

PRIME MINISTER

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I attach the text of Mr. Baker's statement on telecommunications liberalisation.

He was attacked from the Opposition benches on predictable lines. But a number of Government supporters shared their unease about the future position on domestic tariffs, particularly in rural areas regardless of whether the problems were related to liberalisation or to existing factors.

Leading for the Opposition, Stan Orme said that they would have liked to have had a debate. They suspected that the proposals would take substantial traffic, including the most lucrative, from BT, thus undermining BT investment. They believe that telecommunications equipment manufacturers in this country were nervous about the effect. And they were worried about the effects on the cost of telecommunications services to the consumer, especially in rural areas. Mr. Baker replied that BT would lose some traffic, but liberalisation experience in the US showed an overall increase. He had had no recent representations from manufacturers who were concerned about the risks of liberalisation. Liberalisation itself would not lead to dramatic tariff increases, but the tariff structure was already under review because of the imbalance between the return on local domestic traffic and trunk traffic. From the Government side, many backbenchers welcomed the proposals, but some of them introduced a note of caution. Peter Mills was particularly concerned about the rural areas, Nigel Forman was concerned about domestic tariffs in general, and Kenneth Lewis declared that the phrase "restructuring of tariffs" always meant across the board increases. Peter Emery was concerned about the needs of the elderly, but congratulated Mr. Baker on the speedy reaction to the Beesley Report.

Peter Hordern and Tim Renton were disappointed that the new share/bond arrangement proposed by Warburgs would not be taken out of the EFL: Mr. Baker undertook to report their views to the Treasury. Gerry Neale wanted the scope of the remaining monopoly, and its pricing practices, kept under review: Ian Lloyd

/saw the Post Office

saw the Post Office licensing system as a restricting factor and Neil Thorne wanted reassurance that Ministers had power to terminate the licences if they were misused by overseas interests. From the thinly attended Opposition benches, John Golding suggested that the industry had been given three years to adapt precisely because they were nervous of the change. John McWilliam drew attention to research commissioned from Logica by the Post Office Engineering Union which suggested that the Beesley proposals would involve a 15% loss of trunk revenue which would require a 25% increase on the rest of the network. Ioan Evans and Bob Cryer dismissed the proposals as a further dogmatic attack on the successful public enterprise whilst Dennis Skinner simply wanted to know (and got no answer) on how many jobs would be created.

In his replies Mr. Baker made great play of the US experience in liberalisation. There had been an increase in jobs both within AT&T and in the private sector. The Bell network had actually paid money to some of those offering added facilities in view of the extra revenue created for the network as a whole. In respect of the Logica research, he pointed out that their analysis had been based on the assumption that the full package would be introduced from the start. In discussion of the Warburg proposal for a preference share or bond, he did little to avoid giving the impression that the Treasury were being unreasonably obstructive.

In the final round, Stan Orme claimed that Mr. Beesley had failed to reassure the House and his own backbenchers on the reasons for rural areas and for the elderly. Mr. Baker acknowledged the anxiety but cautioned against the scaremongers. In the Department's recent seminar on the proposals, the consumer interests had taken a positive view of the ideas. The real costs of telecommunications were falling, and it should therefore be possible to readjust tariffs without significantly increasing the real charges for any group.

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DRAFT STATEMENT

TELECOMMUNICATIONS LIBERALISATION

On 15 April, my Rt Hon Friend published Professor Beesley's report on the use of British Telecommunications' (BT) network. This recommended complete freedom for anyone to use the national network to provide telecommunications services to third parties. Comments have now been received on the report from BT, its unions, from British industry - both manufacturers and suppliers - and, of course, from user groups. The Department also held a seminar to allow a full discussion of the issues involved.

When he introduced Professor Beesley's report, my Rt Hon Friend said that the Government were attracted by his free market please-the-customer approach. The comments received, often thoughtful and detailed, have done nothing to change this view; indeed many of them have endorsed it. There now appears to be general acceptance that use of the BT network to supply services to third parties, particularly when there is an enhancement of existing facilities, stimulates additional use of the network and thereby increases BT's revenue. My Rt Hon Friend, therefore, proposes to use the powers in the British Telecommunications Act to allow the private sector much greater freedom to use BT's similar network, subject in every case to technical compatibility with the network and compliance with the appropriate national and international standards.

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This is a large step forward which will help to transform telecommunications in this country from being dominated by a monopoly to being market-led and more genuinely responsive to user demand. It will bring benefits, not only to business and industry - and hence jobs - but to all sections of the community. Such a transformation cannot, however, be achieved overnight and my Rt Hon Friend proposes that, as has been done for attachments to the network, liberalisation of use of the network should be introduced on a step by step basis. BT and UK industry will thus have time to prepare for the new regime.

The first step will involve licencing private operators to use BT circuits to supply any value added network services which BT will not be supplying before 1 April 1982 and will take effect when BT takes over from the Post Office probably on 1 October. The second step commencing at the beginning of 1982 will involve freedom for the private sector to use BT circuits to compete with BT in the supply of all kinds of services, provided these services involve substantial elements additional to the basic network facilities. This freedom will not apply to simple resale to third parties of capacity on circuits leased from BT. During these two stages liberalisation will be effected by general licences for categories of service or by specific licences where that is more appropriate. Organisations wishing to provide such services should in the first instance apply for licences to BT who will licence them in conjunction with the Department of Industry. Services already licensed by BT will, of course, be allowed to continue in operation.

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A possible third stage might involve allowing the private sector complete freedom to use the BT network to supply services to third parties, including simple resale. This raises wider issues and my Rt Hon Friend will examine the consequences further in consultation with BT and other interested parties.

Professor Beesley also drew attention to the implications of his recommendations for international services and for competing public networks. No liberalisation in the area of international services is proposed at the present time, but the implication of this will be explored further with BT.

In his statement on 15 April, my Rt Hon Friend restated his intention to consider the scope for allowing the provision of additional transmission services. A number of organisations have been investigating the market possibilities and a detailed application has been received from Cable and Wireless, BP and Barclays for a licence to provide a business transmission system (project Mercury). The Government are giving active consideration to this proposal and are in principle in favour of such a development. A technical examination of the project is under way and a decision will be announced as soon as that has been completed. Meanwhile BT is being encouraged to respond sympathetically to requests to remove some anomalies affecting private networks, a number of which are already licensed.



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The diversity of uses to which the network can and will be put increases the importance of having a modern dynamic terminal equipment market in the UK. The arrangements for liberalisation of the supply of terminal equipment for attachment to the BT network are in hand and there have been extensive discussions with industry and other interests about the order of priorities for this phased introduction of full competition. New technical committees of the British Standards Institution (BSI) have already begun work on the writing of the necessary standards. A working party of the British Electro-Technical Approvals Board (BEAB), which has been invited to act as the authentication body under the new arrangements, is discussing the detailed procedures that it will follow. A report on progress will be laid before the House as soon as possible.

In the context of greater competition, Professor Beesley also stressed the need for removal of constraints on BT's capital investment. The Government share BT's belief in the benefits flowing from a modern and efficient telecommunications network and have allowed BT to increase its investment substantially over the last two years. BT is currently investing some £5 million per day and already has the largest investment programme in the country. In the interests of its customers, BT would like to invest more.

