

PRIME MINISTER

TELECOMMUNICATIONS STATEMENT

There was nothing very unexpected in the line that the Opposition took. Stan Orme responded to Patrick Jenkin by saying that his statement would destroy morale in the telecommunications industry. He raised a number of questions: how could the Government be sure they would avoid another "fiasco" like that over the sale of Amersham; what guarantees of continued service would there be for those living in rural areas, or those who made little use of the 'phone like pensioners; what protection would there be for pensions and jobs in BT; and why didn't the Government simply allow BT to raise finance on the capital markets? Since the Government had made this an Election issue, Mr. Orme gave an assurance that the Opposition would fight to maintain a public sector BT.

Opposition MPs came back to these themes in their questions and Charles Morris was particularly concerned about the pensions of those employed in BT. Government backbenchers, such as Michael Grylls and Paul Bryan, welcomed this move to free BT from Treasury control and to place it under the control of market forces instead.

Patrick Jenkin argued that liberalisation was in the interests of consumers, and asked the Opposition whether they would stand up for the consumer's interest. He assured the Opposition that services to rural areas ^{would} ~~did~~ not decline, that the Bill would safeguard the pension rights of existing BT employees, and indicated that it was much too soon to talk about the price of shares. In response to John McWilliam, he said he foresaw no problem over protecting the sensitive services provided to Government by BT.

19 July 1982

PARLIAMENTARY STATEMENT

TELECOMMUNICATIONS POLICY

With permission, Mr Speaker, I would like to make a statement about the future of telecommunications in Britain.

It is the Government's aim to promote consumer choice. Wherever possible, we want industrial and commercial decisions to be determined by the market and not by the state. We believe that consumer choice and the disciplines of the market lead to more stable prices, improved efficiency and a higher quality of service.

Since the British Telecommunications Act 1981 received Royal Assent less than a year ago, some progress has been made in breaking the State monopoly in telecommunications. I have licensed the Mercury Consortium to provide a new telecommunications network in competition with BT. I intend shortly to issue a general licence permitting all bona fide value added network service operators to use the BT and Mercury networks. The way is now opening for the private sector to sell telephone apparatus direct to the public. Liberalisation of telecommunications has started and we intend to see it through.

For BT, the prospect of competition and the advent of new technology are now stimulating them to provide a wider range of competitive services. I pay tribute to the way Sir George Jefferson and his Board are transforming what was not so long ago a Government Department into a commercially oriented business. Mr Speaker, we now want to take the next step.

As a nationalised industry BT does not have direct access to financial markets. Its borrowing is controlled by Government and counts against the PSBR. To bring inflation under control these borrowings have inevitably to be subject to strict limits. But external finance is only part of the picture. In the past monopoly power has allowed BT to raise prices to finance investment without doing all that could be done to increase efficiency. Around 90% of BT's investment programme, about £2,200 million this year, has been self-financed. By "self-financed", I mean of course "customer financed"; BT's charges to customers not only cover current running costs but are also paying for 90% of new investment. As a result, charges have risen steeply while investment is still not enough. Unless something is done radically to change the capital structure and ownership of BT and to provide a direct spur to efficiency, higher investment would mean still higher charges for the customer. The Government, BT and the general public would find that unacceptable. We need to free BT from traditional forms of Government control.

We will therefore take the earliest opportunity to introduce legislation which, while keeping BT as a single enterprise, will enable it to be converted into a Companies Act company, "British Telecommunications plc". The legislation will allow the sale of shares in that company to the public. It is our intention, after the next election, to offer up to 51% of the shares on the market in one or more tranches.

Once half of the shares have been sold, the Government will give up control over the commercial decisions of BT plc. BT plc will be outside the public sector; its borrowing will cease to be subject to Exchequer control, and it will look to its shareholders and the markets for its external financing. It will be for the Board of the company to decide when and how much to borrow, taking account of internal factors and market conditions in the same way as any other private sector company. This will mean not only a greater flexibility for BT and less pressure on consumers and taxpayers, but also that BT will be subject to proper market disciplines. BT will be in a position to provide better services which are more responsive to customer needs like those provided by the privately-owned telephone companies in the United States.

BT plc will nevertheless dominate the British market for telecommunications for some years yet. The Government considers therefore that there will be a need for regulatory arrangements for the industry to balance the interests of those supplying

telecommunications services, their customers, their competitors, their employees, their investors and their suppliers. The legislation will reform the arrangements for licensing telecommunications so as to end BT's exclusive privilege and its role in licensing. Instead, there will be a new Office of Telecommunications, modelled on the Office of Fair Trading, under a Director General appointed by me. He will have powers similar to those of the Director General of Fair Trading. He will operate with the same degree of independence from Government. It will be his job to ensure fair competition and fair prices.

