



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

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

Secretary of State for Industry

17 November 1982

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

Prime Minister (2)

ms

Mus 17/11

Dear Michael

TELECOMMUNICATIONS BILL: ARRANGEMENTS FOR INTRODUCTION

Following Legislation Committee's decision to agree, subject to conditions, the introduction of the Telecommunications Bill, arrangements have been made for the Bill itself to be published on Friday 19 November. My Secretary of State is holding a press conference that morning.

2 My Secretary of State considers that the length and complexity of the Bill make it necessary to provide Members of Parliament and members of the public with a detailed explanation of the regulatory arrangements in everyday language. He therefore intends to send the enclosed note to all Members of Parliament so that they receive it shortly after the Bill is published on Friday morning. Copies will also be available in the Vote Office and will be given to the press.

3 The note describes the proposals in the Bill as introduced. It does not enter into discussion on any of the points on which policy decisions are still outstanding and my Secretary of State has been careful to stress in the final paragraph that the Government keeps an open mind on many of the details of the policy.

4 Copies of this letter go to the Private Secretaries to members of the Cabinet, the Chief Whip, and to Richard Hatfield (Cabinet Office).

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary



REGULATORY ARRANGEMENTS FOR TELECOMMUNICATIONS

THE ROLE AND FUNCTIONS OF THE OFFICE OF TELECOMMUNICATIONS (OFTEL)

Introduction

The Government plans to convert British Telecommunications (BT) into a public limited company (plc) and to sell 51% of its shares following the next General Election. BT is at present a statutory corporation with duties to provide public services imposed by the BT Act 1981. It is subject to a number of Government controls over such matters as its borrowing plans and investment proposals etc and can be given directions on some matters by Ministers. The Government wishes BT plc to have as much commercial freedom as possible and intends to free BT plc from the existing web of Government controls.

2 Nevertheless, the Government believes that the telecommunications industry cannot be free of all controls:

- First, telecommunications are essential for industry and commerce and for the fast expanding information technology industries. Telecommunications are also vital for personal use especially by those isolated by age, infirmity or geography; and for national defence. The Government wants to make sure that, after privatisation, telecommunication services will in fact be provided to meet the reasonable needs of all the nation;
- Second, BT is the dominant supplier of most telecommunications services and the Government wishes to be able to ensure that after BT is transferred to the private sector those who own, manage and work in BT plc do not use this market dominance to make excessive profits, operate inefficiently or to prevent or restrict the development of competition in telecommunications.



The Government will therefore set up an Office of Telecommunications (OFTEL) under an independent Director General who will have powers to safeguard the interests of domestic and business users of telecommunications in all parts of the country and to protect fair competition.

3 This note explains the Government's proposals for these new regulatory arrangements.

Regulation of the Market

4 The conversion of BT into a plc and the sale of 51% of its shares will help to ensure that BT plc is subject to an increasing measure of influence by market forces and disciplines. BT plc's Board of Directors will, like the Board of any other plc, be responsible to their shareholders for the successful operation of the business. In order to raise capital from the market for expansion BT plc will need to demonstrate that it is an efficient and profitable organisation.

5 Although the present BT Board is responsible for running the business, they are subject to a number of controls - particularly over borrowing - by Ministers, who in turn are responsible to Parliament. On top of this there are the series of statutory duties. As Governments have changed, the Ministerial controls have been exercised in different ways. This lack of consistency would be undesirable for any business but has been especially damaging in the case of telecommunications which are so essential for the nation. Privatisation will free BT plc from most Ministerial controls, give it a more precise set of public service obligations and insulate BT's business from political interference.

6 This new freedom will give those who manage and work in BT the opportunity to pursue consistent technical and commercial strategies. Once BT plc is operating in a commercial environment, it will be possible for technical and commercial energies to be directed to providing the customer - both domestic and business - with the goods and services that he or she wants and is willing to pay for.



7 This commercial control will be most evident in BT plc's investment programme and its borrowing, which will be determined by market considerations and its Articles of Association once 51% of BT plc's shares have been sold. At present the Government has the final say over what BT should be allowed to borrow each year after considering not only the needs of the business but also, necessarily, the general public expenditure climate. This has meant that BT has not always been allowed to borrow all the Board believed to be commercially justified and the consequences of inadequate investment in the past are with us now. Once shares in BT plc have been sold to the public, there will be other criteria affecting BT's borrowing and investment programme, for example, the return on investment will have to be sufficient so that shareholders, City institutions and banks will provide the money needed. This will mean that worthwhile and profitable investment should be financed regardless of public sector borrowing requirement rules and that BT's proposals will be subject to scrutiny by the market.

8 These benefits will complement the growing advantages flowing from the development of competition under the Government's policy of liberalisation of telecommunications. Briefly, the Government is making arrangements for telecommunications users to have a choice

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



Where competition exists users will be able to see whether BT's service is as good as 'the competition's and to choose which one they think is better in terms of quality, speed of delivery and price. The stronger the forces of competition, the less need there will be for regulation. As liberalisation proceeds, it will be the market rather than formal regulatory arrangements which will regulate the way BT plc behaves.

9 Commercial considerations will also affect the way BT provides its services. At present BT does not generally provide services under contract, and customers cannot usually sue BT for negligence etc. The Bill will require BT plc to provide its services under contract and BT plc will not have immunity from civil action (except in respect of international calls which are subject to international agreements). Users will be able to take BT to court to obtain redress, just as they can sue, say, a shop which supplies faulty goods.

The need for regulation

10 The introduction of private capital and increased commercial influences on BT's articles will not be sufficient to ensure that:

- a) BT plc continues to provide services such as those to remote and rural areas, emergency services and telephone kiosks;
- b) BT plc continues to provide the systems and services necessary for national security; and
- c) BT plc cannot exploit any dominant position it may have in any part of the telecommunications market.

Moreover, it cannot be assumed that BT plc's competitors will provide essential social and defence services on the scale the nation requires. The Government therefore intends to establish regulatory arrangements to deal with these problems.



Essential Services

11 BT's duties as a statutory corporation include an obligation "to provide throughout the British Islands (save in so far as they are provided by other persons or the provision thereof is, in its opinion, impracticable or not reasonably practicable) such telephone services as satisfy all reasonable demands for them". BT has fulfilled its obligation by providing services in nearly every part of the country, including rural and remote areas where the provision of telephone services might not be justified on purely commercial grounds. BT has also accepted other obligations like the loss-making 999 service, the network of telephone kiosks which made heavy losses last year but which is of great importance for many communities, particularly in rural areas and special facilities for blind, deaf and disabled people. In addition BT provides certain services which are essential to national security and defence.

Market Dominance

12 The prospect of increasing competition is already having its effect in a number of aspects of BT's business; for example BT has already reduced charges on its 100 most densely used trunk routes and there has been a significant reduction in the price of telex teleprinters following liberalisation. Nevertheless, BT can be expected to dominate some sectors of the telecommunications markets for a considerable period. This applies especially to the supply of telephone services to domestic subscribers and to business subscribers away from major cities. In these sectors it will be necessary to ensure that customers' interests are properly safeguarded, whilst permitting BT plc to earn a proper return on capital.