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[Mr. Baker]

of the Office of Fair Trading. Any private operator who feels that he is being restricted and has not received his licence may appeal to the Office of Fair Trading.

My hon. Friend asked whether the unions would cooperate. During the passage of the British Telecommunications Act I spoke several times to Mr. Bryan Stanley, general secretary of the Post Office Engineering Union, and I spoke to him earlier today. I do not expect the union to be obstructionist to the proposals that I have outlined.

Mr. Dennis Skinner (Bolsover): While the exercise is being completed, how many jobs will be created? The Minister has a duty to tell the House. What is all this about the new word being constantly used today, "liberalisation"? Is it what I would call a Warrington word?

Mr. Baker: I assure the hon. Gentleman that more jobs will be created as a result of my statement today than if I had not made it.

Mr. Skinner: How many?

Mr. Baker: I ask the hon. Gentleman to consider what has happened in America in the past four or five years of liberalisation. Employment has increased in the main provider of the network, AT and T, and the number of jobs has increased among the private operators. I expect the same to happen in the United Kingdom.

Mr. Richard Page (Hertfordshire, South-West): I welcome my hon. Friend's statement. It will be a major step forward in the promotion of information technology in this country. As Japan has stated that it believes that information technology will be its major economic and employment sector in the 1990s, is my hon. Friend prepared to expand his awareness of information support programmes to take advantage of his statement today? To continue with the point made by my hon. Friend the Member for Horsham and Crawley (Mr. Hordern), surely if BT is a profitable sector of our economy, the public should be allowed to invest directly in its success through the City. If we are to have some sort of preference shares I cannot understand why such shares should count against our public sector borrowing requirement.

Mr. Baker: I shall draw the remarks of my hon. Friends the Members for Hertfordshire, South-West (Mr. Page) and Horsham and Crawley (Mr. Hordern) to the attention of my colleagues in the Treasury. The proposal from Warburgs is by far the most advanced proposal that we have had about the financing of nationalised industries by going to the private market. If one can consider floating a preference share based on profit and performance—we could do that only in a nationalised industry that is profitable, which BT is and will be in the future—one is creating a novel form of financing for the nationalised industries which will support the investment programme.

Mr. Kenneth Lewis (Rutland and Stamford): Is my hon. Friend aware that when people hear talk about the restructuring of tariffs they know that as a consequence all prices will rise across the board? I support what my hon. Friend is trying to do, but I hope that at the end of the day the proposal will lead to an expansion of telecommunications, because we need that to enlarge the market and bring down prices. If it does not bring down prices, the Government will be blamed.

Mr. Baker: I am grateful for my hon. Friend's comments because that is the other side of the equation. I reassure the House on what I have already said about residential and rural tariffs, but the fact that we are to have competitive services, both value added and the possibility of an additional network, will produce a choice for the consumer for the first time in British Telecommunications services. Over the years that is bound to improve quality of service and ensure service at competitive prices.

Mr. Gerry Neale (Cornwall, North): I join my hon. Friends in congratulating the Minister on his statement. Despite the sincere comments made from the Opposition about their opposite view, I reassure my hon. Friend that there is a strong view held by Conservative Members that where the private sector can provide alternative services it should be permitted to do so. We welcome that considerably. Will he reassure us that he intends to pay close attention to the pricing policies of elements of the monopoly that remain to ensure that there is no cross-subsidisation which could result in unfair competition?

Mr. Baker: My hon. Friend knows that there are powers in the British Telecommunications Act to ensure that we are kept fully informed of all the details and that there is not cross-subsidisation. The Secretary of State has powers to require some operations of BT to be hived off into separate companies that are separately accountable so that the true costs of such operations can be seen openly.

Mr. Nigel Forman (Carshalton): Is my hon. Friend aware that many of us welcome his announcement, but we should be happier about it if we could be reassured, first, that domestic telephone users will not suffer as a result, and, secondly, that the new borrowing instruments, which are called Warburg instruments, will be adopted by the Treasury?

Mr. Baker: I shall draw my hon. Friend's comments to the attention of my ministerial colleagues. As regards domestic and rural tariffs, I reinforce what I said earlier. There are within the arrangements, and consequent upon the tariff restructuring and liberalisation, substantial gains for the rural areas. One of the ways that we can ensure that BT remains competitive in those areas is to reinforce its investment programme, and we have done that. We inherited a dramatically declining investment programme from the Labour Government and in each of our years in office that programme has increased considerably, for example, from £1.6 billion to £1.9 billion this year.

Mr. Speaker: Order. As only two more hon. Members wish to question the Minister, I shall call both before calling the Opposition spokesman.

Mr. Tim Renton (Mid-Sussex): While I welcome the concept of the preferred shares, does my hon. Friend agree that such shares normally count as part of the share capital of a company and that if they end up in the hands of institutional investors it will mean that some part of the equity ownership of BT has moved from the Government to the institutions?

Secondly, is it not a paradox that all BT's borrowings count as part of the public sector borrowing requirement, but those of Cable and Wireless, which is 100 per cent. Government owned and is about to enter competition with BT, do not count as part of the PSBR?

Mr. Baker: I confirm what my hon. Friend said in the latter part of his question. The anomaly has existed for a

The hon. Gentleman also mentioned rural areas. I must emphasise that in any tariff restructuring in which trunk calls become relatively cheaper many rural areas will gain from cheaper trunk calls—[HON. MEMBERS: "How?"] Because they must communicate with other communications centres, and the costs will be cheaper. One significant application that I have already received comes from a company that wants to place its operation in a remote development area, with the result that employment for several hundred people will be created there.

Several Hon. Members *rose*—

Mr. Speaker: Order. I remind the House that there is a time limit on questions. I therefore hope that we shall have brief questions and answers.

Mr. Peter Emery (Honiton): Will my hon. Friend accept the congratulations of the House on being a Minister who acts within two months of receiving a report in order to carry out its findings? He deserves a great deal of co-operation. Although hon. Members have asked about the loss of revenue, have estimates been made of the increase in revenue arising from the extra services that will be used as well as a greater use of the general circuit? As well as the rural costs, will he also consider the costs that will accrue to elderly people, particularly the single elderly, who rely on the telephone as the one method of staying in communication with the rest of the world?

Mr. Baker: I thank my hon. Friend for his initial remarks. Benefits will flow to BT because these proposals will increase its revenue. The American equivalent of BT, the Bell system, pays money to certain value added services for the business they generate for the Bell network. I wish that Labour Members would appreciate that fact and live in the real world.

Mr. Ioan Evans (Aberdare): Does not the hon. Gentleman realise that his statement will be seen as an attempt by the Government dogmatically to pursue a policy of privatisation without regard to the national interest? Surely the Government should distinguish between a public monopoly and a private monopoly, where the user is the nation and the benefit comes back to the nation. Does he not also realise that many people will see this as the thin end of the wedge and will feel that if the Government get away with this they will be able to hive off other national assets in the telecommunications sector?

Mr. Baker: The hon. Gentleman exaggerates. I am quite sure that the changes we are making will be to the benefit of the consumer, British manufacturing industry and eventually, through higher revenues, BT. In addition, they will create jobs. What is wrong with that package?

