure are loss-making. Unnecessary costs will inevitably fall on customers (mainly DHSS and other Government Departments) unless reduced.

Estimated Costs and Benefits: The proposals will generate savings of £15m p.a. in 1982/83 prices (equivalent to 3% reduction in real unit costs). Once-off costs of £43m (compensation for sub-postmasters and redundancy and enhanced pension payments for Crown Office staff).

Social Implications: Closures will not prejudice the PO social provision criterion that offices should be no more than one mile apart in urban areas. Everyone still within ½ mile (10 minute walk) of Post Office counters. Greatest over-provision in London - 13% of sub-post offices at risk (170).

Rural offices: Will not be affected by these proposals. No plans to reduce the size of the rural network.

Government Financing Implications: Minimum temporary EFL relaxation consistent with implementing proposals. Estimated effect £18m in 1984/85 - £13m 1985/86. Thereafter savings of £18m plus p.a. (outturn prices).

Possible opposition: National Federation of Sub-Postmasters will positively recommend proposals to their members if agreement reached on compensation. UCW may oppose closures but PO will proceed. Inevitable, however, that local opposition will arise.

P.O. Public Approach: Proposals certain to become public knowledge. To avoid being put on defensive by accusations of cover-up, PO propose pre-emptive approach stressing positive benefits - guarantee of 95% of present network until 1987; reduction in costs brings benefits to viability of remaining network; still better provision than any other UK organisation or European Post Office; most closures will occur with voluntary retirement of sub-postmaster (thanks to compensation terms); image of caring and efficient P.O.

Next Steps: If Government accepts financial and political implications of proposals, PO will identify precisely which offices are to close and submit detailed costings. They will formally consult POUNC. Unlikely to implement before April/May 1984.

**The
Post Office
counters
network**

The Post Office Counters Network

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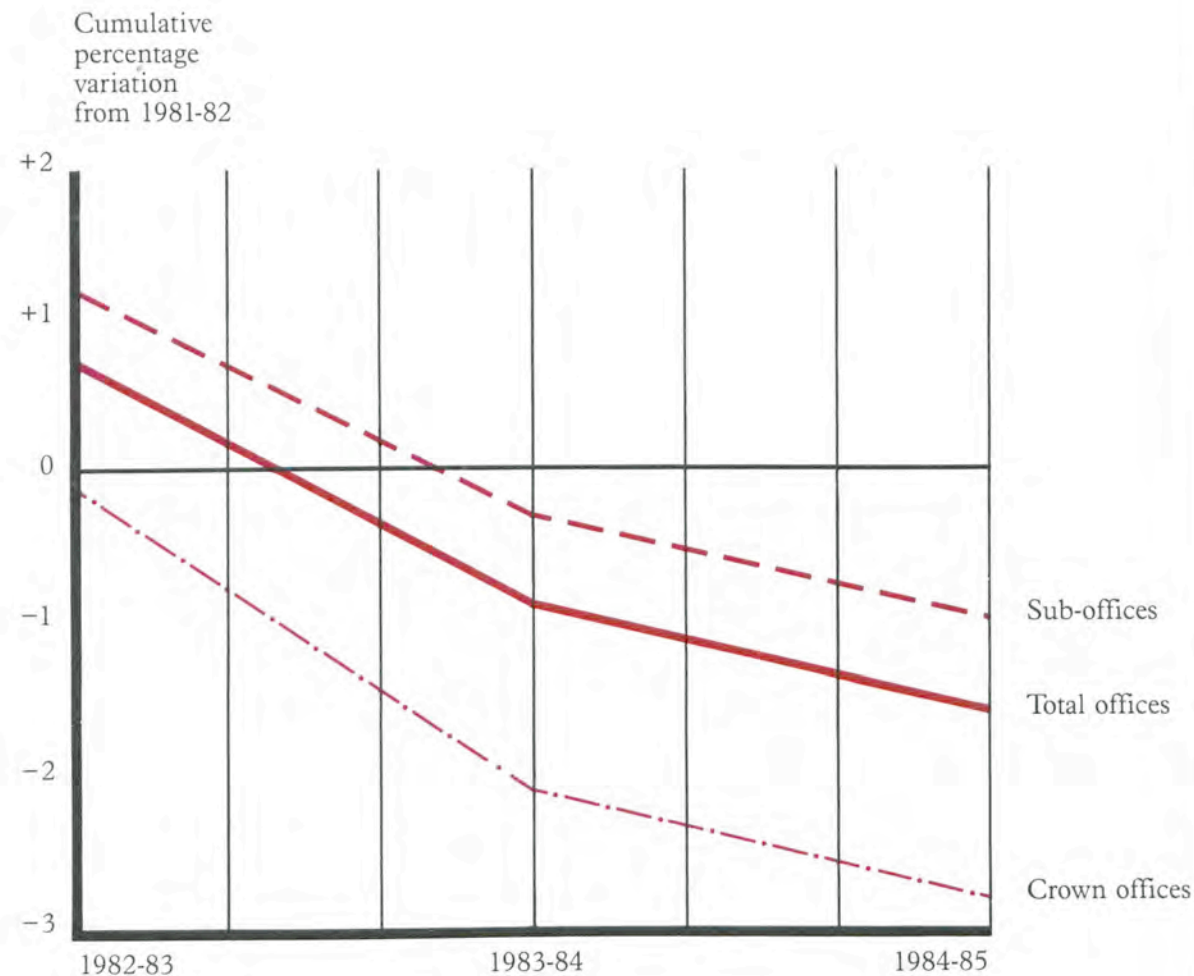
The Agency Services Agreement *page 9*

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Summary of action needed *page 11*

THIS DOCUMENT IS IN COMMERCIAL CONFIDENCE

Table 1 Forecast counter business trends 1981-82 to 1984-85



NOTE: By 1984-85 the traffic decline is equivalent to a loss of 34 million transactions of 30 seconds overall — 19 million at Crown offices and 15 million at sub-offices.

SOURCE: THE POST OFFICE

The Network

Comprises 22,398 post offices of which:

- 1566 Crown offices owned and managed by the Post Office;
- 20,832 Scale Payment sub-offices owned and managed by the private sector on an agency basis.

This network:

- has twice as many outlets as all the clearing banks combined;
- gives a higher coverage per head of population than any other European nation except the Irish Republic;
- on average serves 27 million customers each week;
- carries out around 2,200 million transactions each year;
- deals with over £63,000 million a year, equivalent to 22p in every £ which changes hands in the UK.