Licensing

13 When the Telecommunications Bill becomes law, BT will lose what is called its "exclusive privilege" which it now enjoys over the running of telecommunications systems and the provision of telecommunication services. Instead it will operate under a licence just as the City of Kingston upon Hull network and the telephone



network now being installed by Mercury Communications Ltd operate under licences. All licences will be issued by the Secretary of State and detailed provisions are made in the Bill about licences. The Bill also provides for the ending of BT's present power to grant licences.

14 The Secretary of State's power to issue licences and to include conditions in them will apply equally to any person or company which is allowed to run a public telecommunications system. BT plc will not be singled out for special controls but, since BT runs what is by far the largest and most important network and since its activities are so vital to the nation, its licence will need to be negotiated with particular care.

15 The Government intends to consult fully with BT about the proposed terms and conditions of the licence. The licence will initially be issued to BT shortly after the Bill receives the Royal Assent but will be transferred to BT plc when BT's rights and obligations are vested in the new company. The Government intends that the BT licence should have broadly the following shape:-

- a) a description or specification of the systems that BT is permitted to run and the services that may be supplied over those systems. This is expected to be in very general terms to reflect BT's existing universal network;
- b) a condition requiring BT to provide such telecommunications services as meet all reasonable demands for them in all parts of the United Kingdom (and therefore including not only all rural and remote areas to which it is practicable to provide services but also the special telecommunication facilities required by the City of London);
- c) conditions requiring BT to provide 999 and telephone kiosk services;
- d) conditions requiring BT to permit connection to its system on appropriate terms and conditions of:-
 - i) apparatus that meets approved standards which has been supplied by companies other than BT;



- ii) other licensed systems (eg Hull, Mercury and the radiotelephone company, but also privately owned PABX (Private Automatic Branch Exchange) and other systems);

thus ensuring the development of competition in the supply of telecommunication apparatus and in the supply of telecommunications services in accordance with the Government's policies on the liberalisation of telecommunications;

- e) conditions relating to acts or omissions which might prevent, distort or restrict competition;
- f) conditions with regard to the rate of return on capital BT is able to earn on its regulated activities (broadly those in which it has a dominant position and where it faces little effective competition), whilst maintaining incentives not only to improve efficiency and quality but also to expand its services;
- g) a condition requiring BT to pay a licence fee;
- h) conditions requiring BT to provide the Director General of Telecommunications (see below) with information to enable him to ensure that licence conditions are being observed and to follow up consumer complaints;
- i) conditions relating to the preparation and presentation of accounting information for the Director General.

The Director General of Telecommunications

16 The task of checking whether licensees observe their obligations to provide services and of monitoring whether there is fair competition (ie fair to BT as well to its competitors) in all parts of the telecommunications market will require a detailed and expert knowledge not only of telecommunications technology but also



of the commercial aspects of telecommunications. Monitoring will need to be carried out in a consistent and informed manner over the years to reflect the long lead times of telecommunications investment. Monitoring must also be insulated from day to day political pressures so that those planning and investing in major developments will have an assurance of stability. The Government has therefore decided to establish a new Office of Telecommunications to build up expert knowledge and to carry out monitoring functions.

17 The Director General himself will be an independent Officer of the Crown appointed for a fixed but renewable period of five years on terms which will provide him with the same degree of independence as the Director General of Fair Trading. The Director General will be able to recruit people from outside the Government service with expert knowledge but, as in the case of the Office of Fair Trading, members of the staff of the Office of Telecommunications (OFTEL) will be Civil Servants and will be subject both to the Official Secrets Act and to additional legal duties to oblige them to protect the commercial secrets they learn in the course of their work.

18 The Director General and OFTEL will have the following functions:-

- a) monitoring observance by licensees of the obligations and conditions set out in their licences;
- b) monitoring abuses of monopoly situations by those carrying on commercial activities relating to telecommunications and anti-competitive practices which have effects on the supply of telecommunications services and apparatus;
- c) receiving and considering representations by consumers and other users of telecommunication services;
- d) providing the Secretary of State and the Government with advice on telecommunications matters;



- e) carrying out on the Secretary of State's behalf such of his functions under the Bill as he may delegate to the Director General;
- f) monitoring and if necessary prosecuting those who run unlicensed systems or who breach consumer protection legislation on the marking and advertising of telecoms apparatus.

Monitoring of Telecommunications Licence Conditions

19 The Director General will be required to keep under review the way licensees observe their licence conditions. If, for example as a result of public complaints, it appeared to the Director General that BT plc might not be providing adequate telephone services in rural areas he would have power to intervene. He would first ask BT plc for their comments on the complaints. If the complaints were shown to be well founded, the Director General would have power to order BT plc to comply with the terms of its licence (eg to make telephone lines available to customers in the area in question on payment of reasonable charges). Orders would only be issued after notice and a formal opportunity for the licensee to object but, if the licensee did not implement an order once issued, the Director General could seek a civil remedy in the Courts.

20 In the light of experience the Director General might conclude that the conditions included in a licence were not adequate. For example a new condition might in his view be needed to deal with a practice which had not been anticipated when the licence was issued. Alternatively, he might conclude that an existing licence condition was unduly onerous and might need to be relaxed or deleted. He will therefore have powers to propose licence variations. If the licensee concerned agrees with the proposed variation (and if the Director General, who would be required to publicise his proposal, does not change his mind because of representations from other interested parties), the Director General will be able to vary the licence condition in question. If, however, a licensee objects to a proposed licence amendment which the Director General thinks necessary, the Director General will be able to refer the question to the Monopolies and Mergers Commission and, if they conclude that a variation is desirable in the public interest, he will be able to make the variation despite the objections of the licensee.



Monopoly Abuses and Anti-Competitive Practices Relating to Telecommunications

21 Licensing arrangements will ensure that the Director General has powers to regulate any monopoly abuse or anti-competitive practice on the part of a licensee in activities directly related to the running of his system. But many telecommunication activities, for example the manufacture and retailing of telecommunication apparatus, in which both BT plc and others participate, will not be subject to direct licensing controls under the Bill. But they are an area where monopoly abuses and anti-competitive practices are possible, for example a supplier, who might be BT plc or another company, might refuse to sell to customers one item of apparatus (eg a PABX) unless they also bought from him all the extension apparatus connected to the PABX. Anti-competitive practices such as this can at present be remedied by orders made following investigations made under the Fair Trading Act 1973 and Competition Act 1980. These activities are the responsibility of the Director General of Fair Trading.

22 The Government considers that it would be inappropriate for the new Director General of Telecommunications to be responsible for dealing with some monopoly abuses or anti-competitive practices by licence conditions but for a different officer, the Director General of Fair Trading, to deal with similar abuses and practices if they are carried out by non licensees. Such a division of responsibilities would create confusion and it might result in one company being subjected to investigations by both Director Generals in respect of the same abuse or practice. Consequently the Government intends the new Director General of Telecommunications to exercise responsibilities for keeping under review all commercial activities relating to telecommunications and for making investigations and references to the Monopolies and Mergers Commission in respect of monopoly situations and anti-competitive practices in that area. The Director General of Fair Trading will, however, continue to have exclusive responsibility for all mergers and restrictive trade agreements affecting telecommunications; the new Director General will have no powers in these two areas but will be required to give the Director General of Fair Trading any information he may have affecting a merger or restrictive trade agreement affecting telecommunications.