The legislation will contain provisions to safeguard existing pension obligations. There will also be special provisions to ensure that those employed in BT can acquire shares in the company.

Finally, the legislation will reform the Telegraph Acts which were passed in the last century. We need to recast the law to make it relevant to the technology of today and tomorrow. I will be issuing a consultative document on this aspect shortly.

Because these proposals are far-reaching and will affect a lot of people, I am today publishing this statement, with some additional background information, in the form of a White Paper.

Mr Speaker, these proposals follow naturally from the liberalising measures passed by the House last year. It would make no sense to stop half way. If those who work in telecommunications are to provide the range and quality of service which modern technology now permits, and if they are to do so in competition with each other, it cannot be right that BT should remain subject to the web of government interference and controls which are the inevitable lot of an industry which enjoys the privilege of Exchequer finance.

The quality of the service which any enterprise provides depends upon the skills, energy, and leadership of the people who work in it. We want to provide those people with the environment - market, financial, legal and structural - which will free them to give of their best.

In the view of the Government, that is what the proposed legislation will do. I look forward to its early introduction.



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

16 July 1982

Prime Minister ①

Agree this White

Paper, to be published

on Monday 19 July?

MLs 16/7

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Willie,

WHITE PAPER ON TELECOMMUNICATIONS

As you know, my Secretary of State intends to publish a White Paper on telecommunications policy to coincide with the Statement he expects to make in the House on Monday 19 July.

... 2 I attach a copy of the final version of the White Paper, incorporating comments from the Departments most directly concerned.

3 I am sending copies of this letter and enclosure to the private secretaries to all Members of the Cabinet, the Chief Whip, the Secretary to the Cabinet and to Mr Sparrow; and to Bernard Ingham in No 10 Press Office.

Yours sincerely,

Jonathan Spencer

J P SPENCER
Private Secretary

D E P A R T M E N T O F I N D U S T R Y

THE FUTURE OF TELECOMMUNICATIONS
IN BRITAIN

Presented to Parliament by the
Secretary of State for Industry
by Command of Her Majesty
July 1982

Cmnd.

FUTURE OF TELECOMMUNICATIONS IN BRITAIN

On Monday, July 19 1982 the Secretary of State for Industry, the Rt Hon Patrick Jenkin, MP, made a statement in the House of Commons on the Government's telecommunications policy. That statement is set out below.

PARLIAMENTARY STATEMENT

"With permission, Mr Speaker, I would like to make a statement about the future of telecommunications in Britain.

It is the Government's aim to promote consumer choice. Wherever possible, we want industrial and commercial decisions to be determined by the market and not by the state. We believe that consumer choice and the disciplines of the market lead to more stable prices, improved efficiency and a higher quality of service.

Since the British Telecommunications Act 1981 received Royal Assent less than a year ago, some progress has been made in breaking the State monopoly in telecommunications. I have licensed the Mercury Consortium to provide a new telecommunications network in competition with BT. I intend shortly to issue a general licence permitting all bona fide value added network service operators to use the BT and Mercury networks. The way is now opening for the private sector to sell telephone apparatus direct to the public. Liberalisation of telecommunications has started and we intend to see it through.

For BT, the prospect of competition and the advent of new technology are now stimulating them to provide a wider range of competitive services. I pay tribute to the way Sir George Jefferson and his Board are transforming what was not so long ago a Government Department into a commercially oriented business. Mr Speaker, we now want to take the next step.

As a nationalised industry BT does not have direct access to financial markets. Its borrowing is controlled by Government and counts against the PSBR. To bring inflation under control these borrowings have inevitably to be subject to strict limits. But external finance is only part of the picture. In the past monopoly power has allowed BT to raise prices to finance investment without doing all that could be done to increase efficiency. Around 90% of BT's investment programme, about £2,200 million this year, has been self-financed. By "self-financed", I mean of course "customer financed"; BT's charges to customers not only cover current running costs but are also paying for 90% of new investment. As a result, charges have risen steeply while investment is still not enough. Unless something is done radically to change the capital structure and ownership of BT and to provide a direct spur to efficiency, higher investment would mean still higher charges for the customer. The Government, BT and the general public would find that unacceptable. We need to free BT from traditional forms of Government control.