The Targets

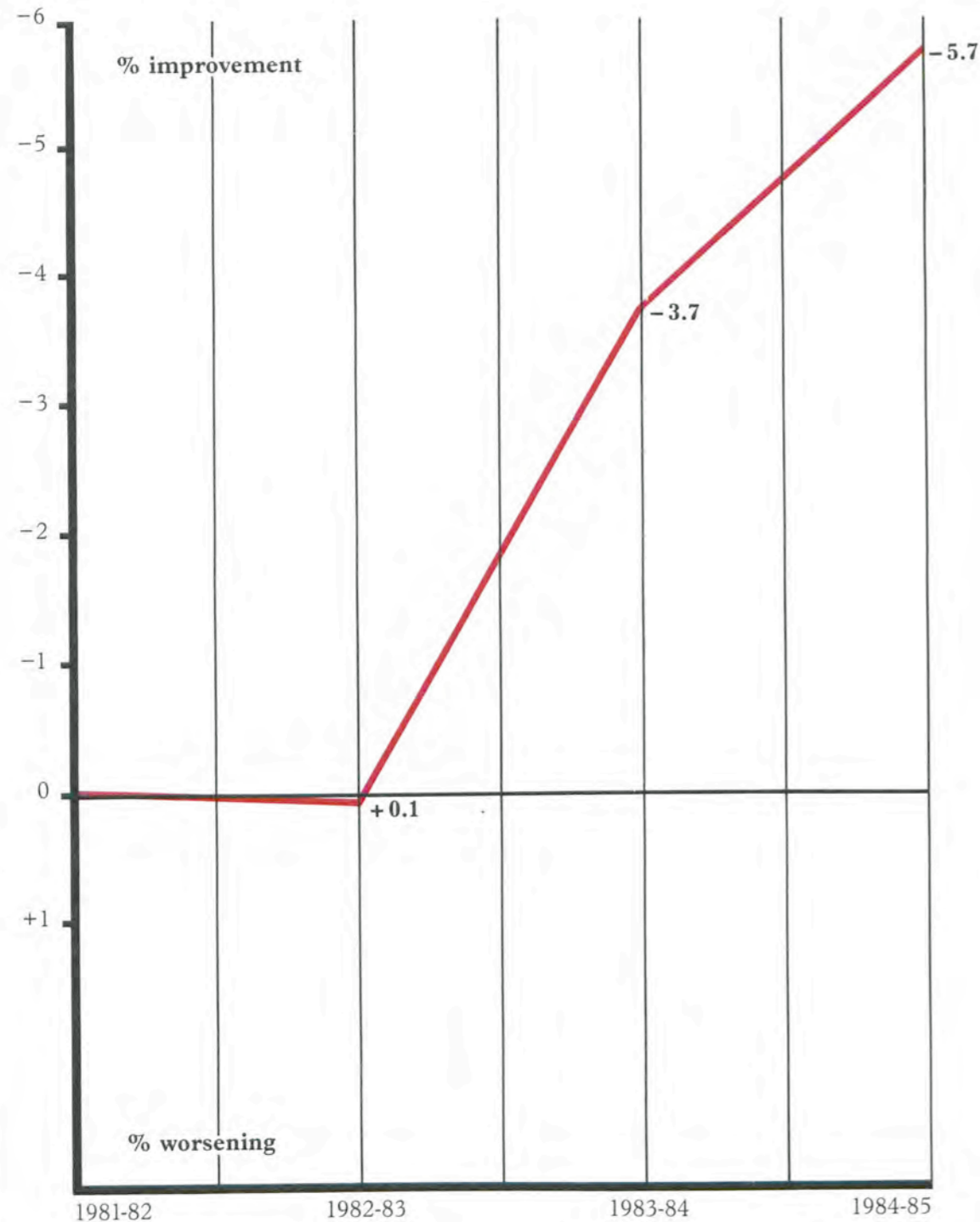
- to reduce real unit costs by 5% between 1981-82 and 1984-85;
- to make profits in line with the overall Postal Business target (currently 2.7%).

The Problems

- expensive, labour intensive network — fixed costs high in the short-term;
- high basic transaction cost of £37 per hour, a deterrent to new business;
- forecast traffic decline (*Table 1*) causing unit costs to rise further;
- many unprofitable offices;
- an Agency Services Agreement with Government departments which does not allow scope for a commercial pricing policy to attract new business.

The Crown Office Network

Table 2 Cumulative real unit cost targets at Crown offices



SOURCE: THE POST OFFICE

Background

- 1566 offices handling 36% of total counter business;
- employ 10,000 counter serving staff and 10,000 back-up support staff dealing with accounting, remittances, cash management, etc for the whole network including sub-offices;
- total direct costs in 1982-83 £160m, 30% of all counter costs;
- real unit costs have risen in recent years but are targetted to reduce in the next two years (see Table 2).

The Problems

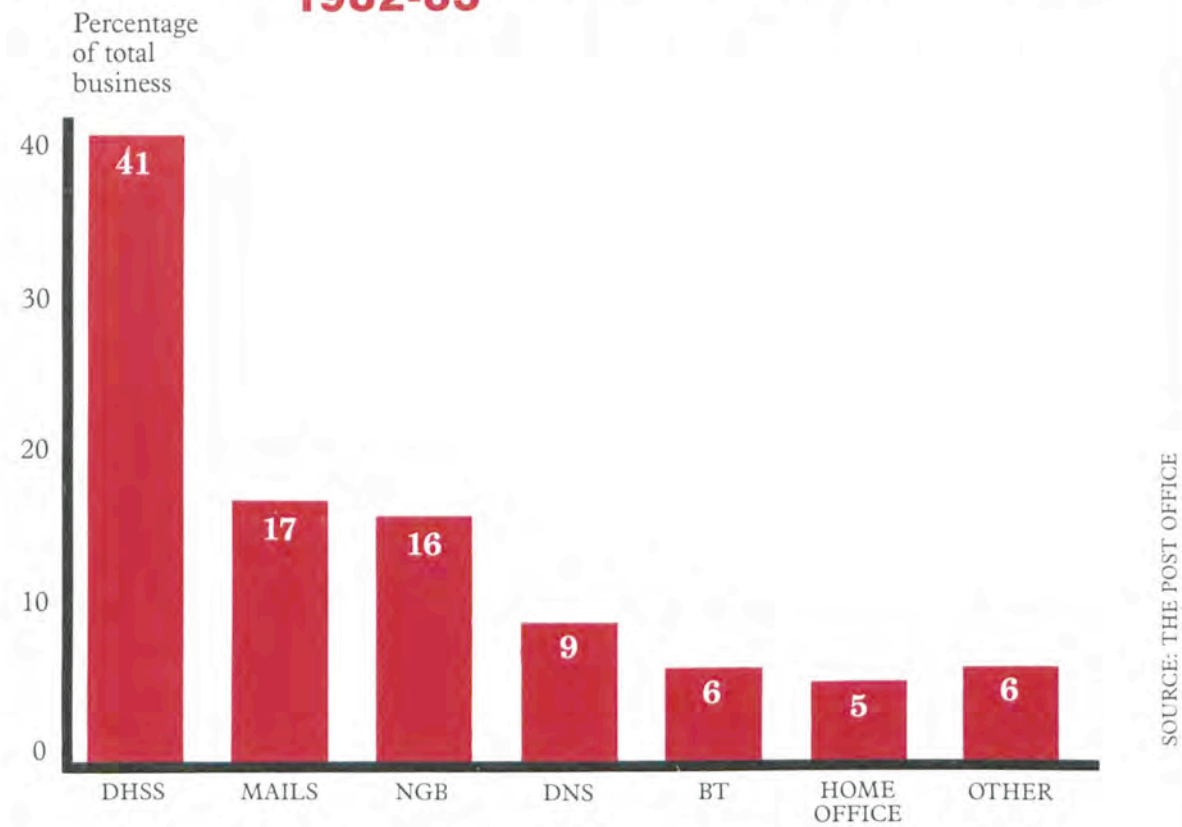
- traffic decline more pronounced than in the sub-office network (Table 1);
- counter occupancy levels (time actually spent serving) too low at 59% compared to target 65%;
- staffing inflexibility and slow response to business level changes;
- high overhead costs, particularly accommodation for prime site locations;
- recent contribution studies, now being refined, suggest:
 - 1125 (72%) offices make a sizeable contribution;
 - 269 (17%) offices marginal contribution;
 - 172 (11%) offices substantial negative contribution.