Consumer Protection

23 Under the Government's proposals consumers will have greater protection than at present, in particular:-

- a) they will have greater choice and therefore an increased opportunity to obtain the telecommunications services or apparatus that suit their particular requirements; and
- b) BT will provide services under legally enforceable contract.

24 However, most domestic subscribers will have no effective choice of network for the foreseeable future and the conversion of BT into a plc will mean that the Post Office Users' National Council (POUNC) and its Country Councils will no longer deal with telecommunications. The Bill therefore puts the Director General under a duty to consider complaints and representations about telecommunication apparatus and services, so that, in effect, he will take over POUNC's existing functions in relation to consumer complaints. He will also be required to appoint advisory committees in Scotland, Wales and Northern Ireland similar to POUNC's Country Councils and there will be provision for direct Government finance for local Postal and Telecommunication Advisory Councils who assist the Director on telecoms matters.

25 In the past POUNC has been criticised for "lacking teeth", that is, for not having effective powers to back up any criticism it made of BT's performance. The Government believes that combining under one Office POUNC's previous role of considering complaints and the new powers to monitor observance of licences, to issue orders to ensure compliance with licence conditions and to initiate licence amendments will ensure for the first time that there are effective powers to provide remedies when investigation of user complaints discloses unsatisfactory performance by licensees.

26 The Government expects the Director General to take over POUNC's non-statutory functions for example in the agreement of guidelines governing uneconomic telephone kiosks. The Government intends that the Director should



carry on POUNC's role of agreeing, on a non-statutory basis, performance objectives with licensees on such matters as the time taken to install exchange lines, the time taken before repairs are made and so on.

Advisory Functions

27 The Government believes that there will be considerable advantage if it has available the advice and experience of an independent body like OFTEL which is expected to build up expert knowledge of all aspects of telecommunications. Previously BT has been the Government's main source of such advice but the advent of competition, which has made BT one competitor among many in the market place, means that a new independent source of advice is needed. The Bill provides for the Director General to be asked to give advice and or him to offer advice if he thinks it appropriate to do so.

Functions carried out on Behalf of the Government

28 It is intended that the Government should remain responsible for licensing telecommunications systems, particular public telecommunication systems. But many telecommunication systems (eg taxi radio systems), which require licences under the existing legislation will continue to require licences in future. Hitherto BT has licensed these. This role will under the Bill fall to the Government which will have powers to delegate such routine licensing functions to OFTEL. It is not intended to give OFTEL any power to issue licences under the Wireless Telegraphy Act; that responsibility will remain with the Home Office.

29 The Government intends to make provision to continue the existing arrangements under which apparatus must conform to approved standards and be tested and approved before it is connected to telecom systems but to clarify and extend the arrangements. Standards are being written under the auspices of the British Standards Institution and subsequently approved by the Secretary of State. Apparatus is being tested and approved by the British Approvals Board for Telecommunications. These arrangements will continue. Then again, the Government proposes to take powers to allow it to delegate the function of approving standards if in due course that seems desirable. Similarly the Bill will



contain powers to delegate the task of approving apparatus but the Government does not intend to use these powers for the time being.

Policing Marking and Advertising Orders

30 The British Telecommunications Act 1981 made provision for Orders requiring apparatus to be marked when offered for sale to show whether or not it is approved for connection to BT's networks and for Orders requiring advertisements, catalogues and other sales material to indicate whether or not the advertised goods are approved for connection. While the main provisions of these orders came fully into force on 1 November 1982, others have been in force for several months. It is becoming apparent that the Orders are not being effectively enforced and the Bill will confer on the Director General a power to enforce the Orders, undertaking prosecutions if necessary. In the case of traders who commit repeated breaches of the Orders it is intended that the Director General of Telecommunications should be able, with the consent of the Director General of Fair Trading, to use the powers under Part III of the Fair Trading Act 1973 to seek undertakings from, and if necessary to take action in the courts against, such traders.

Representations

31 The Telecommunications Bill provides the statutory powers and duties necessary to implement the arrangements described above. A number of obligations will be embodied in the licences to be issued to BT and other licence holders. Either House of Parliament can amend the Bill during its passage through Parliament in accordance with normal procedures. At the same time, the Government are very ready to consider in parallel proposals and representations from members of the public about any aspect of the proposed changes. Any such comments, proposals or representations should be sent in writing to Miss G M A Lambert, Telecommunications Division, Department of Industry, 123 Victoria Street, London SW1.

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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

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Secretary of State for Industry

18 November 1982

David Heyhoe Esq
Private Secretary
to the Lord President & Leader of the
House of Commons
House of Commons
London SW1

Prime Minister (2)

ms 18/11

Dear David

TELECOMMUNICATIONS BILL

My letter of 17 November to Michael Scholar enclosed a note describing the role and function of the Office of Telecommunications which will be distributed tomorrow morning to all Members of Parliament.

2 It has been pointed out to us that the Opposition may attempt to exploit the note to delay the Second Reading of the Bill and its submission to Committee. They might, for example, argue that the circulation of the note underlines the complexity of the proposals and that, if the proposals are indeed so complex that they require 13 pages of explanation, the House will require more than two weekends to study the Bill before its Second Reading.

3 The Lord President will wish to refute this suggestion. The note has been prepared at the request of the Trade Associations and others and is designed for circulation to individual firms and members who would not normally read the text of the Bill. Those who have pressed the Department to produce the note include the Post Office Engineering Union. Once the note had been prepared my Secretary of State thought it a courtesy to send a copy to every Member of the House to help them in answering constituents' letters and dealing with enquiries. I am copying this letter to Michael Scholar and to Murdo McLean.

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary

Post & telecomms

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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

29 November 1982

John Rhodes Esq
Private Secretary to the
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

Dear John

SECOND READING OF THE TELECOMMUNICATIONS BILL

I attach, for your information, a draft copy of the speech that my Secretary of State intends to make in the House this afternoon. I am attaching to Michael Scholar at No 10, Leslie Pallett (Home Office) and Margaret O'Mara (Treasury).

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary

SECRETARY OF STATE'S SPEECH : SECOND READING OF THE TELECOM-
MUNICATIONS BILL, MONDAY 28 NOVEMBER

I BEG TO MOVE THAT THE BILL BE NOW READ A SECOND TIME.

MR SPEAKER, THIS BILL WILL EMPOWER THE GOVERNMENT TO CONVERT
BRITISH TELECOM FROM A NATIONALISED CORPORATION INTO A COMPANIES
ACT COMPANY WITH SHARES LIKE ANY OTHER ~~COMANY~~ COMPANY

IT WILL ALLOW MEMBERS OF THE GENERAL PUBLIC TO BUY SHARES,
STARTING AFTER THE NEXT GENERAL ELECTION.

