

Post Office  
Telecomms

P.0680

cc JV

PRIME MINISTER

Future Policy on Telecommunications  
(E(82)23, 26 and 29)

## BACKGROUND

In E(82)23 the Secretary of State for Industry invites approval in principle to changes in telecommunications policy which would be given effect in legislation in the 1982-83 Session; he has commented further on these proposals in his letter of 12 March to the Chief Secretary. The Chief Secretary has given his views in E(82)26 and the Central Policy Review Staff have commented in E(82)29.

2. QL Committee has provisionally decided to recommend to Cabinet the inclusion of a Telecommunications Bill in the 1982-83 programme. As the Home Secretary has already advised you, QL is acutely concerned that the Bills to be included in the programme should be ready for introduction at the beginning of the Session, or, exceptionally, by the end of November at the very latest. Since the Telecommunications Bill will be highly controversial and since the drafting will be difficult, QL Committee regard it as essential that instructions should be sent to Parliamentary Counsel much earlier than the end of July (as DoI have been forecasting) so as to give him a reasonable chance to make substantial progress with the drafting before the summer holidays. A principal aim of E Committee's discussion tomorrow must, therefore, be to ensure that detailed proposals are brought forward as quickly as possible so that the timetable requirements for the legislative programme can be met. On the evidence so far about the amount of inter-departmental work which needs to be done on some very important issues, and about the outside consultation which is envisaged, it is going to be very difficult to have a Telecommunications Bill ready in good time.

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#### MAIN ISSUES

4. The Secretary of State for Industry's proposals in E(82)23 can best be discussed under four main headings and in the following order:

- i. Powers to enable British Telecom to be converted into a Companies Act company and the sale of shares in the company.
- ii. Amendments to the BT Act 1981 and to the Telegraph Acts, primarily to break up further BT's monopoly and to put the private sector on an equal footing with them.
- iii. Powers to define the regulatory regime applying to telecommunications and, possibly, to radio frequencies.
- iv. Powers relating to the participation of the private sector and of BT in broadband cable systems.

5. Although none of these proposals is described in any detail in his memorandum, the Secretary of State for Industry hopes that the Committee will agree in principle to the drafting of the necessary legislation now so that the Bill, which would be substantial, could be introduced early in the next Session. Although the aim of the meeting must be to give a broad steer, and, where possible, provisional blessing, to the proposals, a good deal more work needs to be





completed before the Committee will be in a position to give policy approval to precise proposals. Parliamentary Counsel will want precise and detailed instructions on all parts of the Bill as soon as possible.

The privatisation of BT

6. There are already powers to require the creation and disposal of BT subsidiary companies. The Secretary of State for Industry now proposes, in paragraphs 4 and 5 of E(82)23, legislation to enable the conversion of BT as a whole into a Companies Act company and to enable the sale of new shares in that company.

7. He judges that initially the market might bear the raising of new capital equivalent to 20-25 per cent of the total equity of the company. He sees this sum as providing a necessary additional source of finance for BT and also as signalling the "partnership" between the private and public sectors which he judges to be important in carrying BT, the Post Office Engineering Union and wider public opinion with the Government in developing these proposals.

8. The Chief Secretary, Treasury is willing to support enabling legislation as proposed but he takes a different view of its objective. He sees the exercise not in terms of providing a new source of finance for BT but of passing control of BT from the Government to the private sector - that is, of achieving full and genuine privatisation. The main points in his memorandum E(82)26 are:

i. A situation in which the private sector held 25 per cent of the equity of BT would leave the Government with overall responsibility for the company, whose total borrowing would remain a charge on the PSBR, and could well add to the present difficulties of maintaining effective control.

ii. It is questionable whether in the next two years the market could absorb £1-1½ billion BT equity in one go and, in any event, the proceeds should accrue to the Government and not to BT.

iii. As the CPRS also argue in E(82)29, moves towards privatisation must keep in step with solution of monopoly and regulatory problems.