ACTION

- stronger management effort, better organisation and sharper accountability;
- a productivity deal has been signed with the UCW which will: improve throughputs at counters and in clerical areas; provide greater staffing flexibility; generate economies — target £41 million over five years;
- tough budgets have been imposed on all local managers;
- a marketing division has been set up; accounts managers appointed to look after major customers, and a programme of market research established using external resources. A marketing plan with challenging targets has been drawn up;
- a system of financial contribution accounting to operate at all main offices is being developed for general introduction in 1984;
- a critical review of the network to weed out and/or convert to sub-offices those offices still making a negative financial contribution after the management action outlined above.

The Scale Payment Sub-office Network 3

Table 3 Breakdown of sub-office business 1982-83



Background

Modern network dates from 1908 when Hobhouse Committee of House of Commons set up current basis of remuneration. At that time there were some 21,600 sub-offices.

Now:

- there are 20,832 (a decline of 3½% over 75 years);
- their direct costs represent 43% of total counter costs, £234m in 1982-3;
- they handle 64% of counter business;
- deal with more than 150 different types of transaction but 10 of these account for 75% of their workload;
- most used services are DHSS 41% of all business, Mails 17%, Girobank 16%, DNS 9% (Table 3).

And:

- real costs have risen in recent years, and in 1982-3 further worsened by about 0.3% against the target of a 2% improvement (Table 4).

The Problems

In 75 years there has been little or no change in network, scale, organisation, method of payment. As a result the network is beginning to creak in terms of trying to compete in a competitive, cost conscious, environment.

Sub-offices are graded and paid by size, with each element of work being given a value in terms of 'units'. The unit relates to the time a transaction takes. Currently each unit is equivalent to 18 seconds.

Remuneration (pay and expenses) relates to these units:

- minimum of £1,795pa up to a ceiling of £2,300pa for the smallest offices (2650 offices; 12.7% of network);
- maximum of £41,900pa for the largest (five offices; 0.02% of network).

Table 5 (see page 8) shows that the unit cost of operating the system differs dramatically from the smallest to the largest offices.

Inbucon Business Consultants, in working on comparative costs, have shown that nearly half the sub-office network (11,000 offices) does not cover its direct costs and makes a substantial loss of £47 million on fully allocated costs.

Remuneration agreements with the Federation of Sub-Postmasters (which have been running for many years) provide:

- a fixed minimum payment (currently £1795pa) irrespective of work load, for the 2650 smallest offices. Total cost £5 million pa;

continued overleaf

Table 4 Cumulative real unit cost targets at sub-offices

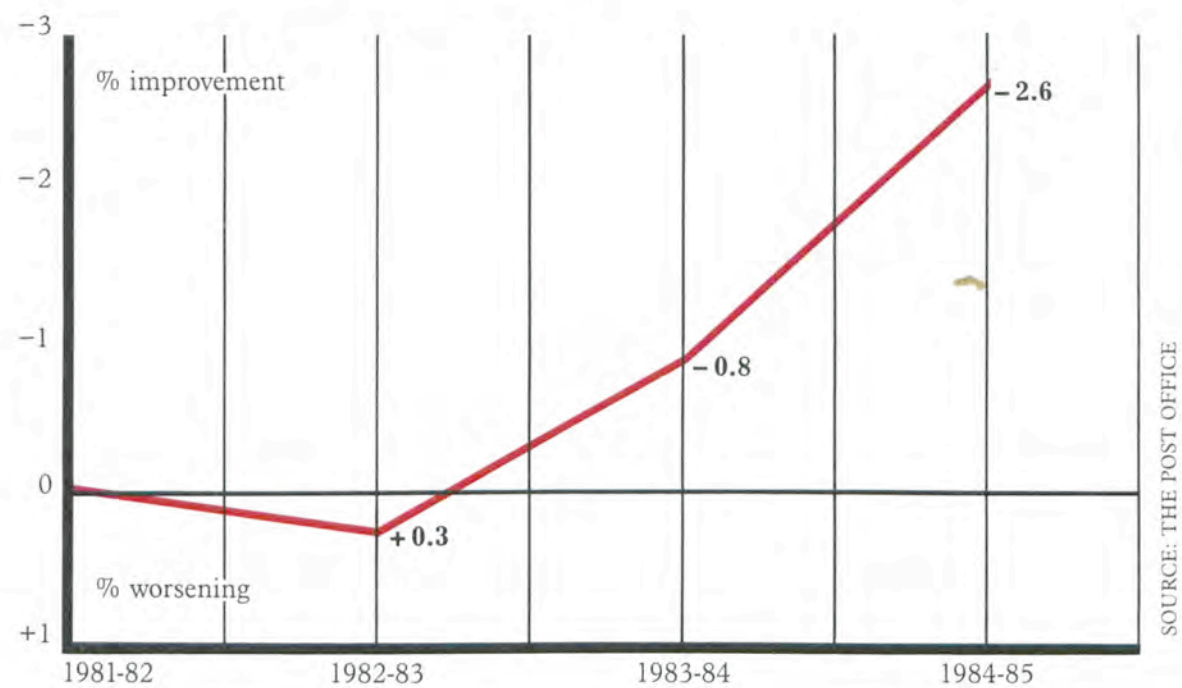
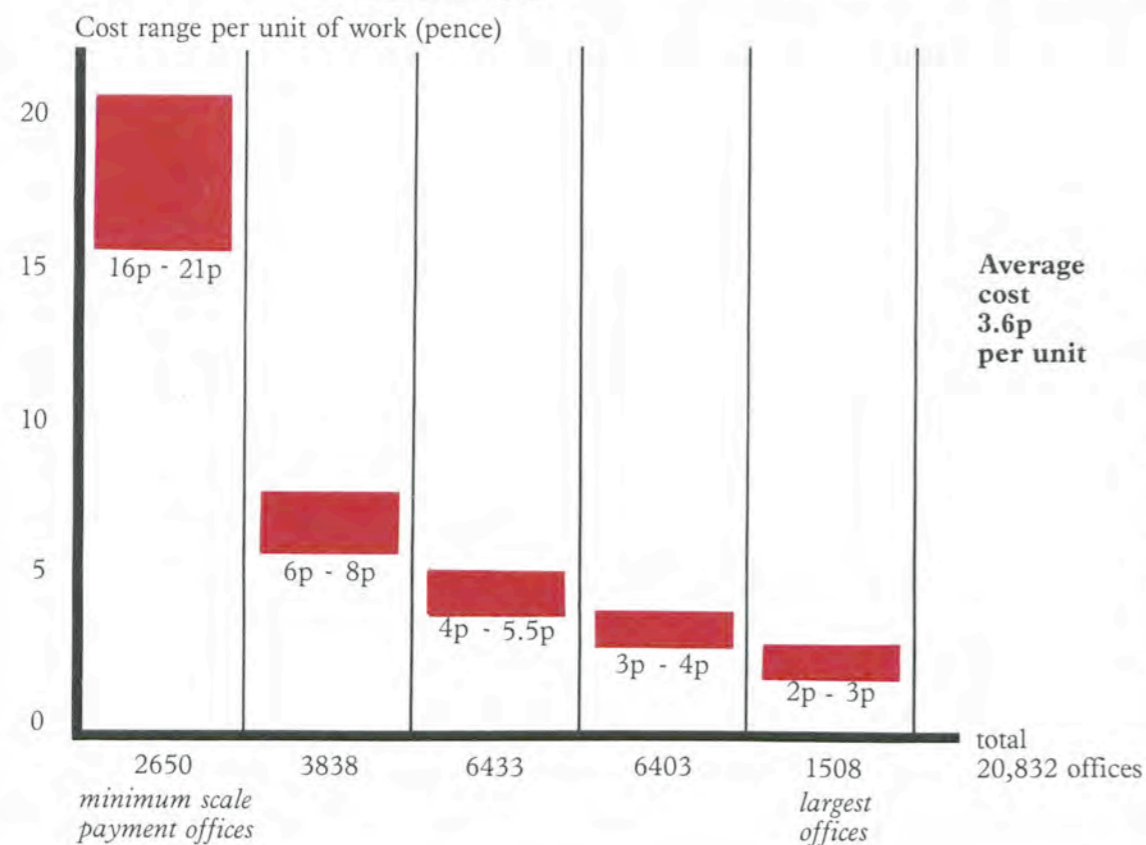