^{HALF}
WHEN ~~51% OF~~ THE SHARES HAVE BEEN SOLD, BT WILL NO LONGER BE A
NATIONALISED INDUSTRY AND WILL BECOME A PRIVATE SECTOR COMPANY.

THE BILL MAY WELL BE CONTROVERSIAL IN THIS HOUSE.

BUT IT WILL, I BELIEVE, BE WIDELY WELCOMED BY PEOPLE OUTSIDE.

BECAUSE THEY KNOW THAT COMPETITIVE FREE ENTERPRISE IS A FAR, FAR
BETTER SYSTEM THAN STATE MONOPOLY.

^{THE}
~~THIS BILL IS IMPORTANT IN ITSELF.~~

~~BUT IT~~ ALSO STANDS AS CLEAR TESTIMONY TO THE DETERMINATION OF
THIS SIDE OF THE HOUSE TO ROLL BACK THE FRONTIERS OF THE STATE
AND TO GIVE PEOPLE A REAL STAKE IN THE ECONOMY.

THAT IS REAL PUBLIC OWNERSHIP.

THIS BILL FOLLOWS LOGICALLY ON THE MEASURES WE ARE ALREADY TAKING TO BRING COMPETITION INTO TELECOMMUNICATIONS.

BEFORE WE CAME TO POWER, APART FROM THE CITY OF KINGSTON-UPON-HULL, BRITISH TELECOM WAS THE SOLE SUPPLIER OF ~~TELEPHONES~~, TELEPHONE SERVICES AND MOST ^{TELEPHONE} EQUIPMENT.

THE MONOPOLY WAS BAD FOR THE CUSTOMER AND BAD FOR BT ITSELF.

ANY GROWING BUSINESS LIKE BT, TO MEET THE NEEDS OF ITS CUSTOMERS EFFECTIVELY, NEEDS THE DISCIPLINE OF THE MARKET PLACE, THE RIGHT TO RAISE ITS OWN FINANCE, THE FREEDOM TO INVEST, AND THE FREEDOM TO MANAGE THE BUSINESS.

THE BRITISH TELECOMMUNICATIONS ACT 1981 WAS A FIRST STEP TOWARDS GREATER COMPETITION.

I HAVE ALREADY LICENSED MERCURY COMMUNICATIONS LTD TO COMPETE WITH BT - THE FIRST SUCH COMPETITIVE NETWORK IN EUROPE.

AN EVER-WIDENING RANGE OF EQUIPMENT IS BEING OPENED UP TO COMPETITION.

THE MARKET IS INCREASINGLY FREE TO SELL VALUE-ADDED SERVICES OVER THE BT AND MERCURY NETWORKS.

WE HOPE SOON TO HAVE COMPETITIVE NATIONAL RADIO TELEPHONE NETWORKS.

FULL CREDIT IS DUE TO THE CHAIRMAN OF BT, SIR GEORGE JEFFERSON, HIS BOARD AND THE EMPLOYEES OF BT FOR THE WAY THEY HAVE BEGUN TO TRANSFORM WHAT WAS RECENTLY A GOVERNMENT DEPARTMENT INTO A COMMERCIALY ORIENTED BUSINESS.

I THINK WE NEED TO HEAR FROM THE PARTY OPPOSITE WHETHER THEY ARE IN FAVOUR OF THIS FREEDOM AND WIDENING CONSUMER CHOICE OR WHETHER THEY REALLY PREFER STATE MONOPOLY.

WE PREFER COMPETITION, BUT SO LONG AS BT IS NATIONALISED, SO LONG AS IT IS SUBJECT TO THE WEB OF CONTROLS WHICH STIFLE COMMERCIAL FREEDOM, SO LONG AS ITS CAPITAL FOR INVESTMENT CAN COME ONLY FROM THE CUSTOMER IN HIGHER CHARGES OR FROM THE ^{TAXPAYER} EXCHEQUER, BT WILL FACE THE COMPETITION WITH ITS HANDS TIED.

I WANT TO SEE BT BECOMING A MAJOR FORCE IN THE WORLD TELECOMMUNICATIONS MARKET. ~~AS~~ LIKE AT & T.

FOR THIS TO HAPPEN, BT NEEDS THE FINANCIAL FREEDOM WHICH AS A NATIONALISED INDUSTRY IT DOES NOT HAVE AND CAN NEVER HAVE.

AS A NATIONALISED INDUSTRY, BT DOES NOT HAVE DIRECT ACCESS TO FINANCIAL MARKETS.

ITS BORROWING IS CONTROLLED BY GOVERNMENT AND COUNTS AGAINST THE PSBR.

SO GOVERNMENTS HAVE FACED AN AWKWARD CHOICE.

JU264 IF THEY WANT TO HOLD PRICES DOWN, THEN INVESTMENT NEEDS ARE STARVED.

THATS WHAT HAPPENED BETWEEN 1974 AND 1979, WHEN UNDER THE PARTY OPPOSITE, CAPITAL INVESTMENT BY BT DECLINED IN REAL TERMS.

IF, LIKE THE PRESENT GOVERNMENT, WE ATTACH GREATER IMPORTANCE TO INVESTMENT, HIGHER CUSTOMER CHARGES ARE INEVITABLE.

THE ONLY ALTERNATIVE, REJECTED BY BOTH GOVERNMENTS, WOULD HAVE BEEN VASTLY GREATER BORROWING FROM THE NATIONAL LOANS FUND AND CONSEQUENT CHARGE ON THE PSBR.

YES, MR SPEAKER, THE NETWORK IS NOW BEING MODERNISED.

THE NEW DIGITAL SWITCHING IS BEING INSTALLED.

OPTICAL FIBRES ARE NOW BEING USED.

BUT THE CUSTOMER HAS HAD TO DIG DEEPER AND DEEPER INTO HIS POCKET TO PAY FOR ~~IT~~. THIS

THIS DOES NOT HAVE TO BE.

IT IS A SELF-IMPOSED "HOBSON'S CHOICE" DICTATED BY THE BRUTE FACTS OF NATIONALISATION.

WHEN, AFTER THE NEXT ELECTION, A MAJORITY OF THE SHARES IN BT ARE HELD BY THE PUBLIC, BT WILL LOOK TO THE MARKET FOR MOST OF ITS EXTERNAL FINANCING.

THIS WILL GIVE THE MANAGEMENT GREATER FLEXIBILITY.

THIS WILL PUT LESS PRESSURE ON CONSUMERS AND TAXPAYERS.

IT WILL SUBJECT BT TO PROPER MARKET DISCIPLINES, AND IT WILL ALLOW BT TO RESPOND TO THE NEEDS OF CUSTOMERS JUST LIKE THE PRIVATELY-OWNED TELEPHONE COMPANIES IN THE UNITED STATES.

BT HAS ASKED FOR ACCESS TO THE MARKET.

THE UNIONS HAVE ASKED FOR IT.

THE SELECT COMMITTEE HAS ASKED FOR IT.

THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL HAS ASKED FOR IT
THIS BILL OPENS THE WAY.