Mr. Bob Cryer (Keighley): That is not what will happen.

Mr. Peter Hordern (Horsham and Crawley): My hon. Friend said that BT would introduce a new form of borrowing instrument. He also said that that would count against the external financing limit. Therefore, what is the use of it? Is he not aware that our institutions are investing abroad at the rate of about £2,000 million a year, including companies such as AT and T? Surely the solution is to take that part of BT outside the public sector altogether and to allow the institutions to invest in it to produce the kind of telecommunications system that Britain should have.

Mr. Baker: I am very much aware of the interest that my hon. Friend has shown in the capital investment needs of the nationalised industries generally and British Telecommunications in particular. We have received a proposal from Warburgs to issue a form of preference share for BT relating to its profit performance, based on its revenue and the profit related to the revenue. We and the Treasury are considering that with sympathy. Of all the various proposals that have been put to us, that is by far the most optimistic of those that we have considered. Even if it were to be approved, it is still likely that it would probably count against the external financing limit and, therefore, part of the public sector borrowing requirement for British Telecommunications. The fact that BT can go to the market to appeal for funds from a sector of the market that is not the same as the gilt-edged market means that there is an element of additionality, because if the preference share were to be floated the EFL of BT would be higher than it would otherwise have been.

Mr. Bob Cryer (Keighley): Is not the reality that the proposal is part of a continuing vicious attack on a highly successful public enterprise which sticks in the craw of the Government? As that clearly will give access to the most profitable areas—while British Telecommunications will be required to maintain the rest of the services—can the Minister spell out in some detail, to satisfy both myself and the queries raised by Conservative Members that he has failed so far to answer, the safeguard for rural areas, small businesses, the elderly and the safety standards involved with the new equipment?

Mr. Baker: I specifically referred to safety standards in my statement. There is an elaborate system of ensuring that safety standards will be preserved. I have already answered questions on the restructuring of the tariffs of BT, but a tariff restructuring is taking place in BT, apart from the liberalisation. The proposals recently made by the board of BT were made long before the board knew the Government's policy and it has made some progress along that road. I expect the board to take into account the considerations that I have made. We are living in a period when the real cost of telecommunications is coming down. I shall not permit a regime by the board that will load one type of consumer, whether those in the rural areas or the elderly.

Mr. Ian Lloyd (Havant and Waterloo): Those of us who warmly support the general philosophy developed in the Beesley report will be enthusiastic about what my hon. Friend has said. As the effective liberalisation will depend to a considerable extent in the early stages on the attitude of the Post Office, which has licensing powers in its hands, what appeal will there be from the Post Office if the Government feel that the liberalisation is not being applied too generously? If that liberalisation is agreed by the Post Office but is strongly obstructed, as some of us fear and expect, by the trade unions who disapprove of the policy, what redress will we have?

Mr. Baker: My hon. Friend asked whether BT will exercise the regime fairly. There are two constraints. First, the licensing powers are ultimately vested in the Secretary of State and the Government. If the Secretary of State or any Minister in the Department feels that BT is being unduly obstructionist, he will be able to use his powers of licensing and issue a licence. There are also the activities

[Mr. Baker]

that liberalisation will of itself lead to substantial increases in residential telephone charges. As the right hon. Gentleman knows, a substantial exercise has been taking place in BT for the last two or three years on restructuring its tariffs, for the simple reason that the domestic network loses money while the cost network makes money. That has been happening not only in Britain but in telecommunications regimes throughout the world.

The right hon. Gentleman specifically mentioned rural areas, although I did not notice the Labour Government taking any specific measures to protect those areas. If trunk calls are cheaper, many residential users in rural areas will benefit. In any case, whole areas will benefit from cheaper rural trunk calls which will make communications with the centres much cheaper. I have already had notification of one applicant for a van service who intends to take advantage of this by locating his office in a remote development area. The right hon. Gentleman must therefore recognise that cheap trunk calls can bring jobs to remote areas.

Several Hon. Members *rose*—

Mr. Speaker: Order. In order to be as fair as I can to the House, I propose exceptionally to allow these questions to run until 4.30 and then to move on.

Mr. Peter Mills (Devon, West): I agree with much of what my hon. Friend has said, but I am deeply concerned about the effect of these proposals on rural areas. Will he bear in mind that BT has already cancelled a meeting with South-West Conservative Members to discuss the possible closure of telephone kiosks, about which there is a real fear? I hope that he will be more reassuring about this problem than he has been so far.

Mr. Baker: I entirely understand my hon. Friend's anxieties. I shall bring them to the attention of the chairman and board of BT. As I have explained, the restructuring of BT tariffs has now been in hand for about 18 months, and that will continue whether or not we have liberalisation. I am concerned that, when there is liberalisation, rural and residential tariffs should not be unfairly loaded, and at a time when the real cost of telecommunications is falling I look to BT and its board as far as possible to achieve this change without significantly increasing charges in real terms for any class of user.

Mr. John Golding (Newcastle-under-Lyme): Is the Minister aware that that is not possible, and that these proposals will increase telecommunications costs not only in the rural areas but also for small business men and the domestic user? Is he aware that by taking away £100 million turnover initially—potentially much more—these proposals will lead to restrictions on development and modernisation? If the hon. Gentleman does not think that these proposals will damage British industry and jobs, why has he given British industry three years in which to adjust? Is it not because he knows full well that this statement will create jobs in Japan, America and other countries with a resultant loss of jobs in Great Britain?

Mr. Baker: The hon. Gentleman should appreciate that, even by 1990, under these proposals and the proposals that we have made in the past, more than 90 per cent. of our telecommunications and services will still be

provided by BT. That is a commanding share of the market. Most companies would not look upon that as a threat to their entire tariff structure. I do not accept the sort of scaremongering that I have heard today. In fact, that was refuted by consumer interests and by Dame Elizabeth Ackroyd at a recent seminar that we held.

I believe that these proposals will significantly increase the number of jobs in this area, and I shall tell the hon. Gentleman why. When liberalisation along these lines occurred in America from 1976 to 1978, jobs in AT and T, which is the equivalent of BT, went up by 6 per cent. and by 12 per cent. in the private sector. Therefore, there was an increase in jobs in both the private and public sectors. The hon. Gentleman should not let monopoly stand in the way of job creation.

Mr. Neil Thorne (Ilford, South): Is my hon. Friend satisfied that if there are cases of abuse in the granting of these licences, particularly by firms overseas, he has sufficient power to terminate the licence as a matter of urgency, especially if it is likely to lead to unfair competition with our home industry?

Mr. Baker: I can give my hon. Friend that assurance. As to the liberalisation of buying telephone equipment, an elaborate system has already been established through using the British Standards Institution and the BEAB. During my statement, the hon. Member for Bolsover (Mr. Skinner) commented that that was another quango. If he wants to enter these debates, he really must inform himself. It is a private sector test authority. That is the body that we shall use. It is well established in private industry and is supported by the unions. I therefore ask the hon. Gentleman to become informed.