Table 5 Costs per unit of work at sub-offices in 1982-83



- an expenses related element of remuneration (some 50%) linked to the past year's movements of agreed indices. Total cost £104 million pa;
- a 'pay' element related to the number of units of work; there is a system of review of work-load every three years with 'special' reviews sooner only if work load is thought to have increased; but not decreased. Total cost £125 million pa.

This means that the bulk of the direct costs are 'fixed' in the short term unless the number of offices alters.

There is substantial local reaction to any proposal to close an office however strong the case and notwithstanding adequate network coverage nearby.

ACTION

- **A determined drive for new business (Teleshop, travellers' cheques, milk tokens, bus passes, cash issuing, etc);**
- **a review of the network and a judicious pruning within the guarantee given to the NFSP that 95% of the network will be retained for four years assuming no major adverse external factors;**
- **a fundamental review of the remuneration system;**
- **development of better measurement, monitoring and control systems related to financial contribution levels.**

The Agency Services 4 Agreement (ASA)

This agreement covers the period 1981-82 and 1984-85 and:

- governs the basis on which Government departments are charged for work handled at post office counters;
- provides that the counters business should meet a real unit cost target of a 5% decrease by 1984-5 over 1981-2;
- applies to all areas of the counters network including subpostmasters.

The basis of charging — although involving more commercial negotiation than previously — remains one of cost sharing which means that:

- all users bear their proportion of the infrastructure costs of the network calculated in relation to their total business;
- costs include the uneconomic small offices (as many as 11,000 offices);
- amount borne does not relate to the scale of usage of uneconomic offices required by individual users;
- changes in individual department's business levels, growth or decline, impact on all users' costs. Consequently, declining businesses are shielded from the full impact on their unit costs, and growing businesses do not gain the full benefits which might otherwise accrue;
- the pricing structure which shares **all** costs does not reflect the fixed and variable nature of the network costs; hence new business has to bear the full burden of allocated costs virtually from the outset, a major disincentive.

The inflexibility of the present agreement militates against new business which could be priced to make a useful contribution to network overheads. This combined with:

- a relatively static size of network containing many uneconomic units;
- declining traffic levels;

means that there is little opportunity to reduce fundamentally the overall costs reflected in prices faced by departments and could actually produce a spiral of decline.

Summary of action needed 5

Drive to reduce costs

- productivity deal
- tough budgets
- network review
- fundamental review of subpostmasters' remuneration

Vigorous marketing

- team established/account managers appointed
- marketing plan developed — challenging targets
- external market research
- monitored closely by the Board.

Improved control and accountability

- better organisation — running counters as a business; greater personal accountability
- contribution accounts to be introduced at all post offices during 1984

Use of information technology

- pressing ahead with counter terminal trials
- evaluation of project to the Board in October
- bold expansion programme after October review
- better and more widespread use of computers in clerical support areas.

For discussion with Government

- prospects of new Government business;
- financing of the uneconomic network;
- development of commercial pricing opportunities within a revised Agency Services Agreement;
- greater discretion to undertake additional public and private sector work at post offices.



The Post Office



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

*From the Minister of State
for Industry and Information Technology*

RT HON KENNETH BAKER MP

CONFIDENTIAL

Stephen Sherbourne Esq
10 Downing Street

12 January 1984

Dear Stephen

POST OFFICE COUNTERS NETWORK

Following your discussion with Mr Baker last evening I am now enclosing a short aide-memoire outlining the main points of the Post Office proposals. I am also enclosing a folder containing the principal background papers and relevant newspaper cuttings.

If you need any further clarification, please let me know. You can also contact Dennis Parsons, the official dealing with this, on 212 8699.

Yours ever

N M

N M McMILLAN
PRIVATE SECRETARY

M26/M26ABE

The Post Office

From the Chairman
Ron Dearing CB

Post Office Headquarters
St Martins le Grand
LONDON
EC1A 1PG

Royal Mail
National Girobank

Telephone 01-432 1515

IN CONFIDENCE

15 December 1983

Mr K Baker MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

Mr George

copies to

PS/DT

Mr Croft

Mr Cooper

DATE BY: 23/12

PS/Sec of State
PS/Sir Brian Hayes

Dear Minister,

THE COUNTERS NETWORK

I enclose a paper by the Post Office which contains our proposals for the Post Office network. Due to the implications of the decisions we have taken we need the concurrence of Government, particularly as our major customer and also because of the financial implications for our RUC and EFL targets.

As the paper says, we are currently in negotiation with the National Federation of Subpostmasters over a revised compensation scheme and we believe we have good prospects of reaching an agreement which will earn us their support as a Federation for the proposals we are making.

Finally, while the financial figures are the best estimates available to us at this time, we shall attempt to reduce them by all means available to us so that not only does the scheme become more financially attractive but that our need for revision of targets is reduced to its minimum. I know our account of the possible cost and negotiating ceiling will be safe in Government hands.