COULD BT GET ACCESS TO PRIVATE CAPITAL MARKETS WITHOUT CHANGING ITS OWNERSHIP?

[Stockton]

WE LOOKED AT THE POSSIBILITY OF A "BUZBY BOND" AS THE PRESS
CHRISTENED IT - A PERFORMANCE-RELATED BOND WHERE RETURNS TO THE
BONDHOLDER WOULD DEPEND ON BT'S RESULTS.

BUT IT WOULD NOT BEGIN TO MEET BT'S NEEDS.

THE MAXIMUM SUM THAT WAS EVER ENVISAGED TO BE RAISED BY THE BUZBY
BOND WAS OF THE ORDER OF £150 MILLION, ^{IN THE FIRST} ~~EACH~~ YEAR

COMPARED WITH AN INVESTMENT PROGRAMME NOW RUNNING AT NEARLY ONE
AND A HALF BILLION A YEAR AND GROWING, THE BOND WOULD ^{NEVER} ~~HAVE MADE~~
~~LITTLE REAL DIFFERENCE.~~ HAVE SOLVED THE PROBLEM.

THE ONLY WAY IS TO FREE BT FROM TREASURY CONTROL AND ALLOW IT TO
RAISE THE CAPITAL IT NEEDS JUST ~~AS~~ LIKE ANY OTHER MAJOR BUSINESS.

IT IS THEREFORE HARDLY SURPRISING THAT IN THEIR REACTION TO MY
STATEMENT ^{CF} ON 19 JULY, [CMMD 8610] BT HAD THIS TO SAY : —

"THE BOARD CAN SAY...THAT, GIVEN THE RIGHT CONDITIONS, IT
WOULD WELCOME FREEDOM FROM WHAT THE SECRETARY OF STATE HAS
DESCRIBED AS THE WEB OF GOVERNMENT CONTROL AND
INTERFERENCE."

MR SPEAKER, THOSE WHO WANT TO SEE MORE COMPETITION IN TELECOMMUNICATIONS, THOSE WHO WANT TO SEE BT BECOME A MAJOR WORLD FORCE IN INFORMATION TECHNOLOGY, THOSE WHO WANT BT TO COMPETE IN THE RAPIDLY GROWING MARKET FOR TELECOMMUNICATIONS, MUST ACCEPT THAT THIS BILL OFFERS THE ONLY WAY FORWARD.

TO WANT THESE THINGS BUT TO OPPOSE THE BILL WHICH MAKES THEM POSSIBLE IS JUST DOTTY.

YES, LET US DISCUSS THE DETAILS.

BUT LET US DO SO IN THE RECOGNITION THAT, FOR THE CUSTOMER, COMPETITION IS BETTER THAN MONOPOLY, THAT IF BT IS TO BE FREE TO COMPETE IT MUST BE FREE TO RAISE CAPITAL, AND THAT THE ONLY WAY THAT THIS CAN BE DONE IS TO CONVERT BT INTO A PRIVATE SECTOR COMPANY.

206-1 LET ME NOW TURN TO THE BILL.

LET ME SAY AT ONCE THAT, YES, IT IS A LONG BILL BUT IT LOOKS PERHAPS MORE FORMIDABLE THAN IT IS.

THE HOUSE WILL HAVE ALREADY SEEN THAT OF THE 149 PAGES, 25 PAGES CONTAIN SCHEDULE 2, THE RE-ENACTMENT AND UPDATING OF THE TELEGRAPH ACTS, AND NO LESS THAN 50 PAGES CONTAIN SCHEDULE 4 EMBODYING MINOR AND CONSEQUENTIAL AMENDMENTS.

CLAUSES 66 TO 75 AMEND THE WIRELESS TELEGRAPHY ACTS TO STRENGTHEN THE ENFORCEMENT PROVISIONS FOR DEALING WITH RADIO INTERFERENCE AND THE ILLEGAL USE OF RADIO EQUIPMENT.

SO THE HEART OF THE BILL IS TO BE FOUND IN THE FIRST 65 CLAUSES AND IN SCHEDULE 1.

AND IT IS TO THOSE PARTS THAT I NOW TURN.

RATHER THAN TAKE THE HOUSE THROUGH EACH CLAUSE ONE BY ONE, I WILL EXPLAIN THE BILL'S MAIN PROVISIONS.

II & III
PART I, PROVIDES, FOR THE APPOINTMENT OF AN INDEPENDENT DIRECTOR-GENERAL OF TELECOMMUNICATIONS AND OF AN OFFICE OF TELECOMMUNICATIONS, AND

PARTS II & III ESTABLISH THE NEW REGULATORY FRAMEWORK.

THEY ENTRUST THE LICENSING OF TELECOMMUNICATION OPERATORS TO THE SECRETARY OF STATE.

THEY SET OUT THE ^{FUNCTIONS AND} DUTIES OF THE SECRETARY OF STATE, ^{AND} OF THE DIRECTOR GENERAL AND ^{THEY PROVIDE FOR THE REGULATION OF TELECOMS} OF LICENSEES UNDER THE NEW SYSTEM. OPERATORS.

THIS ON ITS OWN REPRESENTS A MAJOR REFORM, WHICH STANDS INDEPENDENTLY OF THE PROPOSAL TO MOVE BT INTO THE PRIVATE SECTOR.

IT IS REALLY A RECOGNITION OF WHAT HAS BEEN HAPPENING IN THE MARKET FOR TELECOMMUNICATIONS.

UNTIL NOW, BT HAS HAD WHAT HAS BEEN KNOWN AS ITS "EXCLUSIVE PRIVILEGE".

ONLY BT HAS HAD THE RIGHT TO RUN TELECOMMUNICATION SYSTEMS.

ANYONE ELSE HAD TO BE LICENCED, AND FOR MOST LICENCES^E, BT ITSELF WAS THE LICENSING AUTHORITY.

BUT WITH COMPETITION, THAT HAS BECOME ENTIRELY INAPPROPRIATE.

BT HAS IN EFFECT BEEN LICENSING ITS OWN COMPETITORS!

THE 1981 ACT MADE A NUMBER OF CHANGES TO PERMIT WIDER COMPETITION, BUT IT IS THIS BILL WHICH FINALLY REMOVES FROM BT BOTH THE "EXCLUSIVE PRIVILEGE" AND THE POWER TO LICENSE OTHERS.

THE POWER TO LICENCE WILL VEST IN THE SECRETARY OF STATE AND BT WILL NEED A LICENCE JUST LIKE ANY OTHER TELECOMMUNICATIONS OPERATOR.

LICENCES WILL CONTAIN CONDITIONS ABOUT HOW SYSTEMS ARE TO BE RUN AND WHAT SERVICES ARE TO BE PROVIDED.

IT WILL BE THE DUTY OF THE DIRECTOR GENERAL TO MONITOR HOW LICENCES^{SE} IMPLEMENT THESE CONDITIONS.

I SHOULD HAVE THOUGHT THAT WHATEVER VIEW MIGHT BE TAKEN ABOUT THE PROPOSAL FOR PRIVATISATION, THIS NEW LICENSING STRUCTURE SHOULD COMMAND GENERAL SUPPORT.