Mr. John McWilliam (Blaydon): Is the hon. Gentleman aware that the Post Office Engineering Union, of which I am a member, asked Logica to carry out research into the effect of the Beesley report? It said that if cream skimming on the scale of the third proposal took place, 15 per cent. of the trunk call revenues to BT would be lost and that that would require a price increase of about 25 per cent. for remaining users. Is the hon. Gentleman aware that it is unlikely that users in the rural communities will benefit in any way whatever? How does he equate his statement on "Project Mercury"—which sounds more like a space shot—with the statement made by Lord Lyell who in his reply on behalf of the Government said—

Mr. Speaker: Order. If the noble Lord was speaking for the Government, the hon. Gentleman is free to quote him, but if he was speaking for himself that is another story.

Mr. McWilliam: Thank you, Mr. Speaker. I am quoting from the House of Lords *Hansard* of 13 January, when Lord Lyell, replying on behalf of the Government said:

"but the network, the actual wiring which goes from one place to another across the country . . . will remain the entire responsibility of British Telecommunications."—[*Official Report, House of Lords*, 13 January 1981; Vol. 416, c. 8.] That was at a time when the Minister had received the Beesley report.

Mr. Baker: I do not think that the hon. Gentleman heard what I said in my statement. The Logica report assumed that we would allow total resale straight away. Therefore, its figures are very different, and the findings are exaggerated as a result.

supply services to third parties, including simple resale. This raises wider issues and my right hon. Friend will examine the consequences further in consultation with BT and other interested parties.

Professor Beesley also drew attention to the implications of his recommendations for international services and for competing public networks. No liberalisation in the area of international services is proposed at the present time, but the implication of this will be explored further with BT.

In his statement on 15 April, my right hon. Friend restated his intention to consider the scope for allowing the provision of additional transmission services. A number of organisations have been investigating the market possibilities and the first application has already been received. This is a detailed application from Cable and Wireless, BP and Barclays for a licence to provide a business transmission system known as "Project Mercury". The Government are giving active consideration to this proposal and are, in principle, in favour of such a development. A technical examination of the project is under way and a decision will be announced as soon as that has been completed. Meanwhile, BT is being encouraged to respond sympathetically to requests to remove some anomalies affecting private networks, a number of which have already been licensed.

The diversity of uses to which the network can and will be put increases the importance of having a modern dynamic terminal equipment market in the United Kingdom. The arrangements for liberalisation of the supply of terminal equipment for attachment to the network are in hand, and there have been extensive discussions with industry and other interests about the order of priorities for this phased introduction of full competition. New technical committees of the British Standards Institution have already begun work on the writing of the necessary standards. A working party of the British Electro-Technical Approvals Board—BEAB—which has been invited to act as the authentication body under the new arrangements, is discussing the detailed procedures that it will follow. A report on progress will be laid before the House as soon as possible.

In the context of greater competition, Professor Beesley also stressed the need for removal of constraints on BT's capital investment. The Government share BT's belief in the benefits flowing from a modern and efficient telecommunications network and have allowed BT to increase its investment substantially over the last two years. BT is currently investing some £5 million per day and already has the largest investment programme in the country. In the interests of its customers, BT would like to invest more.

The Government are glad to acknowledge that under Sir George Jefferson's leadership BT has made substantial progress in improving its services to its customers and in accelerating the introduction of modern technology. The Government are concerned to respond as positively as the constraints on public expenditure and public sector borrowing permit to the needs of BT's vital investment programme, especially when that is directed to modernisation. The Government will in particular keep very much in mind the need for the corporation to be able to compete successfully in the environment that it will increasingly face.

With this in view, the Government have received from BT a proposal for a new borrowing instrument which is being considered sympathetically. If accepted, this would be taken into account in fixing BT's level of external finance.

Mr. Stanley Orme (Salford, West): We should have liked very much to debate the long statement made by the Minister as it has a great deal of content and the proposals will have far-reaching effects. We are most concerned that Professor Beesley's report has been so overwhelmingly adopted by the Government. We believe that it was a hasty report and that the period of two months allowed for consultation after its publication was totally inadequate. We are most dissatisfied with the way in which the Government are handling the matter.

Does the Minister agree that the proposals will take essential traffic—and the best traffic—away from the public network operated by BT, thereby reducing its ability to make profit and undermining its investment programme?

Secondly, will not the proposals go far beyond anything else proposed in the EEC or by any of our other main competitors? Is the Minister aware—will he give details on this—that British manufacturers are concerned about the uncertainty surrounding the British telecommunications industry? Will not the proposals have a detrimental effect on British manufacturers and lead to a flood of foreign imports?

Finally, what effect will the proposals have on the cost to the consumer? We are very concerned about this. The Minister has said that in the first stage the Government will consider selling off some of the units. Will not this lead to an enormous increase in cost and a reduced market for British Telecommunications? What will be the effect of that on domestic consumers, not least those in rural areas?

Mr. Baker: My right hon. Friend the Leader of the House is present and has no doubt heard the right hon. Gentleman's comments about the possibility of having a debate when we resume.

The right hon. Gentleman raised three points. First, he asked whether this would take essential traffic away. Some traffic, of course, will be taken away, but the Opposition should view this in proportion. The revenues of BT this year will exceed £5 billion. In the various recommendations and submissions made to us, the effect on BT's revenue in 1983, 1984 and 1985 of the measures on liberalisation that we have recommended will be between £70 million and £100 million turnover at the most, in relation to a turnover which this year was £5 billion and rising substantially.

The right hon. Gentleman's second question concerned the attitude of manufacturers in the United Kingdom. They are principally affected by the measures already announced concerning liberalisation of the attachments—the handsets, and answering equipment and the PABXs. I assure the right hon. Gentleman that I have had no representations recently from any manufacturer expressing concern about this. Indeed, all the large companies—GEC, Plessey, STC and Pye—are engaging in significant cost reduction exercises so that when the equipment area is properly liberalised they will be able to compete successfully in the United Kingdom and also to export.

The right hon. Gentleman's third question concerned the effects on tariffs. I wish to refute the wild allegations

response—an inadequate response—to the Public Accounts Committee report on the role of the Comptroller and Auditor General?

Mr. Pym: I shall convey to my right hon. Friend the Secretary of State for Energy the hon. Gentleman's views about his first point, the importance of which I appreciate. I think that there will be an opportunity in the next Session for a debate on the Select Committee report to which the hon. Gentleman referred. I believe that it will be a strong candidate for a day's debate. I agree with the hon. Gentleman that it should have the attention of the House.

Sir Anthony Meyer (Flint, West): Has my right hon. Friend seen early-day motion 570, signed by hon. Members on both sides of the House, relating to world starvation?

[That this House supports the manifesto of the 54 Nobel Prize winners calling for immediate international action to combat mass starvation in the Third world.]

If my right hon. Friend cannot give an assurance that there will be a debate on the motion before the Mexico summit, will he at least ensure that the urgency of this aspect of relations with the Third world is properly seized by Ministers before the delegation leaves for Mexico City?

Mr. Pym: There have been recent opportunities to debate the subject—on the Brandt report and on the Consolidated Fund Bill. No doubt there will be other opportunities when we return.

Mr. Kenneth Marks (Manchester, Gorton): As the Secretary of State for the Environment will not report back from Liverpool until after the House has risen, will the Government urgently consider the heavy costs that county councils such as Manchester and Merseyside face for additional police activity and the compensation for damage? Will the Government consider applying the same system to help those authorities as the Department for the Environment uses for flood and storm damage?