E(82)26

9. As the Secretary of State for Industry's letter of 9 March suggests, there may be some room for compromise between his position and that of the Chief Secretary. There might, for example, be some agreed timetable for ensuring that, in stages, a majority of the shares in the new BT company and not just 20 to 25 per cent were sold to the private sector. There might also be agreement that, in order to assist acceptance of privatisation by BT's management and workforce, the various stages of privatisation / <sup>should</sup> be accompanied by some extra finance for investment for BT. But before the Committee can take final decisions they will need to have a more fully worked out plan for privatisation, preferably agreed between the Department of Industry and the Treasury. In preparing this plan officials will need some expert advice from a merchant bank on the feasibility of disposing of various amounts of equity in BT over a given timetable, bearing in mind also the need to keep in step with changes in the monopoly and regulatory arrangements and the considerations that the legislation cannot be enacted before mid-1983 and that there will have to be a General Election by the spring of 1984.

10. The Committee may therefore wish to confine itself at this meeting to expressing a broad provisional view on the desirability of legislation to turn BT into a Companies Act company with private sector equity participation. The Secretary of State for Industry, in consultation with the Chief Secretary and other Ministers concerned, might be invited to bring forward as soon as possible and in any event not later than, say, the end of April a plan for the privatisation of BT. Minister could then take policy decisions which would form the basis of drafting instructions for legislation and further detailed work.

Amendments to BT Act 1981 and to the Telegraph Acts

11. As explained in paragraph 9 of E(82)25, the Secretary of State for Industry proposes amending legislation principally aimed at:
- i. Putting BT, where appropriate, on an equal footing with its new private sector competitors.
  - ii. Making moves towards possible privatisation of Giro.

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15. At this stage the Committee can do little more than take note that the legislation would need to cover regulatory questions and invite the Secretary of State for Industry to put clear proposals, and any draft consultative paper, as soon as possible on the basis of recommendations from the Departments concerned which should take account of the points made by the CPRS in paragraph 4 of E(82)29. Again, you will wish to be satisfied that a consultative paper is necessary and to consider what are the implications of consultations for the legislative timetable.

16. The Home Secretary and the Secretary of State for Industry are already discussing the question of departmental responsibility for regulation of radio frequencies, which in turn bears on broadcasting considerations which are the responsibility of the Home Secretary. When they have concluded these discussions they will put recommendations to you for consideration.

Broadband cable

17. In paragraphs 6 and 8 of E(82)23 the Secretary of State for Industry seeks policy approval for the introduction of legislation providing for the licensing of local cable systems run by the private sector in partnership with BT and carrying both telecommunications and television services. This recommendation is premature and does not take adequate account of the further studies commissioned when the Committee discussed the development of cable systems on 25 February (E(82)6th meeting).

18. It was agreed that the Home Secretary should arrange for an urgent inquiry into the broadcasting issues which was to be completed in time for legislation to be ready for introduction at the beginning of the 1982-83 Session. In their minutes of 7 March and 11 March, the Home Secretary and the Secretary of State for Industry have discussed the timescale for the inquiry and the implications of this for legislation in the next Session. You have agreed that the inquiry should be given until the end of September to complete its work. Meanwhile officials in MISC 73 will be looking at the wide range of issues arising out of the development of cable systems and will take into account the conclusions of the inquiry into the broadcasting aspects as soon as they are available. Every effort will be made to ensure that any necessary legislation can be ready for the next



Session but the timetable will inevitably be very tight if the legislation has to be incorporated in the Telecommunications Bill and that Bill has to be introduced early in the next Session.

19. At this stage the Committee need to do more than note the work already in hand, while acknowledging the difficulties about legislation on cable in the next Session which cannot be finally assessed at this stage.

#### HANDLING

20. After the Secretary of State for Industry has introduced his paper you might suggest that, subject to any general points which the Chief Secretary, the Home Secretary, the Lord President and Mr Ibbs might wish to make, the Committee might discuss the proposals under the four main headings listed in paragraph 4 above, ie

- privatisation of BT
- amendments to the BT and Telegraph Acts concerned with monopoly
- regulatory arrangements
- cable.