We will therefore take the earliest opportunity to introduce legislation which, while keeping BT as a single enterprise, will enable it to be converted into a Companies Act company, "British Telecommunications plc". The legislation will allow the sale of shares in that company to the public. It is our intention, after the next election, to offer up to 51% of the shares on the market in one or more tranches.

Once half of the shares have been sold, the Government will give up control over the commercial decisions of BT plc. BT plc will be outside the public sector; its borrowing will cease to be subject to Exchequer control, and it will look to its shareholders and the markets for its external financing. It will be for the Board of the company to decide when and how much to borrow, taking account of internal factors and market conditions in the same way as any other private sector company. This will mean not only a greater flexibility for BT and less pressure on consumers and taxpayers, but also that BT will be subject to proper market disciplines. BT will be in a position to provide better services which are more responsive to customer needs like those provided by the privately-owned telephone companies in the United States.

BT plc will nevertheless dominate the British market for telecommunications for some years yet. The Government considers therefore that there will be a need for regulatory arrangements for the industry to balance the interests of those supplying

telecommunications services, their customers, their competitors, their employees, their investors and their suppliers. The legislation will reform the arrangements for licensing telecommunications so as to end BT's exclusive privilege and its role in licensing. Instead, there will be a new Office of Telecommunications, modelled on the Office of Fair Trading, under a Director General appointed by me. He will have powers similar to those of the Director General of Fair Trading. He will operate with the same degree of independence from Government. It will be his job to ensure fair competition and fair prices.

The legislation will contain provisions to safeguard existing pension obligations. There will also be special provisions to ensure that those employed in BT can acquire shares in the company.

Finally, the legislation will reform the Telegraph Acts which were passed in the last century. We need to recast the law to make it relevant to the technology of today and tomorrow. I will be issuing a consultative document on this aspect shortly.

Because these proposals are far-reaching and will affect a lot of people, I am today publishing this statement, with some additional background information, in the form of a White Paper.

Mr Speaker, these proposals follow naturally from the liberalising measures passed by the House last year. It would make no sense to stop half way. If those who work in telecommunications are to provide the range and quality of service which modern technology now permits, and if they are to do so in competition with each other, it cannot be right that BT should remain subject to the web of government interference and controls which are the inevitable lot of an industry which enjoys the privilege of Exchequer finance.

The quality of the service which any enterprise provides depends upon the skills, energy, and leadership of the people who work in it. We want to provide those people with the environment - market, financial, legal and structural - which will free them to give of their best.

In the view of the Government, that is what the proposed legislation will do. I look forward to its early introduction."

BACKGROUND INFORMATION

The background to this statement is the Government's realisation that technological developments in telecommunications, including digital techniques, fibre optics and the rapidly growing range of terminal attachments and network services mean that state monopoly in telecommunications with all its inevitable disadvantages can become a thing of the past. The British Telecommunications Act 1981 received the Royal Assent less than a year ago and since then substantial progress has been made in five directions.

First, last February, the Secretary of State for Industry licensed the Mercury consortium consisting of Cable and Wireless, British Petroleum and Barclays Merchant Bank to run a new telecommunications network in competition with BT. Mercury plans to start providing services to business subscribers early in 1983.

Second, the BT network is increasingly being used by other firms for a widening range of network services. A general licence permitting all bona fide value-added network service operators to use the BT and Mercury networks is to be issued shortly. The rules in Britain will then be among the most liberal in the world. A whole new industry, with all that means in terms of jobs, is emerging to provide new systems and services, not only here in Britain but for export to the rest of the world.

Third, the way is now opening for the private sector to sell telephone apparatus direct to the public. The first standards for telecommunications apparatus will be approved soon, and the new British Approvals Board for Telecommunications is ready to receive applications from manufacturers seeking approval of apparatus under the new standards. The attachments industry must now grasp the opportunities it is being given to compete with BT to get subscribers' custom. Competition to win market share here at home will make the industry more competitive abroad.

Fourth, Sir George Jefferson and the BT Board have recognised that inefficiencies tolerated when BT was an unchallenged monopoly can no longer be afforded in the new competitive climate.

Fifth, and perhaps most important of all, after decades of monopoly, the prospect of competition and the advent of new technology are stimulating BT to respond to market opportunities. BT is providing a new array of services, especially the City Overlay in the City of London, using microwave radio and other techniques. BT, which has a proud story to tell in the development of optic fibre and submarine cable at its Martlesham Research Centre, is beginning to exploit its technological strengths in the market place.

Need for Change

The Government believe that this is only a beginning. There is a long way to go. Until 1969, the telephone service was run as

a Civil Service Department with all that that meant in terms of organisation, management, and above all attitudes. The BT Act 1981 heralded nothing less than a cultural revolution in BT. The Government now want to take that revolution a stage further.