Mr. Pym: The hon. Gentleman is right. It is important, and the Government are currently considering that difficult matter.

Several Hon. Members rose—

Mr. Speaker: Order. I propose to call those hon. Members who have been rising in their places.

Mr. Kenneth Lewis (Rutland and Stamford): If, by chance, my right hon. Friend is asked to bring us back before the due date, will he choose the time very carefully indeed, and may I help him by suggesting that he might bring us back in the middle of the Labour Party conference, because Labour Members will not have much to do there as it will not take much notice of them and they may as well be here?

Mr. Pym: I note my hon. Friend's helpful suggestion, but I would not wish to cause too much disappointment to too many people.

Mr. David Winnick (Walsall, North): With unemployment at its highest level since the 1930s, and with the crisis in inner city areas, is there not a strong case for us to come back before the beginning of October? Bearing in mind the crisis, why should we break up for a long period?

Mr. Pym: We are breaking up for the period that we decided to break up for because the House has reached that conclusion.

Mr. Bill Walker (Perth and East Perthshire): When the House resumes, may we have an opportunity to debate early-day motion 368 on cheque book journalism—

[That this House, deploring recent examples of cheque book journalism, calls upon Her Majesty's Government to introduce legislation making such practices illegal so that once again crime will be seen not to pay.]

and particularly the amendment standing in my name—

[Line 1, after 'journalism', add 'and in particular condemns the payment of £50 to Susan Ettles for her contribution to an article about skinheads and for the anxiety and distress caused to her widowed mother who lives in Scotland and who had no knowledge of the matter'.]

Is my right hon. Friend aware that the articles in the *Daily Mirror* and the *Daily Record* have brought considerable distress to a constituent of mine who had no knowledge of the matter concerning skinheads and her daughter?

Mr. Pym: I note my hon. Friend's request. I shall keep it in mind, but it may be that he will have to find his own opportunity on a private Member's basis to debate that subject.

Mr. Frank Hooley (Sheffield, Heeley): The leader of the House will be aware that in the early hours of yesterday morning the House was debating certain important matters relating to the steel industry. However, is he aware that, in the course of that debate, his hon. Friend the Member for Southend, East (Mr. Taylor) alleged that the EEC Commission was threatening to withhold large capital sums that the Government had already authorised unless the British Steel Corporation's steel making capacity was reduced by a further £1 million, and that that allegation appears to be confirmed by reports in the press this morning? Will he, therefore, ask the Secretary of State for Industry to come to the House tomorrow to make a clear statement that there is no intention whatsoever of further cutting back the steel industry with the loss of tens of thousands of jobs?

Mr. Pym: I do not believe that a statement tomorrow would be appropriate. The issue that the hon. Gentleman raises is subject to negotiation by my right hon. Friend and the Commission, and, frankly, the Government are not unhopeful about the outcome.

Mr. Stanley Newens (Harlow): Has the right hon. Gentleman noted that 178 hon. Members on both sides of the House have signed early-day motion 569, which deals with the plight of glasshouse growers?

[That this House, alarmed at the increasingly unfair competition faced by the British glasshouse growers as the result of escalating energy prices, which have completely erased the advantages of providing the subsidy on oil, and the failure over a number of years of the European Economic Community to equalise fuel costs between the glasshouse industries of different countries, calls upon the British Government to take immediate action to offset the substantial financial advantages enjoyed by Dutch producers as the result of access to gas at artificially low prices.]

As we are unlikely to have a statement from the Minister of Agriculture, Fisheries and Food on that important subject before the House rises, will the right hon. Gentleman draw the matter to his right hon. Friend's attention and ensure that, as soon as the House returns, we

[Mr. Stanley Newens]

shall have an opportunity to raise it in the House? Does he accept that it is of vital importance to those people, who are mainly small business men—about whom the Government are pledged to do something—and their employees?

Mr. Pym: Yes, Sir. I am able to respond with great sympathy. I have a number of glasshouse growers in my constituency, as do many other hon. Members. It is a serious situation. My right hon. Friend the Minister of Agriculture, Fisheries and Food has done as much as he possibly could but he realises the competitive difficulties of glasshouse growers. He is doing everything that he can, and I am sure that he will be returning to the subject in the autumn.

Mr. Bob Cryer (Keighley): Is the Leader of the House aware that the multi-fibre arrangement renegotiations will enter a serious phase in October-November, which is about the time when the House reassembles, and that in textile areas like mine we already have an increase in unemployment of 183 per cent. since the Tory Government came to office? Is he further aware that many people are, therefore, deeply apprehensive about the outcome of the MFA renegotiation and it is important for the confidence of the industry that it should properly be renegotiated? Can he reassure us that any developments will be reported to the House in the form of a statement by the Secretary of State for Trade at the earliest opportunity, as I am sure that he recognises that such a statement is wanted by both sides of the House?

Mr. Pym: I shall convey those views to my right hon. Friend the Secretary of State for Trade. I was glad to be able to make a day available to debate the subject before the negotiations proper began, and I have no doubt that there will be continued interest in it when we return from the recess.

Mr. John Browne (Winchester): Does my right hon. Friend accept that one of the potentially largest, fastest growing and most lucrative industries is that of video text or home information technology, and that Great Britain could well be one of the leaders in the industry but that it is fast falling behind? Is he prepared to give a day to debate the subject in the next Session of Parliament?

Mr. Pym: I cannot give that undertaking, but the subject is obviously a possible candidate, although, again, it may have to be in private Member's time. However, if we can find Government time, all the better.

Mr. Bill Walker: On a point of order, Mr. Speaker. I draw your attention to the debate on 21 July, when the hon. Member for Kilmarnock (Mr. McKelvey) alleged that the Dundee chamber of commerce had issued a statement concerning myself. The chamber has since written to him stating that it never issued such a statement and asking him to withdraw the remarks that appear in col. 246 of the *Official Report*. I wrote to the hon. Gentleman, and he kindly informed me that he would be unable to be here today but that he hopes to deal with the matter when the House resumes. However, I felt that that was too long to leave the matter, so I wish to place it on record.

Mr. Speaker: No doubt we shall hear more about it.

British Telecommunications

The Minister for Industry and Information Technology (Mr. Kenneth Baker): With permission, I should like to make a statement about telecommunications liberalisation. I apologise in advance for the length of the statement.

On 15 April, my right hon. Friend published Professor Beesley's report on the use of British Telecommunications' network. This recommended complete freedom for anyone to use the national network to provide telecommunications services to third parties. Comments have now been received on the report from BT, its unions, from British industry—both manufacturers and suppliers—and, of course, from user groups. The Department also held a seminar to allow a full discussion of the issues involved.

When he introduced Professor Beesley's report, my right hon. Friend said that the Government were attracted by his free market, please-the-customer approach. The comments received, often thoughtful and detailed, have done nothing to change this view; indeed, many of them have endorsed it. There now appears to be general acceptance that use of the BT network to supply services to third parties, particularly when there is an enhancement of existing facilities, stimulates additional use of the network and thereby increases BT's revenues. My right hon. Friend, therefore, proposes to use the powers in the British Telecommunications Act to allow the private sector much greater freedom to use BT'S inland network, subject in every case to technical compatibility with the network and compliance with the appropriate national and international standards.