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#### CONCLUSIONS

21. The Cabinet has yet to decide on the legislative programme for the 1982-83 Session, in the light of the recommendations of QL. Subject to that, and in the light of the discussion, you will wish to reach conclusions on the following points:

- i. whether, if the broad objective of turning BT into a Companies Act company with private sector equity participation is endorsed, the Secretary of State for Industry should be invited, in consultation with the Chief Secretary, Treasury, and other Ministers mainly concerned to bring forward as soon as possible (perhaps by end-April) a plan for achieving that objective so that the Committee could take policy decisions which could form the basis of drafting instructions for legislation and further detailed work (paragraph 10 above);
- ii. whether the Secretary of State for Industry should be invited to reach agreement as soon as possible with the other Ministers concerned on the





proposed amendments to the BT Act 1981 and the Telegraph Acts, on the priorities to be given to them in the event of constraints on the legislative timetable, and on the terms of any consultative document which may need to be issued (paragraph 15);

iii. whether the Secretary of State for Industry should be invited to reach agreement as soon as possible, on the basis of recommendations by his Department in consultation with the Home Office, Treasury, MPO and CPRS, on the regulatory aspects, other than the questions concerning the Home Office's Radio Regulatory Department which is being considered separately (paragraphs 15 and 16);

iv. whether, on cable, the Committee should merely note that work has already been put in hand to have an inquiry into the broadcasting aspects which will report by end-September and to have a report by officials in MISC 73 on all aspects of the development of cable; that every effort will be made to have legislation ready for the next session; but that the precise timing of the legislation on cable cannot be settled at this stage.

v. whether in addition the Secretary of State for Industry, in close consultation with the Home Secretary and with the Chief Secretary and other Ministers as necessary, should be invited to work out an overall timetable and strategic approach relating to legislation on telecommunications and to ensure that particular proposals should each be progressed and presented as quickly as possible, not necessarily at the same time but in the context of the overall framework.

*PLG*

P L GREGSON

15 March 1982





cc. Regional Policy  
file: Urban  
Development Corp.  
Pt. 3. (ie para 3)

Prime Minister

I regret that because of unavoidable commitments in Northern Ireland on Tuesday 16 March I shall not be able to attend our meeting of 'E' Committee. I am therefore writing to let you know my comments on the two items for discussion.

2. On the question of Future Policy on Telecommunications, I agree with the proposals made by the Secretary of State for Industry with regard to the conversion of BT into a Companies Act company (BT Ltd) and for the sale of new shares as a step towards privatisation; the licensing of local cable systems run by the private sector in partnership with BT carrying both telecommunications and television services; and the associated proposals relating to Giro. I do, however, feel that careful consideration needs to be given to the CPRS argument on the best way to achieve full and fair competition. In general, therefore, I agree with the CPRS recommendations although I am anxious that the procedure put forward by CPRS should not be allowed to become too protracted. It seems to me absolutely vital that over the next year or so, we should keep up the momentum which we have now established as a Government clearly committed to encouraging actively the introduction and application of new information technology. Necessary legislation should be drafted.

3. On the question of the Medway Towns and Chatham Dockyard Closure, I agree with the the Secretary of State for the Environment that the establishment of an Urban Development Corporation would be the best way to proceed. I share his scepticism about the effectiveness of a joint committee of the local authorities. The CPRS emphasise the seriousness of the economic problems in the West Midlands and other assisted areas where we do not propose that UDCs should be established, and also point out the severe and intractable problems over many decades of the two





existing UDC areas, the London and Liverpool docklands. But I do not believe that we should underestimate the problems of the Medway Towns and the key fact that these will now be exacerbated as a direct result of a decision by the Government. In considering how best we can help the Medway Towns in an effective way, we need to bear in mind our responsibility as a major employer and also clearly recognise the very important role which the naval dockyard has played in the local economy of the area for generations. Both on grounds of effectiveness and also as a clear recognition of our special responsibility in this area, I therefore feel that the establishment of a new UDC is warranted.

4. I am copying this minute to other members of 'E' Committee and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to read 'J.P. Murphy'.

PP

J P

15 March 1982

(Signed on behalf of  
of the Secretary of  
State in his absence)





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Secretary of State for Industry

12 March 1982

The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
London SW1

Prime Minister

MUS 12/3

Dear Leon,

#### FUTURE POLICY ON TELECOMMUNICATIONS

Given the importance I attach to the proposals circulated in E(82)23 and their central position to our industrial and economic policies, it might help if I set out some of the thinking behind them ahead of our meeting on 16 March.

