

Prime Minister 1

Ref. A07865

PRIME MINISTER

✓ membership and terms of reference of the Sub-Committee?

✓ Agree that the security and intelligence aspects of telecommunications should continue to be dealt with at Telecommunications Policy loc? MHL 22 iii 82

The Ministerial Committee on Economic Strategy, at its meeting on 16th March, approved your proposal that a small group of Ministers should be set up, under your chairmanship, to consider future policy on telecommunications.

2. There is likely to be a continuing requirement for a Ministerial group on this subject, and I therefore recommend that we set it up as a Sub-Committee of the Ministerial Committee on Economic Strategy.

3. Its terms of reference might be:

"To consider questions of policy on telecommunications, and to report as appropriate to the Ministerial Committee on Economic Strategy".

4. In addition to you as Chairman, the membership should include the Home Secretary, the Chancellor of the Exchequer (if he wants to - the Chief Secretary, Treasury, if he doesn't) and the Secretary of State for Industry.

5. I think that we should also include the Secretary of State for Trade (to cover regulatory, monopoly and export/import issues) and the Minister of State, Department of Industry (Minister for Information Technology, Mr. Baker). You will no doubt wish also to invite the Head of the CPRS to be a regular attender. Though there will be legislative and political considerations, they can be considered when the Sub-Committee reports to the main Committee, and I do not think you need include the Lord President, the Chancellor of the Duchy, or the Paymaster General.

6. On this basis the membership would be

- Prime Minister
- Home Secretary
- Chancellor of the Exchequer (or Chief Secretary)
- Secretary of State for Trade
- Secretary of State for Industry
- Minister of State, Department of Industry (Mr. Baker)

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7. I think we should start on the basis that this is a purely Ministerial Sub-Committee; but it may later on be convenient, at any rate on occasion, to allow each Minister to bring an official with him. This will be a fairly technical subject.

8. I propose to set up a group of officials to oversee the preparation of submissions to the Ministerial Sub-Committee. The Department of Industry has demonstrated its capacity for producing half-baked papers in an excess of zeal; and an official group should help to make sure that papers coming to the Ministerial Sub-Committee are properly prepared.

9. We should not handle the security and intelligence aspects in this Ministerial Sub-Committee. They should be considered ad hoc by you, the Home Secretary and the Foreign and Commonwealth Secretary, with the Secretaries of State for Northern Ireland and for Industry being brought in as necessary. I am arranging to have a first discussion of these aspects with the Permanent Secretaries and heads of agencies concerned; we shall no doubt commission a full study, which should be under Home Office direction (though I shall ask Sir Antony Duff to take part in it).

RA

ROBERT ARMSTRONG

22nd March, 1982

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MR. SCHOLAR

cc Mr. Hoskyns

TELECOMMUNICATIONS POLICY

I have seen John Sparrow's comments on E(TP)(82)2, the paper by the Official Group on Future Telecommunications Policy, of which I am a member. It may be helpful if I offer these additional comments, in preparation for the meeting of E(TP) planned for Thursday afternoon.

- (i) The main, and difficult, issue for Ministers is whether or not to introduce a Bill for the privatisation of British Telecom (BT) before the end of this Parliament, given that actual privatisation could not take place until the new one. I think all concerned with BT agree with John Sparrow that privatisation would have to take place in at least two stages, because of the volume of the flotation, and that there will be a transitional period raising a number of awkward issues of control. Most potential investors are going to want to wait until the second flotation, and the transitional regime may well have to last two years. But John Sparrow's reference to "two years to prepare legislation, devise an interim control regime and write the prospectus" will be challenged by DOI, who consider that they have the work well advanced, and are confident that a Bill could be introduced this autumn. It will be essential to explore that at E(TP).

Electoral considerations apart, and provided Ministers are satisfied it is practicable, there is a case for getting this Bill under the Government's belt in the coming Parliamentary Session, because the legislative programme at the beginning of the next Parliament may well be crowded, so that ultimate privatisation would be even further delayed.