This is a large step forward, which will help to transform telecommunications in this country from being dominated by a monopoly to being market-led and more genuinely responsive to user demand. It will bring benefits, not only to business and industry—and, therefore, jobs—but to all sections of the community. Such a transformation cannot, however, be achieved overnight, and my right hon. Friend proposes that, as has been done for attachments to the network, liberalisation of use of the network should be introduced on a step-by-step basis. BT and United Kingdom industry will thus have time to prepare for the new regime.

The first step will involve licensing private operators to use BT circuits to supply any value added network services which BT will not be supplying before 1 April 1982, and that will take effect when BT takes over from the Post Office on 1 October this year. The second step, commencing at the beginning of 1982, will involve freedom for the private sector to use BT circuits to compete with BT in the supply of all kinds of services, provided that these services involve substantial elements additional to the basic network facilities. This freedom will not apply to simple resale to third parties of capacity on circuits leased from BT. During these two stages, liberalisation will be effected by general licences for categories of service or by specific licences where that is more appropriate. Organisations wishing to provide such services should in the first instance apply for licences to BT, which will license them in conjunction with the Department of Industry. Services already licensed by BT will, of course, be allowed to continue in operation.

A possible third stage might involve allowing the private sector complete freedom to use the BT network to

number of years, largely because Cable and Wireless has not had recourse to borrowings for a considerable number of years and has generated investment from its own cash flow.

There is an element of what my hon. Friend suggested in the concept of a preference share. The alternative would be a participating bond, but the key element of a share or a bond is that it must be related to the profit performance of the nationalised industry. Otherwise it will change nothing.

Mr. John Browne (Winchester): I fully support the initial move to privatise the industry, but I have some severe reservations, as, I suspect, do some of my hon. Friends, about the extent of the operation. A rump end of a monopoly in terms of private rural tariffs has been left behind and it could undercut prices on the trunk lines, thereby driving out competition on those lines, while raising rural tariffs. Will my hon. Friend explain what safeguards will be provided to prevent that from happening?

Mr. Baker: It is generally recognised that none of those problems will necessarily flow from the measures that I have announced or from the liberalisation. Various safeguards can be built into the provision of any value added network services as regards the terms of the interconnection with BT from the additional business. I remind my hon. Friend of what has happened in America. Where such services operate in the United States, they do so for the benefit of the main provider AT and T, the Bell system, to the extent that the company pays certain service providers for the benefit of their operations, and not the other way round.

Mr. Orme: The Minister has failed to reassure the House and many of his hon. Friends about rural services, small businesses and the elderly. If the consumer is offered a cheaper service he will choose that service. Will the hon. Gentleman, therefore, guarantee that the services that we are concerned about will not be run down and that costs will not go up as we fear? Will he guarantee the House that he will protect those services?

Mr. Baker: I appreciate that there is anxiety on that point and I confirm what I have already said. First, I counsel the House against listening to too much scaremongering. That point was made repeatedly by consumer interests, and not Government spokesmen, at the recent seminar. I also confirm that at a time when the real costs of telecommunications are falling I shall look to BT to achieve the change that we have been talking about without, as far as possible, significantly increasing charges in real terms for any class of user.

Herring Fishing (The Minch)

Mr. Donald Stewart (Western Isles): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 9, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the need to stop immediately herring fishing in The Minch."

I apologise to you, Mr. Speaker, for not giving notice before 12 noon. I hastened to do so as soon as I had details of the matter.

This is the first time that I have submitted a motion under Standing Order No. 9. I say that not to comment on, or to pre-empt, your eventual decision, Mr. Speaker, but to make the point that it is not a procedure that I invoke lightly.

The matter is specific, because it applies solely to the dangerous situation concerning herring stocks in The Minch. For three years, fishermen of the Western Isles and others who have fished these waters have acquiesced in the total ban on herring fishing in The Minch. That has been a severe sacrifice, but it was agreed in the knowledge that the herring stock had been virtually wiped out and that if it was to be saved protection had to be given and time had to be allowed to allow the stock to revive.

So severe were the restrictions that two local boats that fished only with drift nets—a conservation measure in itself—were not exempted from the ban, despite several appeals that I made to the Ministry of Agriculture.

I have received a sheaf of telegrams from skippers of vessels from Stornaway, Eriskay, Scalpay in my constituency, Mallaig on the West coast and Avoch on the East coast. The message is clear. Those skippers say that the fishing must end immediately or their livelihoods will be destroyed virtually overnight, in spite of their previous sacrifice.

The limited stocks of herring are being decimated and, because of previous experience, fishermen have no faith in talk of management controls. They all express anger and astonishment that the Government have acquiesced in the blunder.

The matter is urgent because another two or three weeks of the fishing would deplete stocks and destroy for ever the staple living of fishing communities. Today's papers report that hundreds of tonnes of herring caught in the reopened West of Scotland grounds yesterday went for fish meal. At a time of world hunger and when our fishermen need to make a reasonable living, food that should be going for human consumption is being reduced to fish meal.

It is essential that the fishing is stopped immediately, so that fair shares can be allocated to the local fleet and the traditional fleet that fishes The Minch and until satisfactory arrangements for control have been agreed. Appalling damage has been done to the stocks and that is why I seek leave to move the Adjournment of the House.

Mr. Speaker: The right hon. Member asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he believes should have urgent consideration, namely; "the need to stop immediately herring fishing in The Minch."

The House will have listened with anxious care to what the right hon. Gentleman said. He knows that under Standing Order No. 9 I am directed to take into account the several factors set out in the Order, but to give no reasons for my decision.

[Mr. Speaker]

I listened with great care to the right hon. Gentleman, but I must rule that his submission does not fall within the provisions of the Standing Order and, therefore, I cannot submit his application to the House.

Fiji and Vanuatu (Gifts)

4.39 pm

The Chancellor of the Duchy of Lancaster, Paymaster General and Leader of the House of Commons (Mr. Francis Pym): I beg to move,

That Mr. Austin Mitchell and Mr. John Stradling Thomas have leave of absence to present on behalf of this House a gift

of a Clerk's Table to the House of Representatives of Fiji, and a gift of a Speaker's Gavel and Desk Set to the House of Assembly of Vanuatu.

On 23 July the House approved the presentation of gifts to the House of Representatives of Fiji and to the House of Assembly of Vanuatu. The motion will give the hon. Member for Grimsby (Mr. Mitchell) and my hon. Friend the Member for Monmouth (Mr. Stradling Thomas) leave of absence to present the gifts on our behalf. They will be accompanied by Mr Michael Ryle, Clerk of the Overseas Office, and together they will comprise a formal delegation for the purpose of making the presentation on behalf of the House.

Question put and agreed to.

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FILE

Pat Deben HL

10 DOWNING STREET

From the Private Secretary

30 July 1981

Thank you for your letter of 28 July about telecommunications liberalisation.

As I told you on the telephone, the Prime Minister is content with the proposed statement, subject to any detailed drafting points suggested by colleagues. I understand that Sir Robert Armstrong has made one such suggestion.