Yours sincerely
Ron

THE POST OFFICE COUNTERS NETWORK

Introduction

1. This paper seeks Government concurrence in a policy of reducing the network of urban post offices in accordance with standards which the Post Office announced and adopted many years ago but which it has been slow to implement because of public opposition. The need for economy now makes action necessary:

2. No comparable policy is proposed for rural post offices even though three quarters of these operate at a loss to the Post Office. Modest economies will be sought in the cost of operating the present rural network by other measures, for example by part time opening for a reduced agency payment.

The Urban Network : The facts

3. At the beginning of the present financial year there were 9530 urban sub post offices and 1563 Crown Offices. The Post Office adopted a policy in 1945 that it should provide urban post offices at mile intervals, unless special local circumstances justified a more generous provision.

4. A survey earlier this year showed that against our published criteria, there was an excess provision of over 2000 offices. Moreover, about 2000 sub offices operated at a loss to the Post Office in the sense that payments by the Post Office to the sub postmasters (plus associated overhead costs) exceeded the income paid by counter users to the Post Office for their services. Some 1600 are unjustified as failing both the geographical and profitability criteria.

5. The excess provision in urban areas is particularly marked in the inner suburbs around city centres from which population has tended to move, while the network of post offices has remained high.

The Rural Network : The Facts

6. There are 11,203 rural sub post offices. The rural areas in particular benefit from an agreement with the National Federation of Subpostmasters that

a sub post office has a minimum guaranteed income, currently some £2000 a year. There are 2650 such offices, all operating at a loss to the Post Office.

7. That the Post Office operates a rural network in which three quarters of the offices operate at a loss to the Corporation reflects acceptance of a social obligation to maintain a largely uneconomic service.

The policy proposed by the Post Office Board

8. The Post Office Board has decided that it can no longer afford to set aside its published criteria and that it should reduce the network of Crown and sub offices. But in doing so it has assured the Union of Communication Workers and National Federation of Sub Postmasters and its own customers that 95% of the network would remain intact until March 1987.

9. The Board has further decided that the policy of positive contraction should be concentrated in urban areas, with closure in rural areas taking place only when resignation could not be made good by obtaining acceptable recruits.

10. To reduce the network to 95 percent of its present number of offices could mean the loss of 1,000 sub offices and 80 Crown offices. But this would still leave the urban network some 1000 above the published distance criteria. It would also leave at least 1,000 operating at a loss to the Post Office.

11. While the guarantee of 95 percent of the network through to March 1987 stands, the need for economy has led to the conclusion that special action should be taken to encourage and facilitate a network reduction over the period to April 1986 through special arrangements negotiated with the National Federation of Sub Postmasters and, to the extent it proves necessary, by inviting Post Office employees to take early voluntary retirement or voluntary redundancy terms. Our hope would be that with the help of these measures, the implementation of long standing policies could proceed without the opposition of the National Federation of Sub Postmasters as a body.

Crown Office closures

12. For crown offices, the 95% guarantee could mean that 80 offices would face closure over the next 2 to 3 years. In addition, the Post Office has developed and will be implementing during 1984 a new system to measure the financial contribution of each Crown Office. The objective will be to make each unit financially viable by greater cost reduction and growth. Cost savings from reducing the number of crown offices will be supported by the down-grading of a number of head offices, thus reducing the level of administrative overheads charged to the counters business. This will be an acceleration of an on-going policy.

The Impulse for Cost Reduction

13. The Post Office counters network is now at a crossroads. For many years it enjoyed the benefits of steady traffic growth and cost-plus pricing agreements which effectively shielded it from commercial realities and enabled it to carry the high element of over-provision and loss making offices. This changed in 1981 with the introduction of the current Agency Services Agreement with Government Departments.

14. The Government is the major user of the network. Business transacted on behalf of Departments currently represents 55% of the total. A further 6% in respect of Green Girocheques benefit payments is also handled at Post Office counters. In 1983-84 payments for these services by Departments will be some £340m to Posts and £45m to National Girobank. This is therefore a major expenditure area for Departments who are looking for cost reductions. With the imposition of tigher financial disciplines, Departments have been stringently reviewing their procedures and usage of the counters network.

15. As a consequence the level of Government business transacted at Post Office counters has fallen by over 3% (equivalent to nearly 60 million 30 second duration transactions) in the last two years and this is set to be a continuing trend unless counter costs can be reduced. At the same time, Departments have been insisting on a real reduction in the price they pay for counter services. With high fixed system costs, the combination of reduced Government traffic and insistence on lower prices, the Post Office has to act to reduce the network.

16. Meantime, in the wider public sector the ability of the Post Office to retain and attract new business from other public utilities is constrained by its high counter unit costs and the pricing inflexibility imposed by the present Agency Services Agreement with Government Departments.

17. In the commercial sector the viability of National Girobank, operating in an intensely competitive market characterised by rapid technological change, will be similarly threatened unless counter costs, which constitute 51% of its overheads, can be reduced.

18. For these reasons the Post Office has to reduce the real unit costs of its counter operation. Over the three years to 1984-85 the target, agreed with Government, is for a 5% RUC reduction. Staff costs at Crown Offices are expected to fall by 2½% by the end of this year and are targeted to fall by a further 2½% in 1984-5. But this is not enough even in the Crown Offices - and does not touch the sub offices which account for more than half the cost. The network problem needs to be tackled.

19. To turn the counters network into a more efficient, competitive enterprise and to avoid a spiral of disastrous decline therefore requires action of the kind proposed above and some (modest in relation to the negative contribution of £36m a year) cost cutting measures for rural areas which, while encompassing closure only to the extent of that defined at para 9 above, would leave the basic fabric of the service unchanged for at least the remainder of the guarantee period. It also means that there is need for a new Agency Service Agreement that provides better scope for pricing and growth incentives.

EFFECT OF THE PROPOSALS

Financial

20. It is estimated that reduction of the network to 95% of its present size can produce savings of about £15m a year, equivalent to a 3% reduction in real unit costs. The achievement of this saving will, however, depend on the ability to meet compensation, redundancy, and advance pension commitments which could be upto £43m. These can be summarised as follows:

SPSO staff: to reach agreement with the National Federation of Sub Postmasters on an accelerated closure programme, some modification of existing compensation arrangements to sub postmasters losing their business will be necessary. If this involved making available the present compulsory closure terms to all sub postmasters losing their business in the two year incentive period, it would mean gratuities and redundancy payments of £18m. The basis of compensation under these arrangements is equivalent to 1½ times gross annual remuneration, a gratuity payment (related to length of service and office size) and redundancy. Average costs are estimated at £18,000 an office

Crown office staff: a redundancy programme will be needed, given that existing arrangements to improve productivity are likely to absorb much of the natural wastage. Assuming 1,000 staff were saved through Crown office closures and Head Office downgradings, the cost of statutory redundancy and pension advancement is estimated to amount to some £25m. This sum includes the extra burden on the Post Office Pension Fund, deficiencies in which have to be made good by the Post Office under the terms of the Trust Deed.

21. Relating the maximum expected cost of £43m to savings of £15m a year, payback should be achieved in three years. Financially this is an acceptable proposition. However, the initial costs cannot be contained within existing EFL and RUC targets and exceptional financing outside current targets would be required, together with relief from the RUC target to the extent that these exceptional payments were incurred in the next two financial years.