IT CANNOT BE RIGHT FOR ANY COMMERCIAL ENTERPRISE TO HAVE THE POWER TO STRANGLE ITS COMPETITORS.

CLAUSE 3 IS VERY IMPORTANT.

IT SETS OUT THE GUIDELINES, ~~BOTH FOR THE SECRETARY OF STATE AND FOR THE DIRECTOR.~~

^{SE} THE GUIDELINES REQUIRE BOTH THE SECRETARY OF STATE AND THE DIRECTOR TO HAVE REGARD TO:

"THE NEED TO SECURE THE PROVISION THROUGHOUT THE COUNTRY OF SUCH TELECOMMUNICATION SERVICES AS SATISFY ALL REASONABLE DEMANDS INCLUDING IN PARTICULAR PUBLIC CALL BOX SERVICES, EMERGENCY SERVICES AND SERVICES IN RURAL AREAS."

I CAN TELL THE HOUSE THAT WHEN I ISSUE A LICENSE TO BT UNDER THE BILL, THAT LICENSE WILL ~~IMPOSE AN OBLIGATION~~ ^{REQUIRE} BT TO PROVIDE THESE SERVICES, ~~AS AT PRESENT,~~ WHERE IT IS PRACTICABLE TO DO SO.

LAST JULY, WHEN I ANNOUNCED OUR PROPOSALS I GAVE THE HOUSE A FIRM ASSURANCE THAT ANYONE WHO CAN OBTAIN A TELEPHONE UNDER THE PRESENT ARRANGEMENTS WILL BE ABLE TO OBTAIN A TELEPHONE UNDER THE NEW ARRANGEMENTS.

I REAFFIRM THAT ASSURANCE.

BT'S LICENCE WILL CONTAIN AN OBLIGATION TO PROVIDE SERVICES THROUGHOUT THE UK WHERE IT IS PRACTICABLE TO DO SO.

THE HOUSE WILL HAVE SEEN THAT BT ITSELF, IN THEIR PRESS NOTICE OF 19 NOVEMBER, HAVE (AND I QUOTE)

" ACCEPTED A CONTINUING RESPONSIBILITY FOR SERVICES TO THE COMMUNITY INCLUDING THOSE IN RURAL AND OUTLYING AREAS."

I AM SURE THE WHOLE HOUSE WILL WELCOME THAT STATEMENT.

IT IS IN FACT A LOGICAL ASSURANCE IN COMMERCIAL TERMS.

THE VALUE OF A NETWORK IS COMMENSURATE WITH THE NUMBER OF PEOPLE CONNECTED TO IT.

IF BT WERE TO NEGLECT AREAS ALREADY PROVIDED FOR OR OPPORTUNITIES THAT MAY BECOME AVAILABLE IN THE FUTURE, THAT WOULD DEVALUE ITS OWN NETWORK.

264.2 I GAIN THE IMPRESSION THAT THIS ARGUMENT IS NOW ACCEPTED AND THE CONTROVERSY HAS TURNED TO PRICES.

LET ME REMIND THE HOUSE THAT, ON CONNECTION CHARGES FOR NEW SUBSCRIBERS, THERE ARE ALREADY SOME DIFFERENCES BETWEEN ONE CUSTOMER AND ANOTHER.

FOR INSTANCE, IF CONNECTION TAKES MORE THAN 100 HOURS OF WORK, THE STANDARD CHARGE IS INCREASED.

^{SUCH} THESE DIFFERENCES ARE REASONABLE AND I WOULD EXPECT ^{SOMETHING OF} SIMILAR ^{THE SORT} ARRANGEMENTS TO CONTINUE.

THE DIRECTOR WILL ENSURE THAT THE LICENCE CONDITIONS ABOUT AVOIDING UNDUE DISCRIMINATION IN THE PRICING OF CONNECTION CHARGES ARE OBSERVED.

TURNING TO THE COST OF CALLS, BT DOES NOT ACCOUNT SEPARATELY FOR SERVICES TO RURAL AREAS; BUT I CAN TELL THE HOUSE THIS: ONCE THE INITIAL INSTALLATION HAS BEEN CARRIED OUT THERE IS NO EVIDENCE THAT THE COST OF TELEPHONE SERVICES IS HIGHER IN RURAL AREAS THAN IN TOWNS AND CITIES.

INDEED, SOME OPERATIONS ARE SIGNIFICANTLY CHEAPER AWAY FROM DENSELY POPULATED AREAS.

IT IS CHEAPER TO INSTAL WIRES OVERHEAD RATHER THAN UNDERGROUND.

EXCHANGE EQUIPMENT IS NORMALLY SIMPLER; LAND AND BUILDINGS ARE USUALLY CHEAPER; LABOUR COSTS ARE OFTEN LOWER.

THESE FACTORS GO A LONG WAY TO BALANCE THE LESS INTENSIVE USE OF THE RURAL NETWORK AND SHOULD OF THEMSELVES PROVIDE A SUBSTANTIAL REASSURANCE FOR THOSE IN RURAL AREAS WHO HAVE EXPRESSED ANXIETIES ABOUT THE FUTURE ^{cost} OF THESE SERVICES.

THEN THERE IS THE QUESTION OF EMERGENCY SERVICES.

THE 999 SERVICE IS ESSENTIAL - ^{I CAN'T} ~~IT IS DIFFICULT TO~~ IMAGINE THE SERVICE NOT BEING PROVIDED - AND THE BT LICENCE WILL SAFEGUARD THIS SERVICE TOO.

77,000
THEN THERE ARE THE KIOSKS, OF WHICH THERE ARE SOME SEVENTY-SEVEN
THOUSAND IN THE PRESENT NETWORK.

THEY ARE IMPORTANT BECAUSE THEY GIVE ACCESS FOR TWENTY FOUR HOURS
A DAY TO THE PUBLIC - PARTICULARLY FOR THOSE WHO CANNOT AFFORD A
PHONE OF THEIR OWN, OR WHO ARE AWAY.

EVEN MORE IMPORTANT, THEY PROVIDE IMMEDIATE ACCESS TO THE
EMERGENCY SERVICES AND IT IS A FACT THAT THE MAJORITY OF CALLS TO
THE 999 SERVICE ARE MADE FROM ~~PUBLIC CALL OFFICES.~~
COIN-BOX PHONES.

THE KIOSK AND EMERGENCY SERVICES THOUGH ACCOUNTING FOR ONLY 3% OF
BT'S ^{COSTS} TURNOVER, ARE AN IMPORTANT FEATURE OF OUR TELECOMMUNICATIONS
NETWORK.

IN ACCORDANCE WITH CLAUSE 3, THE LICENCE WILL ^{REQUIRE BT} ~~CONTAIN CLEAR~~
~~OBLIGATIONS~~ TO PROVIDE THEM.

WE INTEND THAT THE EXISTING ARRANGEMENTS WHEREBY BT AND POUNC
AGREE GUIDELINES ABOUT THE PROVISION OF KIOSKS WILL CONTINUE, WITH
POUNC'S FUNCTION TRANSFERRED TO THE DIRECTOR OF OFTEL.