The Prime Minister is aware that, following consultations through the usual channels this morning, this will now be an oral statement.

I am sending copies of this letter to John Halliday (Home Office), Brian Fall (Foreign and Commonwealth Office), Peter Jenkins (H.M. Treasury), David Hayhoe (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M.A. PATTISON

Ian Ellison, Esq.,
Department of Industry.

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Copies to N Dyer
N Robinson.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS / Secretary of State for Industry

Agreed
no, 28 July 1981

Clive Whitmore Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister.

This is the statement which Mr Baker will
propose to make (in the form of a written answer)
in the light of your conclusion yesterday that we
cannot announce the final decision to go ahead with
this week. Are you content with it, subject to the views
of the other Ministers concerned?

Dear Clive

TELECOMMUNICATIONS LIBERALISATION

We spoke about the reasons for delaying an announcement of
Government approval of the Mercury project and you asked for
a revised draft of the statement which Mr Kenneth Baker now
proposes to make by written answer on Thursday.

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Apart from a few small drafting amendments that have mostly
been requested by British Telecommunications, the substantive
change is the revised passage on the Mercury project which is
sidelined on page 3. This follows the line suggested by
Sir Robert Armstrong for use if an announcement of the decision
on this project had to be deferred and has been agreed at official
level by the Home Office.

Copies of this letter go to John Halliday (Home Office), Brian
Fall (FCO), Peter Jenkins (Treasury), David Hayhoe (CDL),
Murdo Maclean (Chief Whip) and to David Wright.

Yours ever
Ian Ellison

I K C ELLISON
Private Secretary

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DRAFT STATEMENT

TELECOMMUNICATIONS LIBERALISATION

On 15 April, my Rt Hon Friend published Professor Beesley's report on the use of British Telecommunications' (BT) network. This recommended complete freedom for anyone to use the national network to provide telecommunications services to third parties. Comments have now been received on the report from BT, its unions, from British industry - both manufacturers and suppliers - and, of course, from user groups. The Department also held a seminar to allow a full discussion of the issues involved.

When he introduced Professor Beesley's report, my Rt Hon Friend said that the Government were attracted by his free market please-the-customer approach. The comments received, often thoughtful and detailed, have done nothing to change this view; indeed many of them have endorsed it. There now appears to be general acceptance that use of the BT network to supply services to third parties, particularly when there is an enhancement of existing facilities, stimulates additional use of the network and thereby increases BT's revenue. My Rt Hon Friend, therefore, proposes to use the powers in the British Telecommunications Act to allow the private sector much greater freedom to use BT's inland network, subject in every case to technical compatibility with the network and compliance with the appropriate national and international standards.

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This is a large step forward which will help to transform telecommunications in this country from being dominated by a monopoly to being market-led and more genuinely responsive to user demand. It will bring benefits, not only to business and industry - and hence jobs - but to all sections of the community. Such a transformation cannot, however, be achieved overnight and my Rt Hon Friend proposes that, as has been done for attachments to the network, liberalisation of use of the network should be introduced on a step by step basis. BT and UK industry will thus have time to prepare for the new regime.

The first step will involve licencing private operators to use BT circuits to supply any value added network services which BT will not be supplying before 1 April 1982 and will take effect when BT takes over from the Post Office probably on 1 October. The second step commencing at the beginning of 1982 will involve freedom for the private sector to use BT circuits to compete with BT in the supply of all kinds of services, provided these services involve substantial elements additional to the basic network facilities. This freedom will not apply to simple resale to third parties of capacity on circuits leased from BT. During these two stages liberalisation will be effected by general licences for categories of service or by specific licences where that is more appropriate. Organisations wishing to provide such services should in the first instance apply for licences to BT who will license them in conjunction with the Department of Industry. Services already licensed by BT will, of course, be allowed to continue in operation.

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A possible third stage might involve allowing the private sector complete freedom to use the BT network to supply services to third parties, including simple resale. This raises wider issues and my Rt Hon Friend will examine the consequences further in consultation with BT and other interested parties.

Professor Beesley also drew attention to the implications of his recommendations for international services and for competing public networks. No liberalisation in the area of international services is proposed at the present time, but the implication of this will be explored further with BT.

In his statement on 15 April, my Rt Hon Friend restated his intention to consider the scope for allowing the provision of additional transmission services. A number of organisations have been investigating the market possibilities and a detailed application has been received from Cable and Wireless, BP and Barclays for a licence to provide a business transmission system (project Mercury). The Government are giving active and sympathetic consideration to this proposal and are in principle in favour of such a development. It raises certain technical issues which have yet to be fully resolved and a decision will be announced as soon as the technical examination of the project has been completed. Meanwhile BT is being encouraged to respond sympathetically to requests to remove some anomalies affecting private networks, a number of which are already licensed.

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The diversity of uses to which the network can and will be put increases the importance of having a modern dynamic terminal equipment market in the UK. The arrangements for liberalisation of the supply of terminal equipment for attachment to the BT network are in hand and there have been extensive discussions with industry and other interests about the order of priorities for this phased introduction of full competition. New technical committees of the British Standards Institution (BSI) have already begun work on the writing of the necessary standards. A working party of the British Electro-Technical Approvals Board (BEAB), which has been invited to act as the authentication body under the new arrangements, is discussing the detailed procedures that it will follow. A report on progress will be laid before the House as soon as possible.

In the context of greater competition, Professor Beesley also stressed the need for removal of constraints on BT's capital investment. The Government share BT's belief in the benefits flowing from a modern and efficient telecommunications network and have allowed BT to increase its investment substantially over the last two years. BT is currently investing some £5 million per day and already has the largest investment programme in the country. In the interests of its customers, BT would like to invest more.

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The Government are glad to acknowledge that under Sir George Jefferson's leadership BT has made substantial progress in improving its services to its customers and in accelerating the introduction of modern technology. The Government are concerned to respond as positively as the constraints on public expenditure and public sector borrowing permit to the needs of BT's vital investment programme. The Government will in particular keep very much in mind the need for the Corporation to be able to compete successfully in the new environment it will increasingly face.

With this in view, the Government have received from BT a proposal for a new borrowing instrument which is being considered sympathetically. If accepted, this would be taken into account in fixing BT's level of external finance.

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

24 July 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister

ML
24 v ii

Dear Tim

TELECOMMUNICATIONS LIBERALISATION

I enclose the draft of the oral statement my Secretary of State proposes to make on Monday, 27 July. The text is subject to some uncertainties.

2. First, the Prime Minister has indicated that she herself wishes to announce the Government's agreement to licence the additional telecommunications network proposed by Cable and Wireless, BP and Barclays Bank. If she does so, the need for my Secretary of State to make an oral statement would fall away and the statement could be made as an answer to a written question. We have already inspired a suitable written question for this purpose. I enclose a form of words which the Prime Minister might wish to consider using. I am sure that the Home Secretary and my Secretary of State would want to have the opportunity to comment on the eventual text the Prime Minister might use.