INDUSTRIAL RELATIONS

22. The initial UCW reactions to these proposals is likely to be antagonistic against the background of the substantial economies already being achieved by their members throughout the business under existing cost reduction measures, and the unprecedented profitability of the Post Office. However, UCW officials understand the problems facing the counters business and agreed to clauses within the current productivity agreement relating to office closure. They expect 5% of offices to be closed. Achievement of the required staffing reductions will not be easy and care will be required to avoid prejudging continuing success with productivity improvements. The Post Office believes that these objectives can be achieved.

23. So far as the National Federation of Sub Postmasters (NFSP) is concerned, officials have indicated that they are prepared to accept a contraction of the network provided the terms are satisfactory to their members. There are firm indications that a substantial number of Sub Postmasters will resign voluntarily on the right terms. The negotiating aim is therefore to:

- secure NFSP cooperation in and commitment to the proposals in the light of adequate compensation arrangements;
- involve NFSP in explaining the scheme to their members;
- generate voluntary retirements so avoiding wherever possible the problems of compulsory closure.

24. Consultation with the NFSP suggests that this objective can be achieved, although strong opposition from individual sub postmasters against compulsory closure must be expected. However our objective would be to secure the bulk of the reduction in the network from voluntary retirements.

PUBLIC REACTION

25. Public reaction will be hostile because:

- the Post Office is known to be at a record level of profitability and the need for economy will not be accepted by our customers.
- the Post Office is perceived as a Corporation and the separation of counters operations and financial targets is little understood.
- closure will be seen as a further reduction in service offered. Counter closure is amongst the most lively of local issues.

26. Almost invariably, the local Member of Parliament, the local authority and in the case of Crown Office closure, the local Chamber of Commerce, oppose closures. Application of Post Office standards, even to the extent envisaged here, will be in sharp contrast to the level of contraction in

other recent years which, over the last decade, has been about 100 a year. What is now envisaged may lead to long and sustained criticism of the Post Office of a kind not experienced for some years.

27. To create public understanding of the need for these economy measures, the Post Office would propose to draw on high quality advice to assist in formulation and explanation of its strategy. Emphasis would be placed on the important guarantees already given about the maximum network size. Publicity would also highlight the size of the counter network in comparison with other British institutions and European countries and stress that the basic rural SPSO network was being maintained in the way defined earlier in the paper. Close liaison would be maintained with POUNC and local community groups. Overall, the aim would be to strike a positive rather than negative note. And there are some very positive elements to our counters policy:

- i. a progressive programme of refurbishing Crown Offices.
- ii. a policy of introducing new technology on which proposals will be shortly made to Government.
- iii. a wider range of services, reflecting our efforts to win new business to offset the decline in Government business.

28. If the Government concurs with what is proposed, the next step will be to enter into formal consultation with the Post Office Users National Council.

SUMMARY

29. The Post Office proposals include:

- guarantees of 95% of the present network until March 1987, coupled with a special package to facilitate contraction of the network to nearer Post Office published standards over the next two financial years.
- generation of savings of £15m pa equivalent to a 3% real unit cost reduction leading to lower unit costs, essential if Post Office counters are to trade successfully in an increasingly competitive environment.

- one-off costs of upto £43m but with payback in three years but requiring "below the line" treatment for EFL and RUC target purposes
- an attempt to minimise NFSP and union opposition with fair terms to persuade Sub Postmasters and surplus UCW staff to leave voluntarily, coupled with a policy of concentrating most closures on offices where the Sub Postmaster wishes to resign.

December 1983

10
11/11
The Post Office

Royal Mail
National Girobank

Mr Roberts

Director Counter Services

Post Office Headquarters
St Martins le Grand
LONDON
EC1A 1PG

Telephone 01-432 3452

4 January 1984

IN STRICTEST CONFIDENCE

Mr A A George
Room 345
Department of Trade and Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Dear Mr George

I am replying to the questions you put to Bill Cockburn just before Christmas.

Attached to this letter are two annexes, one dealing in broad terms with the build up of costs and savings from reducing the network to 95% of its size in the middle of this year and the second a possible geographic spread.

So far as the financial figuring is concerned, I have tried to show in the brief notes attached to the annex how the calculations have been done and you will recall that we touched on this at the meeting with Philip Cooper prior to the memorandum being sent to you. If you require further information in this area, I suggest that this best be provided through a meeting at which we can explain some of the detailed background.

The precise location of closures will be very much a matter for local discussion at Head Office level and will depend on how many sub postmasters are prepared to take advantage of the terms we hope to negotiate with the National Federation and therefore resign voluntarily. The figures included in the annex are based on the management study undertaken earlier this year when we sought to identify in each Head Postmaster's area those offices likely to be "surplus" to requirements based on our existing rules. These figures have then been reduced in proportion to the 95% guarantee which has been given to the various unions. They are not fixed figures and, as I said, much will depend on local negotiation. They do, however, give a broad, and I must stress broad, indication of the proportion of closures in different parts of the country.

Yours sincerely

Frank Roberts
pp A J ROBERTS

THE POST OFFICE COUNTERS NETWORK: PROPOSED CLOSURE PROGRAMME

The attached annex sets out, at 1982-83 price levels, broad estimates of the costs and savings that would flow from reduction of the network to 95% of its size this year. A number of the terminal costs for both Subpostmasters and Crown Office staff relate to factors such as office size, length of service and age. The main elements of these costs are set out below. Similarly, on costs at offices gaining traffic from closed offices will be related to factors such as office size and existing staffing levels. It should be noted, therefore, that firm estimates of costs and saving must await specific closure proposals and the outcome of negotiations on terms.

Summary of Main Cost ElementsTown Sub Offices

1 Costs assumed to be paid immediately on closure to individuals:

Lump sum: $1\frac{1}{2}$ x gross remuneration plus allowance [gross remuneration dependent on office size].

Redundancy: Dependent on age and length of service.

Gratuity: Dependent on size of office and length of service.

2 Costs arising at offices gaining traffic:

Crowns: Extra staff to handle increased business. Costs would be discussed in the context of the PO/PA productivity scheme whereby to the extent that extra work is absorbed without cost staff become eligible for productivity payments.

TSOs: Extra remuneration to reflect increased traffic levels being handled by the Subpostmaster.

Crown Offices: Closure and Down-grading

1 Costs paid to individuals immediately:

Redundancy both dependent on age and length of service

Pension Advancement

2 Costs arising and office gaining traffic: as for TSOs

Summary of Main Savings Elements

Town Sub Offices: All direct costs (essentially remuneration, NIPOC etc).

Crown Offices: All direct costs although some elements eg accommodation, rate for productivity purposes over various lengths of time.