/ (ii) But

- (ii) But, as the Official Group's report indicates, privatisation is by no means the whole, or even the most important part, of the story. We agree very much with John Sparrow that we need to take all possible steps to promote increased competition in the telecommunications industry. The DOI are putting up a substantial rearguard action in defence of BT's monopoly, arguing, for instance, against further liberalisation measures such as attachments, other mercury systems, and removal of BT's regulatory powers. The work recommended in paragraph 32(ii) of the Official Report ought to go ahead regardless of the decision on privatisation.

Jk.

20 April 1982



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Prime Minister

MCS 20/4

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To: PRIME MINISTER

20 April 1982

From: JOHN SPARROW

Future Telecommunications Policy

1. You asked for my comments on the paper by Officials E(TP)(82)2, in which the crucial question seems to me to be the timing of the proposed privatisation of British Telecom (BT).

2. Given the valuation likely to be placed on BT in any privatisation, it is clear that the stock market could not absorb even 51 per cent of the undertaking in a single tranche, let alone the whole of BT. The most that can reasonably be contemplated in any one step is that 25 per cent of BT could be sold to private investors, and even that figure depends on very debatable assumptions as to price.

3. Given that, there is unlikely to be an enthusiastic reception for an offering this side of the General Election which left 75 per cent or more of BT in Government hands; investors would, I think, take a gloomy view of the political risk involved. If, on the other hand, a first tranche offering was made relatively early in a new Parliament, the expectation that the Government holding would be reduced below 50 per cent in the life of that Parliament would have a much more positive effect on investor attitudes.

4. In any event, privatising BT will be a long, complex and politically sensitive exercise. It would take about two years to prepare legislation, devise an interim control regime and write the prospectus for even one-quarter of BT to be offered for sale. This work could begin now so as to be ready to privatise after the Election, or it could be deferred. The decision whether or not to set in hand the necessary preparatory work and find legislative time in this Parliament to turn BT into a Companies Act company is one for Ministers. The recommendations in paragraph 32 (i), (iii), (iv) and (v) all relate to this and to Ministerial priorities.



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5. But in the interim to bring about greater efficiency in the use of resources entrusted to BT, it will be very important to promote increased competition. A start has been made in the liberalisation of attachments, value added services and the licensing of Mercury. But BT must be prevented from using their dominant position in these markets to frustrate the emerging competition, and further progress should be made in liberalising international services and the re-sale of BT's leased line capacity. It would also be desirable to remove from BT its powers to license competitors, so that the Government becomes the only licensing authority. It is, therefore, important to go ahead with the recommendation in 32 (ii) that work be done on reducing BT's monopoly powers and increasing competition.

6. I am sending a copy of this minute to Sir Robert Armstrong.

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MR. HOSKYNS

c. Mr. Walters
Mr. Scholar

TELECOMMUNICATIONS POLICY

We had a word, in the context of the recent E discussion on telecommunications policy, about the extent of the Policy Unit's involvement in future work. I explained that it was not at that time the intention to establish an official committee to mirror the new sub-committee of E which the Prime Minister is to chair, and we agreed that it would be difficult for (what is left of) the Policy Unit to make a useful contribution.

Peter Gregson now tells me that Sir Robert Armstrong, who is somewhat displeased with DOI's handling of telecoms policy so far, has instructed him to establish an official committee after all. It will be under Peter Gregson's chairmanship and will contain representatives from DOI, DOT, Home Office, Treasury, CPRS, MPO, the Bank of England and the Cabinet Office IT Unit. Peter Gregson would be quite happy to have a Policy Unit representative on it.

I think it is still true that it is unlikely that we will be able to make much of a contribution. But telecommunications policy is an area of substantial, and increasing, importance; the Prime Minister ought to have some knowledge, if not expertise, within her office if she is to chair the Ministerial Committee; and the Policy Unit's future resources are unknown. I think, therefore, it would be right for us to keep a seat warm in this group, and I would be happy to do so, and gradually to read myself into the subject.^x If you agree, I will so tell Peter Gregson, and we can look at it again when the forthcoming staffing decisions are taken.

J.

x | am of course already sitting on RISC 72

25 March 1982

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Post x Telecoms



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10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

TELECOMMUNICATIONS POLICY

The Prime Minister has seen your minute A07865 of 22 March 1982 and has approved the arrangements you propose for handling telecommunications policy.

JRW.

23 March 1982

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