3. Secondly, it is not altogether clear that the way will be open for an announcement of the additional telecommunications network as early as Monday afternoon. My Secretary of State believes that it would be a mistake not to announce the additional network orally in the House before the Summer recess. He therefore hopes very much that Sir Robert Armstrong will conclude his discussions in time for the announcement to be made on Monday. He realises that this may not be easy but there appears to be no scope for an oral statement on a matter of this importance later in the week.

4. I understand that the text of the draft statement has been discussed with Home Office officials. Peter Jenkin at the Treasury has been most helpful in securing agreement to the final

/paragraph



paragraph dealing with BT's finances.

5. Copies of this letter go to John Halliday (Home Office), Brian Fall (FCO), Peter Jenkin (Treasury), David Hayhoe (CDL) and to David Wright.

Yours ever

la

I K C ELLISON
Private Secretary



DRAFT PASSAGE FOR INCLUSION IN THE PRIME MINISTER'S SPEECH

TELECOMMUNICATIONS

I can announce that the Government has decided in principle to use the British Telecommunications Act to license the Mercury proposal for an additional telecommunications network. This is a proposal by the ~~shortly to be privatised~~ Cable & Wireless, British Petroleum and Barclays Merchant Bank to establish a modern, digital transmission network for all kinds of telecommunications. It will be based on optical fibres and modern microwave technology. Mercury are negotiating to lay their cable along British Rail's track and hope to become operational in 1983.

In addition the Government intends to allow private operators much greater freedom to use British Telecommunications' network to provide services to customers as recommended by Professor Beesley. This will be done on a phased basis. My Rt Hon Friend is making a statement in answer to a written question to explain both developments.

These are exciting changes. At last British Telecommunications will be exposed to competition and made responsive to demand. People will be able to choose for themselves. No longer will they be told what they can have. This will generate growth and innovation in information technology. New industries will emerge providing new and better services to the customer and creating new jobs. British Telecommunications will also benefit from increased use of its network. It has an important role to play and is already responding positively to the prospect of competition. The Government has received proposals from the Corporation for a radically new form of finance. We are giving this sympathetic consideration.

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DRAFT STATEMENT
TELECOMMUNICATIONS LIBERALISATION

On 15 April, I published Professor Beesley's report on the use of British Telecommunications' (BT) network. This recommended complete freedom for anyone to use the national network to provide telecommunications services to third parties. I have now received comments on the report from BT, its unions, from British industry - both manufacturers and suppliers - and, of course, from user groups. The Department also held a seminar to allow a full discussion of the issues involved.

When I introduced Professor Beesley's report, I said that the Government was attracted by his free market please-the-customer approach. The comments I have received, often thoughtful and detailed, have done nothing to change this view; indeed many of them have endorsed it. I believe there is now general acceptance that many such services, and particularly those that provide an enhancement of BT's network facilities, stimulate additional use of that network and thereby increase BT's revenue. I propose, therefore, to use the powers in the British Telecommunications Act to allow much greater freedom of access to use BT's inland network, subject in every case to technical compatibility with the network.

This is a major step forward which will help to transform telecommunications in this country from being dominated by a monopoly to being market-led and more genuinely responsive to user demand and new technology. This will bring immense

benefits, not only to business - and hence jobs - but to all sections of the community. I recognise, however, that such a transformation cannot be achieved overnight and I propose that, as for attachments to the network, liberalisation of use of the network should be introduced on a step by step basis. This will allow BT and UK industry time to prepare for the new regime.

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The first stage will comprise those network services which BT will not supply within the next 6 months. There will be complete freedom to supply these services when BT takes over from the Post Office in the autumn. The second stage will be freedom to compete with BT in the supply of all services which include substantial elements additional to the basic network facilities. These will be liberalised from the beginning of 1982. During these two stages the liberalisation will be effected by general licences for categories of service or by specific licences where that is more appropriate. Organisations wishing to provide such services should apply for licences to BT who will licence them in conjunction with the Department of Industry. Services already licensed by BT will, of course, be allowed to continue in operation.

Complete freedom of use of the BT network to supply services to third parties raises wider issues and I shall examine the consequences further in consultation with BT and other interested parties.

Professor Beesley also drew attention to the implications of his recommendations for international services and for competing public networks. I do not propose any liberalisation in the use of international circuits at the present time, but will explore the scope for this further with BT.

In my statement on 15 April I restated my intention to explore the scope for allowing the provision of additional transmission services. A number of organisations have been investigating the market possibilities and I have received a detailed application from Cable and Wireless, BP and Barclays for a licence to provide a second force business transmission system (project Mercury). I have examined this carefully and have concluded that it would be to the advantage of telecommunications in this country to have such a system. This is, however, an important decision and I



intend to move gradually. I propose therefore to licence only one such alternative business system and have decided in principle to issue a licence to project Mercury alone at this stage. The details of the licence will be for negotiation. I do not preclude the payment of a rental or royalty to BT.

Meanwhile,

I am encouraging BT to respond sympathetically to requests to remove some anomalies affecting private networks, a number of which are already licensed.

The diversity of uses to which the network can and will be put increases the importance of having a modern dynamic terminal equipment market in the UK. The arrangements for liberalisation of the supply of attachments are in hand and there have been extensive discussions with industry and other interests about the order of priorities for this phased introduction of full competition. New technical committees of the British Standards Institution (BSI) have already begun work on the writing of the necessary standards. And a working party of the British Electro-Technical Approvals Board (BEAB), which has been invited to act as the authentication body under the new arrangements, is discussing the detailed procedures that it will follow. I will lay a report on progress before the House as soon as possible.

In the context of greater competition, Professor Beesley also stressed the need for removal of constraints on BT's capital investment. The Government shares BT's belief in the benefits flowing from a modern and efficient telecommunications network and has allowed BT to increase its investment substantially over the last two years. BT is currently investing some £5 million per day and already has the largest investment programme in the country. BT would like to spend more.



I am glad to acknowledge that under Sir George Jefferson's leadership and since the introduction of the BT Bill BT has made substantial progress in improving its services to its customers and in accelerating the introduction of modern technology. The Government is concerned to respond as positively as the constraints of public expenditure and the public sector borrowing requirement permit to the needs of BT's vital investment programme. The Government will in particular keep very much in mind the need for the Corporation to be able to compete successfully in the new environment it will increasingly face.

With this in view, the Government has received from BT a proposal for a new borrowing instrument which is being considered sympathetically. If accepted, this would be taken into account in fixing BT's level of external finance.

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Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

20 July 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Dear Geoffrey,

As you know, I hope to make a statement later this month announcing the decision to implement the most significant parts of the Beesley Report about liberalising the use of the BT network for value added network services. I also hope to announce agreement in principle to permit the establishment of a competitive business communication system.

2 These are, as you will appreciate, fairly radical steps and Sir George Jefferson will need some concession if he is to persuade both his Board and the POEU to accept the new competitive framework we are introducing. Sir George himself might be put in an impossible position if we were unable to show willingness to act on the financial side, as Professor Beesley himself recommended.

3 I understand that Sir George mentioned to you at a recent dinner further work he has commissioned from Warburgs. I shall be sending a proposal as soon as possible to the Treasury and I hope that you will be able to be as positive as you can in support of it so that we can carry both Sir George and BT with us on what is an important reform we are undertaking.

4 I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Yours ever,

Ken

20 JUL 1981