THE POST OFFICE COUNTERS NETWORK: IMPLICATIONS OF REDUCING NETWORK TO 95% OF SIZE IN MID 1983

1 Numbers of Closures

	<u>TOTAL</u>
Crown Offices	80
Town Sub Offices	1000
Head Office Down-gradings	50

2 Financial Summary (For illustrative purposes spreading the main costs over 2 years at 82-83 prices)

	<u>Costs</u> (£m)	<u>Savings</u> (£m)	<u>Annual Net</u> (£m)	<u>Cumulative Net</u> (£m)
<u>1984-5</u>				
Crown Offices	(7½)	1¼	(6¼)	(6¼)
Town Sub Offices	(9)	1½	(7½)	(7½)
Head Office Down-gradings	(4)	¾	(3¼)	(3¼)
	-----	-----	-----	-----
TOTAL	+10% (20%)	3¼	(17) <small>(18-19) outturn</small>	(17)
<u>1985-6</u>				
Crown Offices	(4½)	3¼	(1¼)	(7½)
Town Sub Offices	(9)	4½	(4½)	(12)
Head Office Down-gradings	(9)	3¼	(5¾)	(9)
	-----	-----	-----	-----
TOTAL	+15% (22½)	11	(11½) <small>(15) outturn</small>	(28½)
<u>1986-7</u>				
Crown Offices	-	4	4	(3½)
Town Sub Offices	-	6	6	(6)
Head Office Down-gradings	-	5	5	(4)
	-----	-----	-----	-----
TOTAL	+20% -	15	15 <small>18 outturn</small>	(13½)
<u>1987-8</u>				
Overall	-	15	15 <small>19 outturn</small>	1½

NOTES:

1. Costs assumed to be paid immediately on closure.
2. Savings assumed to be incurred evenly throughout the year ie half-year only in first year.

The Post Office Counters Network: Broad Effect of Applying the 95% Guarantee to Town Sub Offices (TSO)

REGION	TOTAL SPSOs	MAXIMUM ESTIMATE OF TSOs AT RISK	% OF SPSOs IN REGION
EASTERN	2170	80	3.9
LONDON	1413	180	13.0
MIDLAND	2865	170	5.8
NORTH EAST	3006	110	3.8
NORTHERN IRELAND	690	1	0.1
NORTH WEST	1976	130	6.6
SCOTLAND	2103	50	2.6
SOUTH EAST	1730	80	4.4
SOUTH WEST	2628	70	2.8
WALES	2152	120	5.4
	<hr/> 20733	<hr/> say 1000	

The Post Office

From the Chairman
Ron Dearing CB

Post Office Headquarters
St Martins le Grand
LONDON
EC1A 1PG

Royal Mail
National Girobank

Telephone 01-432 1515

IN CONFIDENCE

15 December 1983

Mr K Baker MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

Mr George..... copies to
PS/DT
Mr Croft
Mr Cooper
23/12

PS/Sec of State
PS/Sir Brian Hayes

Dear Mr...

THE COUNTERS NETWORK

I enclose a paper by the Post Office which contains our proposals for the Post Office network. Due to the implications of the decisions we have taken we need the concurrence of Government, particularly as our major customer and also because of the financial implications for our RUC and EFL targets.

As the paper says, we are currently in negotiation with the National Federation of Subpostmasters over a revised compensation scheme and we believe we have good prospects of reaching an agreement which will earn us their support as a Federation for the proposals we are making.

Finally, while the financial figures are the best estimates available to us at this time, we shall attempt to reduce them by all means available to us so that not only does the scheme become more financially attractive but that our need for revision of targets is reduced to its minimum. I know our account of the possible cost and negotiating ceiling will be safe in Government hands.

[Faint handwritten notes]

ENCLOSURE

THE POST OFFICE COUNTERS NETWORK

Introduction

1. This paper seeks Government concurrence in a policy of reducing the network of urban post offices in accordance with standards which the Post Office announced and adopted many years ago but which it has been slow to implement because of public opposition. The need for economy now makes action necessary.
2. No comparable policy is proposed for rural post offices even though three quarters of these operate at a loss to the Post Office. Modest economies will be sought in the cost of operating the present rural network by other measures, for example by part time opening for a reduced agency payment.

The Urban Network : The facts

3. At the beginning of the present financial year there were 9530 urban sub post offices and 1563 Crown Offices. The Post Office adopted a policy in 1945 that it should provide urban post offices at mile intervals, unless special local circumstances justified a more generous provision.
4. A survey earlier this year showed that against our published criteria, there was an excess provision of over 2000 offices. Moreover, about 2000 sub offices operated at a loss to the Post Office in the sense that payments by the Post Office to the sub postmasters (plus associated overhead costs) exceeded the income paid by counter users to the Post Office for their services. Some 1600 are unjustified as failing both the geographical and profitability criteria.
5. The excess provision in urban areas is particularly marked in the inner suburbs around city centres from which population has tended to move, while the network of post offices has remained high.

The Rural Network : The Facts

6. There are 11,203 rural sub post offices. The rural areas in particular benefit from an agreement with the National Federation of Subpostmasters that

a sub post office has a minimum guaranteed income, currently some £2000 a year. There are 2650 such offices, all operating at a loss to the Post Office.

7. That the Post Office operates a rural network in which three quarters of the offices operate at a loss to the Corporation reflects acceptance of a social obligation to maintain a largely uneconomic service.

The policy proposed by the Post Office Board

8. The Post Office Board has decided that it can no longer afford to set aside its published criteria and that it should reduce the network of Crown and sub offices. But in doing so it has assured the Union of Communication Workers and National Federation of Sub Postmasters and its own customers that 95% of the network would remain intact until March 1987.

9. The Board has further decided that the policy of positive contraction should be concentrated in urban areas, with closure in rural areas taking place only when resignation could not be made good by obtaining acceptable recruits.

10. To reduce the network to 95 percent of its present number of offices could mean the loss of 1,000 sub offices and 80 Crown offices. But this would still leave the urban network some 1000 above the published distance criteria. It would also leave at least 1,000 operating at a loss to the Post Office.

11. While the guarantee of 95 percent of the network through to March 1987 stands, the need for economy has led to the conclusion that special action should be taken to encourage and facilitate a network reduction over the period to April 1986 through special arrangements negotiated with the National Federation of Sub Postmasters and, to the extent it proves necessary, by inviting Post Office employees to take early voluntary retirement or voluntary redundancy terms. Our hope would be that with the help of these measures, the implementation of long standing policies could proceed without the opposition of the National Federation of Sub Postmasters as a body.

Crown Office closures

12. For crown offices, the 95% guarantee could mean that 80 offices would face closure over the next 2 to 3 years. In addition, the Post Office has developed and will be implementing during 1984 a new system to measure the financial contribution of each Crown Office. The objective will be to make each unit financially viable by greater cost reduction and growth. Cost savings from reducing the number of crown offices will be supported by the down-grading of a number of head offices, thus reducing the level of administrative overheads charged to the counters business. This will be an acceleration of an on-going policy.

The Impulse for Cost Reduction

13. The Post Office counters network is now at a crossroads. For many years it enjoyed the benefits of steady traffic growth and cost-plus pricing agreements which effectively shielded it from commercial realities and enabled it to carry the high element of over-provision and loss making offices. This changed in 1981 with the introduction of the current Agency Services Agreement with Government Departments.