Sir George Jefferson, the BT Board and the BT unions have been united in criticising the method by which the telecommunications investment programme is financed. Their criticisms have arisen because these borrowings have inevitably to be subject to strict Treasury control. But external finance is only part of the picture. In the past, monopoly power has allowed BT to raise prices to finance investment without necessarily finding every opportunity to save running costs by improving efficiency. It is a fact that around 90% of BT's investment programme, about £2,200 million this year, has been financed out of customer charges. Ultimately, of course, current and capital costs are all borne by the customer, but the present ban on access to external funds means that today's customers are making a bigger contribution to capital costs than would be warranted if normal private sector financial and commercial criteria were applied.

There have been intensive efforts to resolve this dilemma. The Government are considering the possibilities of the "Buzby Bond" but that would still be a form of Government guaranteed borrowing and would leave BT subject to Government interference and control.

Another option would be to relax the PSBR rules. That would be unacceptable since the Government's controls on borrowing are an

essential weapon in the fight against inflation. The Government believe that the only way forward is to free BT from Government control. That means transferring BT's business to a Companies Act company and selling a majority of the shares in it to the public. The company will then be free both to borrow outside the PSBR and to act independently of Government controls. This structural change combined with the introduction of competition will ensure a new partnership between the public and private sectors which the Government believe will be able to take BT forward into the twenty-first century.

Views Invited

The issues are central to much of our industrial future as a country. The Government's policy will determine the shape and direction of telecommunications for many years to come. It is clearly important that the legislative changes made should be right. Accordingly, the Government invite views in writing which should be sent to Miss G M A Lambert, Department of Industry, Ashdown House, 123 Victoria Street, London SW1E 6RB by 30 August 1982.

cc. Ingham

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

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Secretary of State for Industry

16 July 1982

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister (1)

Agree this statement

on Monday 19 July?

MCS 16/7

Dear Willie,

STATEMENT ON BT LEGISLATION

... I attach the final version of the Statement which my Secretary of State expects to make in the House on Monday, 19 July. This takes into account the comments you made, and those received from other Departments.

2 I am writing separately about the White Paper which my Secretary of State proposes to publish at the same time as his Statement.

3 I am sending copies of this letter to the private secretaries to the Home Secretary, the Foreign Secretary, the Chancellor, the Lord President, the Lord Privy Seal, the Chancellor of the Duchy, the Chief Whip; and to Bernard Ingham (No 10 Press Office) and Michael Powell (Lords Whips Office).

Yours sincerely,
Jonathan Spencer

J P SPENCER
Private Secretary

PARLIAMENTARY STATEMENT

TELECOMMUNICATIONS POLICY

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Told Mr Spencer.
It is too late: White
Paper has been ^{printed} published

Thank the
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election will come
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Have made an
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Department of Industry

From: THE PRIVATE SECRETARY



Mr. Rickett

Wm
16/7
Post + Tel

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

15 July 1982

Dear Jonathan

FUTURE TELECOMMUNICATIONS POLICY: STATEMENT

The Home Secretary has seen a copy of your letter of 13 July to No 10.

The draft refers to legislation being introduced in the next Session of Parliament. This breaches the convention that The Queen's Speech is not anticipated, and the Home Secretary thinks that the reference should be to legislation being introduced as soon as Parliamentary time permits.

The Home Secretary wonders whether the second sentence at the top of page 3 might end with the word "department". He thinks that the remainder of the sentence may be seen as unnecessarily provocative.

I am sending copies of this letter to the recipients of yours.

C J Walters
C J Walters
C J WALTERS

J P Spencer, Esq.



Foreign and Commonwealth Office

London SW1A 2AH

15 July 1982

NBPM

MA 16/7

Dear Jonathan

Future Telecommunications Policy: Statement TPM

Thank you for copying to me your letter of 13 July to Michael Scholar about the statement your Secretary of State would like to make next week about the Government's intention to privatise British Telecommunications.

Mr Pym is generally content with the draft and welcomes Mr Jenkins's intention to make this statement. There is only one small point which causes us any difficulty. This is the sentence on the fourth page of the draft which reads:

"We also intend that the Memorandum and Articles of Association of the company will limit individual shareholdings to prevent foreign control."

There is a risk that, without qualification, this could be held to be contrary to the provisions on rights of establishment set out in Articles 52 - 58 of the EEC Treaty. Any limitation of EEC shareholding would have to be in accordance with the exceptions permitted by Article 56. However, my Secretary of State thinks that it would be best to avoid raising this issue unnecessarily.