THE CLAUSE 3 GUIDELINES ALSO RECOGNISE THE NEED FOR OPERATORS TO EARN A PROPER RETURN ON CAPITAL SUFFICIENT TO FINANCE THE SUPPLY OF RURAL AND OTHER SERVICES AND THE DEVELOPMENT AND USE OF NEW TECHNIQUES. THIS WILL SAFEGUARD BT'S REMARKABLE ROAD EFFORT.

CLAUSE 3 ALSO PROVIDES FOR THE PROMOTION OF COMPETITION AND CONSUMER INTERESTS.

UNDER EXISTING LAW, SERVICES ARE PROVIDED TO CUSTOMERS THROUGH WHAT IS CALLED "A SCHEME".

IN ALMOST ALL CASES, THERE IS, STRANGELY, NO CONTRACTUAL RELATIONSHIP; MOST CUSTOMERS ARE QUITE UNABLE TO SUE BT FOR BREACH OF CONTRACT OR EVEN FOR SOME TORTS.

WE WANT TO CHANGE THIS.
THE BILL THEREFORE ^{REPEALS} LAYS DOWN (IN CLAUSE 2) ^{BT'S PRIVILEGES SO} THAT SERVICES WILL BE PROVIDED TO USERS UNDER ENFORCEABLE CONTRACTS WHICH WILL GIVE THEM NEW CONTRACTUAL RIGHTS THAT THEY HAVE NOT HAD BEFORE.

MOREOVER, THE CONSUMER REPRESENTATION ROLE OF POUNC WILL BE TRANSFERRED TO THE DIRECTOR GENERAL AND THIS WILL HAVE ONE OVERWHELMING ADVANTAGE.

POUNC HAS ^{DONE} EXCELLENT WORK BUT THERE HAVE OFTEN BEEN BEEN COMPLAINTS THAT ^{IT} POUNC HAS NO TEETH.

IT CAN MAKE RECOMMENDATIONS, BUT IT HAS ^{HAD} NO POWER TO ENFORCE THEM.

THE DIRECTOR GENERAL, UNDER THE BILL, WILL HAVE POWERS - POWERS TO SEE THAT LICENCE CONDITIONS ARE PROPERLY OBSERVED, TO INTERVENE WHEN THEY ARE NOT, TO AMEND LICENCES, TO ENCOURAGE CODES OF CONDUCT, TO PUBLISH ADVICE AND SO ON.

I ALSO INTEND THE DIRECTOR TO TAKE OVER FROM POUNC THE TASK OF AGREEING CONSUMER PERFORMANCE TARGETS WITH OPERATORS.

SO CUSTOMERS, AS WELL AS HAVING THE ADVANTAGE OF MORE COMPETITION, WILL HAVE SUBSTANTIALLY INCREASED RIGHTS AND PROTECTION.

I COME NOW TO THE OFFICE OF TELECOMMUNICATIONS OR "OFTEL", FOR SHORT.

2643 THE NEW REGULATORY SYSTEM ESTABLISHED BY THE BILL IS NECESSARY BECAUSE, FOR OBVIOUS PRACTICAL REASONS, TELECOMMUNICATIONS CANNOT BE A FREE FOR ALL.

THERE HAS TO BE A FRAMEWORK.

UNTIL NOW THIS HAS BEEN PROVIDED BY BT'S "EXCLUSIVE PRIVILEGE" AND ITS MONOPOLY ROLE; IN FUTURE, IT WILL BE PROVIDED BY THE REGULATORY SYSTEM UNDER THE BILL.

PERHAPS AT THIS POINT I CAN DRAW THE ATTENTION OF THE HOUSE TO THE PAPER, IN OUR "RINGING THE CHANGES" SERIES, ENTITLED "REGULATORY ARRANGEMENTS FOR TELECOMMUNICATIONS" WHICH WAS PUBLISHED WITH THE BILL ON 19 NOVEMBER.

IN THAT PAPER I HAVE SET OUT, IN BROAD OUTLINE, HOW WE INTEND THAT THE NEW REGULATORY SYSTEM SHOULD OPERATE.

OBVIOUSLY, ONE OF THE MOST IMPORTANT FACTORS WHICH HAS COLOURED OUR APPROACH IS THE INEVITABLE MARKET DOMINANCE OF BT FOR MANY YEARS AHEAD.

BT HAS SEEN THE REGULATORY SYSTEM AS AIMED PRIMARILY AT THEM.

LET ME MAKE ONE POINT ABUNDANTLY CLEAR: OFTEL WILL MONITOR AND REGULATE ALL TELECOMMUNICATIONS ~~SUPPLIERS~~^{OPERATORS}, ALL OF WHOM WILL HAVE TO HAVE LICENSES.

THUS, MERCURY, AND THE ~~NETWORK~~^{HULL}, ~~RUN BY THE CITY OF~~^{THE RADIO PHONE NETWORKS,} ~~KINGSTON-UPON-HULL~~, WILL BE REGULATED IN THE SAME WAY AS BT.

OFTEL WILL ALSO MONITOR LICENCES GRANTED TO PRIVATE SYSTEMS AND TO PROVIDERS OF VALUE ADDED NETWORK SERVICES.

ALTHOUGH IT IS THE SECRETARY OF STATE WHO GRANTS THE LICENCES, ^{UNDER THE BILL} IT IS THE THE DIRECTOR WHO CAN AMEND THEM.

HE WILL DO THIS EITHER BY AGREEMENT WITH THE LICENSEE UNDER CLAUSE 10 OR, IF THE CHANGE IS NOT AGREED, HE CAN MAKE A REFERENCE TO THE MONOPOLIES AND MERGERS COMMISSION UNDER CLAUSE 11.

THE DIRECTOR WILL THEN BE OBLIGED TO PUT INTO EFFECT THE DECISION OF THE MMC WHICH WILL OF COURSE TAKE ACCOUNT OF THE PUBLIC INTEREST AND THE CRITERIA IN CLAUSE 3.

IN THEIR BRIEF TO HON MEMBERS, BT HAVE EXPRESSED ANXIETIES ABOUT THE COMPREHENSIVE NATURE OF THE POWERS IN THE REGULATORY SYSTEM.

I HAVE OF COURSE DISCUSSED THEIR ANXIETIES WITH THEM AT LENGTH AND I BELIEVE THAT I WENT QUITE A LONG WAY TO REASSURE THE BOARD OF OUR INTENTIONS.

WE INTEND THAT THEY SHALL HAVE THE MAXIMUM COMMERCIAL FREEDOM TO OPERATE IN THE MARKET.

WE INTEND THAT THE LICENSING AND REGULATORY SYSTEM SHALL CONSTITUTE, AS IT WERE, A LIGHT REIN, AND THAT THERE SHOULD BE THE MINIMUM OF INTERFERENCE WITH LEGITIMATE COMMERCIAL DECISIONS.