14. The Government is the major user of the network. Business transacted on behalf of Departments currently represents 55% of the total. A further 6% in respect of Green Girocheques benefit payments is also handled at Post Office counters. In 1983-84 payments for these services by Departments will be some £340m to Posts and £45m to National Girobank. This is therefore a major expenditure area for Departments who are looking for cost reductions. With the imposition of tigher financial disciplines, Departments have been stringently reviewing their procedures and usage of the counters network.

15. As a consequence the level of Government business transacted at Post Office counters has fallen by over 3% (equivalent to nearly 60 million 30 second duration transactions) in the last two years and this is set to be a continuing trend unless counter costs can be reduced. At the same time, Departments have been insisting on a real reduction in the price they pay for counter services. With high fixed system costs, the combination of reduced Government traffic and insistence on lower prices, the Post Office has to act to reduce the network.

16. Meantime, in the wider public sector the ability of the Post Office to retain and attract new business from other public utilities is constrained by its high counter unit costs and the pricing inflexibility imposed by the present Agency Services Agreement with Government Departments.

17. In the commercial sector the viability of National Girobank, operating in an intensely competitive market characterised by rapid technological change, will be similarly threatened unless counter costs, which constitute 51% of its overheads, can be reduced.

18. For these reasons the Post Office has to reduce the real unit costs of its counter operation. Over the three years to 1984-85 the target, agreed with Government, is for a 5% RUC reduction. Staff costs at Crown Offices are expected to fall by 2½% by the end of this year and are targeted to fall by a further 2½% in 1984-5. But this is not enough even in the Crown Offices - and does not touch the sub offices which account for more than half the cost. The network problem needs to be tackled.

19. To turn the counters network into a more efficient, competitive enterprise and to avoid a spiral of disastrous decline therefore requires action of the kind proposed above and some (modest in relation to the negative contribution of £36m a year) cost cutting measures for rural areas which, while encompassing closure only to the extent of that defined at para 9 above, would leave the basic fabric of the service unchanged for at least the remainder of the guarantee period. It also means that there is need for a new Agency Service Agreement that provides better scope for pricing and growth incentives.

EFFECT OF THE PROPOSALS

Financial

20. It is estimated that reduction of the network to 95% of its present size can produce savings of about £15m a year, equivalent to a 3% reduction in real unit costs. The achievement of this saving will, however, depend on the ability to meet compensation, redundancy, and advance pension commitments which could be upto £43m. These can be summarised as follows:

SPSO staff: to reach agreement with the National Federation of Sub Postmasters on an accelerated closure programme, some modification of existing compensation arrangements to sub postmasters losing their business will be necessary. If this involved making available the present compulsory closure terms to all sub postmasters losing their business in the two year incentive period, it would mean gratuities and redundancy payments of £18m. The basis of compensation under these arrangements is equivalent to 1½ times gross annual remuneration, a gratuity payment (related to length of service and office size) and redundancy. Average costs are estimated at £18,000 an office

Crown office staff: a redundancy programme will be needed, given that existing arrangements to improve productivity are likely to absorb much of the natural wastage. Assuming 1,000 staff were saved through Crown office closures and Head Office downgradings, the cost of statutory redundancy and pension advancement is estimated to amount to some £25m. This sum includes the extra burden on the Post Office Pension Fund, deficiencies in which have to be made good by the Post Office under the terms of the Trust Deed.

21. Relating the maximum expected cost of £43m to savings of £15m a year, payback should be achieved in three years. Financially this is an acceptable proposition. However, the initial costs cannot be contained within existing EFL and RUC targets and exceptional financing outside current targets would be required, together with relief from the RUC target to the extent that these exceptional payments were incurred in the next two financial years.

INDUSTRIAL RELATIONS

22. The initial UCW reactions to these proposals is likely to be antagonistic against the background of the substantial economies already being achieved by their members throughout the business under existing cost reduction measures, and the unprecedented profitability of the Post Office. However, UCW officials understand the problems facing the counters business and agreed to clauses within the current productivity agreement relating to office closure. They expect 5% of offices to be closed. Achievement of the required staffing reductions will not be easy and care will be required to avoid prejudging continuing success with productivity improvements. The Post Office believes that these objectives can be achieved.

23. So far as the National Federation of Sub Postmasters (NFSP) is concerned, officials have indicated that they are prepared to accept a contraction of the network provided the terms are satisfactory to their members. There are firm indications that a substantial number of Sub Postmasters will resign voluntarily on the right terms. The negotiating aim is therefore to:

- secure NFSP cooperation in and commitment to the proposals in the light of adequate compensation arrangements;
- involve NFSP in explaining the scheme to their members;
- generate voluntary retirements so avoiding wherever possible the problems of compulsory closure.

24. Consultation with the NFSP suggests that this objective can be achieved, although strong opposition from individual sub postmasters against compulsory closure must be expected. However our objective would be to secure the bulk of the reduction in the network from voluntary retirements.

PUBLIC REACTION

25. Public reaction will be hostile because:

- the Post Office is known to be at a record level of profitability and the need for economy will not be accepted by our customers.
- the Post Office is perceived as a Corporation and the separation of counters operations and financial targets is little understood.
- closure will be seen as a further reduction in service offered. Counter closure is amongst the most lively of local issues.

26. Almost invariably, the local Member of Parliament, the local authority and in the case of Crown Office closure, the local Chamber of Commerce, oppose closures. Application of Post Office standards, even to the extent envisaged here, will be in sharp contrast to the level of contraction in

other recent years which, over the last decade, has been about 100 a year. What is now envisaged may lead to long and sustained criticism of the Post Office of a kind not experienced for some years.

27. To create public understanding of the need for these economy measures, the Post Office would propose to draw on high quality advice to assist in formulation and explanation of its strategy. Emphasis would be placed on the important guarantees already given about the maximum network size. Publicity would also highlight the size of the counter network in comparison with other British institutions and European countries and stress that the basic rural SPSO network was being maintained in the way defined earlier in the paper. Close liaison would be maintained with POUNC and local community groups. Overall, the aim would be to strike a positive rather than negative note. And there are some very positive elements to our counters policy:

- i. a progressive programme of refurbishing Crown Offices.
- ii. a policy of introducing new technology on which proposals will be shortly made to Government.
- iii. a wider range of services, reflecting our efforts to win new business to offset the decline in Government business.

28. If the Government concurs with what is proposed, the next step will be to enter into formal consultation with the Post Office Users National Council.

SUMMARY

29. The Post Office proposals include:

- guarantees of 95% of the present network until March 1987, coupled with a special package to facilitate contraction of the network to nearer Post Office published standards over the next two financial years.
- generation of savings of £15m pa equivalent to a 3% real unit cost reduction leading to lower unit costs, essential if Post Office counters are to trade successfully in an increasingly competitive environment.

- one-off costs of upto £43m but with payback in three years but requiring "below the line" treatment for EFL and RUC target purposes
- an attempt to minimise NFSP and union opposition with fair terms to persuade Sub Postmasters and surplus UCW staff to leave voluntarily, coupled with a policy of concentrating most closures on offices where the Sub Postmaster wishes to resign.

December 1983

PART 7 ends:-

S/S Enu. to K. Baker.

11.1.84.

PART 8 begins:-

M/S DTI to SS 12.1.84