I therefore suggest that the sentence is omitted from the statement. You will however wish to include a supplementary in case the question of foreign control is raised. I suggest that this should follow the wording used by Mr Lawson in the debate on 10 November 1981 on the Oil and Gas (Enterprise) Bill when Mr Douglas Jay asked whether there would be any safeguard to prevent the shares of BNOC falling into the hands of non-British owners (Column 442 of the official report for 10 November). On that occasion Mr Lawson stated that: "we shall ensure that written into the Articles of Association of the new company . . . will be effective safeguards against any undesirable change of control". If pressed on this point, your Ministers could refer to Article 56 of the EEC Treaty. But on the whole it would be preferable if this could be avoided.

/I am sending

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I am sending copies of this letter to recipients of yours.

Yours ever.

A handwritten signature in cursive script, appearing to read 'F N Richards', written in dark ink.

(F N Richards)
Private Secretary

J P Spencer Esq
PS/Secretary of State for Industry



cc. J.V.

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

15 July 1982 *NBPM*

The Rt. Hon. Patrick Jenkin, MP
Secretary of State for Industry

rus 15/7

Dear Secretary of State,

FUTURE TELECOMMUNICATIONS POLICY : STATEMENT

I have a number of suggestions to make on the draft circulated under cover of your Private Secretary's letter of 13 July. These are sidelined in the attached redraft.

My concern is two-fold. Firstly to spell out the shortcomings that BT (or more properly the Post Office) has exhibited in its monopoly past and how we believe that these can best be corrected by the pressures of market forces that privatisation and liberalisation will bring to bear. Secondly, to avoid the potentially misleading slant that the neglect of these points in the draft circulated by your Private Secretary gave to the system of financial control of nationalised industries to which we are all committed, while recognising the need for further improvement and refinement of the system.

Your proposals to E(TP) did not go beyond selling 51 per cent of the equity in BT plc. We spoke the other day about the kind of legal bar that might be desirable to prevent Government going further than this and agreed that it would certainly not make sense to enshrine such a provision in primary legislation. I now wonder whether even the order-making power that we visualise would be desirable. At this stage, at all events, there is no need to say more than we propose to achieve privatisation by selling 51 per cent of the equity in BY pic.

This statement may well lead to supplementaries on whether the privatisation of BT signals the beginning of a programme of privatisation of the major utilities. Even if it is not to be seen as the signal for a swift and all-embracing advance, it is certainly far from being our last word. You will need to be prepared for questions about this from both sides of the House. Because of his interest in the power utilities I am copying this letter to Nigel Lawson as well as to the recipients of yours.

*Yours sincerely
Peter Jenkins*

if GEOFFREY HOWE (Approved by the Chancellor and signed in his absence).

PARLIAMENTARY STATEMENT
TELECOMMUNICATIONS POLICY

With permission Mr Speaker I would like to make a statement about the future of telecommunications in Britain.

This Government aims to promote consumer choice and to ensure that wherever possible, industrial and commercial decisions are determined by the market and not by the state. We believe that consumer choice and the disciplines of the market will lead to more stable prices, improved efficiency and a higher quality of service.

The technological revolutions in telecommunications, including digital techniques, fibre optics and the rapidly growing range of terminal attachments and network services mean that state monopoly in telecommunications with all its inevitable disadvantages can become a thing of the past. Since the British Telecommunications Act 1981 received the Royal Assent less than a year ago, progress has been made in five directions.

First, last February, I licensed the Mercury consortium to provide a new telecommunications network in competition with BT. Mercury plans to launch a service for business subscribers next year.

Second, the BT network is increasingly being used by other firms for a widening range of network services. I hope shortly to issue a general licence permitting all bona fide value-added service operators to use the BT and Mercury networks. The rules in Britain will then be among the most liberal in the world. A whole new industry is emerging to provide new systems and services, not only here in Britain but for export to the rest of the world.

Third, the way is now opening for the private sector to sell telephone apparatus direct to the public. The first standards for telecommunications apparatus will be approved very soon and the new British Approvals Board for Telecommunications is ready to receive applications from manufacturers seeking approval of apparatus under the new standards. The attachments industry must now begin to compete with BT to get subscribers' custom. Competition to win market share here at home will make the industry more competitive abroad.

Fourth, Sir George Jefferson and his Board have recognised that inefficiencies tolerated in BT's monopoly past can no longer be afforded in the competitive climate that BT must adapt to.