2 The enabling Bill I have in mind is intended to complete the regulatory revolution we started in July 1980. The first part will promote the conversion of BT into a Companies Act company. This is an essential first stage to selling shares and rolling back the public sector as you say in para 5 of E(82)26. We do, however, have to carry BT, the POEU and wider public opinion with us if our proposals are to take firm root and not to become an item of political controversy; hence my preference to call this process one of partnership and my stress on the need for additional funds for BT. I see no difficulty, however, about the Treasury obtaining the greater share of the proceeds of any sale of shares, nor about a firm commitment to further sales of shares as soon as the market will permit.

3 The second part of my Bill would amend the general power in the BT Act 1981 to licence and control enterprises to run telecommunications systems, so as to put the private sector and BT on an equal footing. The third part would bring about the long overdue reform of the Telegraph Acts, including the extensions of some of the rights to wayleaves to licensed undertakings other than BT. A fourth element may be needed to establish any new regulatory authority we may decide to create in the light of the Consultative document I am seeking to circulate.

4 I agree with you that we need a good deal more work on the precise details of how we are to implement the powers I seek. This falls to the working groups in MISC 73, and to the group of





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officials already at work on the Telegraph Acts and regulatory matters, and to any other groups you or others may suggest to carry out the remit in para 6 of E(82)26 and to explore any other issues colleagues may wish to raise - but I trust you and other colleagues will accept that we must agree in principle to the drafting of the necessary legislation now if we are to introduce this substantial Bill early in the next session.

5 I believe that this Bill will prove to be the most lasting legacy of Information Technology Year. We cannot afford to permit legitimate differences of opinion on means to detract or delay us from deciding conclusively on our common end on 16 March.

6 I am copying this to the Prime Minister, the other members of E Committee, and to Francis Pym and Sir Robert Armstrong.

Yours ever  
Peter



2 MAR 1982





File Please  
MR. HOSKYNS

cc Mr. Walters  
Mr. Scholar

E: Telecommunications Policy

I think you and Alan will want to take a careful look at E(82)23, attached, Patrick Jenkin's paper on future telecommunications policy. It contains a far reaching recommendation, for the conversion of BT into a Companies Act company with up to 25% private equity; it has already led to a number of raised eyebrows in Whitehall, and Michael Scholar may wish to note that there will be papers, of a partially dissenting nature, from the Chief Secretary and probably the CPRS.

The issue for Ministers is whether it would be in keeping with their general approach to telecommunications policy - characterised so far by the establishment of limited competition, together with a certain amount of liberalisation - to "privatise" BT by sending it (as Patrick Jenkins puts it in paragraph 7) down the AT & T route, rather than through an extension of liberalisation and the selling off of certain functions.

As background to this, you should know that preliminary work in MISC 69 casts some doubt on the suggestion in paragraph 2 that Sir George Jefferson is in fact prepared to make the major management changes necessary to turn what used to be part of the Post Office into something approaching a modern, technological and competitive company. You will recall that the genesis of MISC 69 was the assertion by the Chancellor that Jefferson was prepared to move so fast that there might be industrial action; it now seems that it would be fairer to say that Jefferson would like to move fast, but his willingness to do so is strictly limited by his belief that he cannot progress faster than the unions will allow. So, however successful the work of MISC 69, the chances of BT turning into AT & T are pretty remote, even if Ministers really thought it desirable to substitute a private sector monopoly for a public sector one.

The balance of doctrinal argument seems therefore to me to be against Patrick Jenkin's proposal, which will tend to reinforce BT's monopoly on the basis of private sector finance. And the Treasury

/have

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have other objections as well. They say that Patrick Jenkin is wrong to assume that broad-banding (paragraph 3) will be done by BT rather than the private sector: and that it is rather unlikely that BT will in fact need more investment funds than are already available to them. They may not even need to sell the new BT bond. The Treasury also object to the absence of discussion in this paper - which was circulated without clearance with them - of the method of control of BT if it were a Companies Act company. They point out that it is hard enough to control it as a nationalised industry; and if the minority private equity stake is supposed to be the first part of a phased progression to complete disposal of Government control, the paper ought to acknowledge that the process will take many years, certainly longer than the outstanding lifetime of this Parliament.

This paper is at present down for discussion at 1030 on 16 March.

J. M. M. VEREKER

8 March 1982