Fifth, and perhaps most important of all, after decades of monopoly, the prospect of competition and the advent of new technology are stimulating BT to respond to market opportunities. BT is providing a new array of services, especially the City Overlay in the City of London, using microwave radio and other techniques. BT has also joined with other partners in an all-British consortium to set up an independent British satellite system which will include among other things new international telecommunications channels.

Mr Speaker, I stress that this is only a beginning. There is a long way to go but the House must remember that until 1969 the telephone service was run as a Civil Service department with all that that meant in terms of organisation, management and, above all, attitudes. Under Sir George Jefferson's able leadership, the talents which exist in BT are being given new incentive. The BT Act heralded nothing less than a cultural revolution in BT. I now want to take that revolution a stage further.

As a nationalised industry BT does not have direct access to financial markets. Its borrowing is controlled by Government and counts against the PSBR. To bring inflation under control

these borrowings have inevitably to be subject to strict limits. But external finance is only part of the picture. In the past monopoly power has allowed BT to raise prices to finance investment without adequately exploiting opportunities for improved efficiency. One effect of these factors is that around 90% of BT's investment programme, around £2,200 million this year, has been self-financed. By "self-financed", I mean of course "customer financed." BT's charges to customers not only cover current running costs and depreciation, but also currently pay for 90% of new investment. Another effect is that by international standards BT's costs are unacceptably high. As a result, charges have risen steeply while investment is still insufficient. Unless something is done radically to change the capital structure and ownership of BT and to provide a direct spur to efficiency increased investment would mean still higher charges for the customer. The Government, BT and the general public would find that unacceptable.

For all these reasons the Government have been examining how best to free BT from the traditional forms of Government control so as to allow it to compete in the market for finance on equal terms with other growing businesses and be subject with them to common disciplines.

We have, therefore, decided to introduce a Bill in the next session of Parliament which, while keeping BT as a single enterprise, will enable it to be converted into a Companies Act company, "British Telecommunications plc". The Bill will make possible the sale of shares in that company to the public. It is our intention, after the next election, to offer up to 51% of the shares on the market in one or more tranches. We also intend that the Memorandum and Articles of Association of the company will limit individual shareholdings to prevent foreign control.

Once half of the shares have been sold, the Government will relinquish control over the commercial decisions of BT plc. BT will be outside the public sector and its borrowing will cease to be subject to Exchequer control. The company will look to the markets for its external financing. It will be for the Board of the company to decide when and how much to borrow taking account of internal factors and market conditions in the same way as any other private sector company. All in all, this will mean not only a greater flexibility for BT and less pressure on consumers and taxpayers but also that BT increasingly will be subject to proper market disciplines.

Because of the advent of competition from Mercury, because of competition from the new value added network services and from privately supplied apparatus, and because it will be freed from Government controls, BT will be able to provide better services which are more responsive to customer needs like those provided by privately-owned telephone companies in the United States.

Given its present and potential strength BT plc will dominate the British market for telecommunications for some years yet. The Government considers therefore that there will be a need for regulatory arrangements to balance the interests of the company's investors, its customers, its employees and its suppliers. The Bill will therefore reform the arrangements for licensing telecommunications so as to end BT's exclusive privilege and its role in licensing. It will also establish a new Office of Telecommunications, modelled on the Office of Fair Trading, under a Director General appointed by me. He will have powers similar to those of the Director General of Fair Trading and will operate with the same degree of independence from the Government. Among other things he will have important functions in relation to the regulation of the telecommunications market, and the rate of return permissible for BT plc.

The Bill will safeguard BT's existing pension obligations. There will also be special provisions to ensure that those employed in BT will have an opportunity to buy shares in the company and it is my hope that these arrangements will have special regard to those with long service in BT.

Finally, the Bill will reform the Telegraph Acts which were passed in the last century. We need to recast the existing law to make it relevant to the technology of today and of tomorrow. I will be issuing a consultative document on this aspect shortly.

Mr Speaker, the proposals which I have announced follow naturally from the liberalising measures passed by the House last year. It would make no sense to stop half way. If those who work in the telecommunications industries are to provide the range and quality of goods and services which modern technology now permits, and if they are to do so in competition with each other, it cannot be right that BT should be subject to Government controls on the detailed running of its business, investment and borrowing decisions which are the inevitable lot of a nationalised industry which has the privilege of Exchequer finance. At the same time, as a dominant enterprise, it is right that BT plc should be subject to a sufficient regulatory control to ensure fair competition, fair prices and a fair return. The House will clearly want to give careful consideration to these provisions during the passage of the Bill.

Because of the widespread interest which I anticipate these proposals will arouse, I am today publishing this statement in the form of a White Paper.

Perhaps I may end on this note. As always, the quality of the service which any enterprise provides depends entirely upon the skills, energy, imagination and leadership of the people engaged in it. All the Government can do is to provide those people with the environment - market, financial, legal and structural - which will encourage those people to give of their best.

In the view of the Government, that is what the proposed Bill will do. I look forward to its introduction early in the next session of Parliament.



10 DOWNING STREET

Prime Minister

This statement on future
Telecommunications policy is
very long. As you will see,
Patrick Jenkin is proposing to
publish it as a White Paper.
I would have thought it would
be much more sensible for
him to publish this draft
as a White Paper, and to make
a short statement referring to
it. Agree that I should
pursue this possibility with
his office?

I think he is
going to shorten
it considerably
WJ
13/11

JU435

cWR
BI

cc JV



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Secretary of State for Industry

13 July 1982

1

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

1. Mr Rickett
2. Prime Minister

In substance this looks acceptable. Alan Walters and the Policy Unit are content, subject to the deletion

Dear Michael,

FUTURE TELECOMMUNICATIONS POLICY: STATEMENT

of the square-bracketed words on

At E(TP)(82) 2nd meeting on 30 June, it was agreed that my Secretary of State should make a statement about the Government's intention to privatise British Telecommunications shortly before the Summer Recess. I attach a draft statement which my Secretary of State would like to make.

Agree?

2 As regards timing, I have already been in touch with Nick Huxtable in the Lord President's office, and it has been agreed provisionally that the statement should take place in the week beginning Monday 19 July. The Secretary of State's own particular preference would be Tuesday 20 July. I should therefore be grateful for any comments you and other recipients of this letter may have on the draft statement by 4.00pm on Thursday 15 July at the latest.

MUS 13/7

3 Since the statement is likely to arouse considerable public interest, my Secretary of State would like to issue it in the form of a short White Paper on the same day as the statement is made to the House. The text would be identical to the text of the statement itself, with the addition of a short list of issues on which the Government would welcome views from outside interests, and an address to which such comments should be sent. I should be grateful if you would confirm that the Prime Minister is content that the Secretary of State should proceed in this way.

4 I am sending copies of this letter to the private secretaries to the Members of E(TP), to Francis Richards (FCO), to Keith Long (Chancellor of the Duchy's office), David Wright (Cabinet Office), Gerry Spence (CPRS), and to Bernard Ingham (No 10, Press Office).

Yours sincerely,
Jonathan Spencer

J P SPENCER
Private Secretary

PARLIAMENTARY STATEMENT

TELECOMMUNICATIONS POLICY

With permission Mr Speaker I would like to make a statement about the future of telecommunications in Britain.

This Government aims to promote consumer choice and to ensure that wherever possible, industrial and commercial decisions are determined by the market and not by the state. We also aim to facilitate private financing of public sector investment so that less of the money has to come from higher-than-necessary consumer prices or from the taxpayer. We believe that consumer choice and private finance will lead to more stable prices and a higher quality of service.

The technological revolutions in telecommunications, including digital techniques, fibre optics and the rapidly growing range of terminal attachments and network services mean that state monopoly in telecommunications with all its inevitable disadvantages can become a thing of the past. Since the British Telecommunications Act 1981 received the Royal Assent less than a year ago, progress has been made in four directions.

First, last February, I licensed the Mercury consortium to provide a new telecommunications network in competition with BT. Mercury plans to launch a service for business subscribers next year.

Second, the BT network is increasingly being used by other firms for a widening range of network services. I hope shortly to issue a general licence permitting all bona fide value-added service operators to use the BT and Mercury networks. The rules in Britain will then be among the most liberal in the world. A whole new industry is emerging to provide new systems and services, not only here in Britain but for export to the rest of the world.

Third, the way is now opening for the private sector to sell telephone apparatus direct to the public. The first standards for telecommunications apparatus will be approved very soon and the new British Approvals Board for Telecommunications is ready to receive applications from manufacturers seeking approval of apparatus under the new standards. The attachments industry must now begin to compete with BT to get subscribers' custom. Competition to win market share here at home will make the industry more competitive abroad.

Fourth, and perhaps most important of all, after decades of monopoly, the prospect of competition and the advent of new technology are both stimulating BT to respond to market opportunities. BT is providing a new array of services, especially the City Overlay in the City of London, using microwave radio and other techniques. BT has also joined with other partners in an all-British consortium to set up an independent British satellite system which will include among other things new international telecommunications channels.

Mr Speaker, I stress that this is only a beginning. There is a long way to go but the House must remember that until 1969 the telephone service was run as a Civil Service department with all that that meant in terms of organisation, management and, above all, attitudes. Under Sir George Jefferson's able leadership, the talents which exist in BT are being given new incentive. The BT Act heralded nothing less than a cultural revolution in BT. I now want to take that revolution a stage further.

The House will know that Sir George, his Board and the BT unions have been united in criticising the method by which the telecommunications investment programme is financed. As a nationalised industry BT does not have direct access to financial markets. Its borrowing is controlled by the Treasury and counts against the PSBR. To bring inflation under control, these borrowings have inevitably to be subject to strict limits. One effect of this has been that around 90% of BT's investment programme, around £2,200 million this year, has been self-financed. By "self financed", I mean of course "customer financed". BT's charges to customers not only cover current running costs and depreciation, but also pay for some 90% of BT's new investment. As a result, charges have risen steeply while investment is still insufficient. Unless something is done radically to change the capital structure and ownership of BT, increased investment would mean still higher charges for the customer. The Government, BT and the general public would find that unacceptable.

For all these reasons the Government have been examining how best to free BT from the traditional forms of government control so as to allow it to compete in the market for finance on equal terms

with other growing businesses.

We have, therefore, decided to introduce a Bill in the next session of Parliament which, while keeping BT as a single enterprise, will enable it to be converted into a Companies Act company, "British Telecommunications plc". The Bill will make possible the sale of shares in that company to the public. It is our intention, after the next election, to offer up to 51% of the shares on the market in one or more tranches. Sale of the remaining 49% would not be possible without further legislation. We also intend that the Memorandum and Articles of Association of the company will limit individual shareholdings to prevent foreign control.

Once half of the shares have been sold, BT's borrowing will cease to count against the PSBR and BT will cease to look to the Exchequer for most of its external financing. It will also be able to finance its investment in ways which provide a more normal self-financing ratio. All in all, this will mean not only a greater flexibility for BT and less pressure on consumers and taxpayers but also that BT will be subject to proper market disciplines.

Because of the advent of competition from Mercury, because of competition from the new value added network services and from privately supplied apparatus, and because it will be freed from government controls, BT will be able to provide better services which are more responsive to customer needs like those provided by privately-owned telephone companies in the United States.

BT plc will nevertheless dominate the British market for telecommunications for some years yet. The Government considers

therefore that there will be a need for regulatory arrangements to balance the interests of the company, its investors, its customers, its employees and its suppliers, where these conflict. The Bill will therefore reform the arrangements for licensing telecommunications so as to end BT's exclusive privilege and its role in licensing. It will also establish a new Office of Telecommunications, modelled on the Office of Fair Trading, under a Director General appointed by me. He will have powers very similar to those of the Director General of Fair Trading and will operate with the same degree of independence from the Government.

The Bill will safeguard BT's existing pension obligations. There will also be special provisions to ensure that those employed in BT will have an opportunity to buy shares in the company and it is my hope that these arrangements will have special regard to those with long service in BT.

Finally, the Bill will reform the Telegraph Acts which were passed in the last century. We need to recast the existing law to make it relevant to the technology of today and of tomorrow. I will be issuing a consultative document on this aspect shortly.

Mr Speaker, the proposals which I have announced follow naturally from the liberalising measures passed by the House last year. It would make no sense to stop half way. If those who work in the telecommunications industries are to provide the range and quality of goods and services which modern technology now permits, and if they are to do so in competition with each other, it cannot be right that BT, the dominant enterprise in the industry, should be subject to a web of government control and

interference which is the inevitable lot of a nationalised industry. Nor can it be right that BT should be free from the disciplines of the market which is the privilege of those who look only to the Exchequer for their finance. At the same time, as a dominant enterprise, it is right that BT: plc should be subject to a minimum regulatory control (to ensure fair competition, fair prices and a fair return). The House will clearly want to give careful consideration to these provisions during the passage of the Bill.

Because of the widespread interest which I anticipate these proposals will arouse, I am today publishing this statement in the form of a White Paper.

Perhaps I may end on this note. As always, the quality of the service which any enterprise provides depends entirely upon the skills, energy, imagination and leadership of the people engaged in it. All the Government can do is to provide those people with the environment - market, financial, legal and structural - which will encourage those people to give of their best.

In the view of the Government, that is what the proposed Bill will do. I look forward to its introduction early in the next session of Parliament.