BT CONTRAST THIS ^{INTENTION} WITH THE BATTERY OF POWERS SET OUT IN THE BILL, AND THAT WE HAVE INDICATED WILL BE IN THE LICENSES.

I UNDERSTAND THEIR CONCERN BUT I HAVE TO SAY THIS.

IN THE LAST RESORT, THE GOVERNMENT HAS TO ENSURE THAT THE CRITERIA SET OUT IN CLAUSE 3 ARE MET, AND ~~WE HAVE TO MAKE SURE~~ THAT THE LEGISLATION ^{built} CONTAINS SUFFICIENT POWERS TO ENSURE THAT THIS CAN BE DONE.

THERE IS OF COURSE NO PRESUMPTION OF GUILT.

LET ME GIVE A PARALLEL.

FOR THE ORDINARY CITIZEN, STATUTE AND COMMON LAW MAY WELL REPRESENT AN IMPENETRABLE MESH OF ^{LEGAL} DUTIES AND PROHIBITIONS.

HAPPILY, FOR MOST OF US WE CAN LIVE OUR LIVES LARGELY UNTOUCHED BY ANY OVERT ENFORCEMENT OF THOSE PROVISIONS.

SO IT WILL BE WITH THIS REGULATORY SYSTEM.

THE SYSTEM PROVIDES THE FRAMEWORK, ~~IT SETS THE PARAMETERS~~, IT WILL STATE THE DUTIES AND CONSTRAINTS AND IT PROVIDES THE POWERS TO SEE THAT THESE ARE OBSERVED.

IN PRACTICE, THE ^{BT} BOARD WILL BE FREE TO CONDUCT THEIR AFFAIRS WITH THE MINIMUM OF INTERFERENCE AND CONTROL.

AND THE MORE COMPETITION THERE IS, THE LESS WILL BE THE NEED FOR REGULATION.

AS A DOMINANT ENTERPRISE, HOWEVER, BT MUST BE SUBJECT TO SOME CONSTRAINT ON THE PROFITS IT CAN EARN.

WE ENVISAGE THAT THE LICENSE WILL ESTABLISH A REGIME BASED ON THE CONCEPT OF A MAXIMUM REAL RATE OF RETURN ON ASSETS, WITH A SLIDING SCALE TO ENSURE INCENTIVES TO GREATER EFFICIENCY AND ENTERPRISE.

IF IN ANY YEAR THE MAXIMUM RETURN AS SO DEFINED IS EXCEEDED, THEN THERE WILL BE AN OBLIGATION ON BT TO REFUND TO CONSUMERS, THROUGH THEIR NEXT BILLS, ~~THE MAJOR PART OF~~ ^{THE MAJOR PART OF} ANY EXCESS PROFITS WHICH THEY MAY HAVE EARNED.

THERE ARE OF COURSE OTHER METHODS OF ENSURING THAT A DOMINANT ROLE IS NOT EXPLOITED, AND THE GOVERNMENT HAVE COMMISSIONED ^{STEVEN} PROFESSOR ~~LITTLECHILD~~ LITTLECHILD OF THE UNIVERSITY OF BIRMINGHAM TO REPORT ON AN ALTERNATIVE ARRANGEMENT.

PART IV OF THE BILL PROVIDES FOR THE FUTURE PRIVATISATION OF BT plc.

WHILE I ANTICIPATE THAT THE REGULATORY SYSTEM INCLUDING THE DIRECTOR GENERAL AND OFTEL WILL BE ESTABLISHED SOON AFTER THE BILL BECOMES LAW, NEITHER THE TRANSFER OF THE ASSETS AND OBLIGATIONS TO THE NEW COMPANY, NOR THE ISSUE OF SHARES TO THE PUBLIC WILL TAKE PLACE BEFORE THE NEXT GENERAL ELECTION.

WE ARE CONTENT THAT THE PUBLIC SHOULD DECIDE WHETHER OR NOT THIS IMPORTANT STEP SHOULD BE TAKEN.

THE FLOTATION IS THEREFORE, I SUSPECT, AT LEAST 18 MONTHS AHEAD. BUT I HAVE ALREADY ASKED BT TO START THE NECESSARY PREPARATIONS AND I HAVE APPOINTED MERCHANT BANKERS TO ADVISE ME.

BEFORE THE ISSUE WE SHALL OF COURSE WANT BT plc TO HAVE A PROPER CAPITAL STRUCTURE AND CLAUSES 54 TO 56 PROVIDE THE NECESSARY POWERS.

CLAUSE 58 IS IMPORTANT.

IT IS THAT CLAUSE WHICH WILL ESTABLISH, BY STATUTORY INSTRUMENT, THE MAXIMUM PROPORTION OF SHARES WHICH MAY BE OWNED BY THE SECRETARY OF STATE OR HIS NOMINEES.

TO ALLOW THE ISSUE OF MORE SHARES TO THE PUBLIC, THAT LIMIT MAY BE REDUCED BY A FURTHER ORDER; BUT ONCE REDUCED IT MAY NOT BE INCREASED.

IN OTHER WORDS, IF AFTER PRIVATISATION, A FUTURE GOVERNMENT SHOULD EVER DECIDE TO REVERSE THIS PROCESS, THEY WOULD HAVE TO COME BACK TO THE HOUSE FOR THE NECESSARY LEGISLATIVE POWERS.

SOMEHOW, MR SPEAKER I DON'T THINK THAT THAT IS GOING TO HAPPEN.

WE ALL REMEMBER HOW THE LABOUR PARTY VOWED IN 1954 THAT THEY WOULD RESTORE THE BBC'S MONOPOLY OVER BROADCASTING.

BY THE TIME THEY GOT THE CHANCE TO DO THIS, EVEN THEY REALISED IT WAS ABSURD.

SO IT WILL BE WITH BRITISH TELECOMS.

BEFORE I SIT DOWN I WANT TO DEAL WITH TWO SCARES WHICH HAVE BEEN WORRYING SOME STAFF OF BT - PENSIONS AND JOBS.

Among staff

I AM IN NO DOUBT THAT THERE IS A GREAT DEAL MORE SUPPORT FOR FREEING BT FROM TREASURY CONTROL AND GIVING THEM COMMERCIAL FREEDOM THAN WAS EVIDENT ON THE SO-CALLED DAY OF ACTION BY THE POEU.

INDEED, THE EXTENT OF THE MISREPRESENTATION BY THE POEU IN THEIR JOURNAL AND IN THEIR LEAFLETS IS A MEASURE OF THE WEAKNESS OF THE CASE THEY MAKE.

BUT AS SCARES ABOUT PENSIONS AND JOBS HAVE BEEN PUT ABOUT, THE TRUTH MUST BE RESTATED.

TAKE PENSIONS FIRST.

I HAVE ALREADY GIVEN A CLEAR ASSURANCE THAT EXISTING PENSION OBLIGATIONS WILL BE FULLY HONOURED:

THE BILL CLEARLY PROVIDES, IN CLAUSE 53(1) AND IN PARAGRAPH 12(b) OF SCHEDULE 5, FOR BT'S PENSION OBLIGATIONS TO BE HANDED ON TO THE SUCCESSOR COMPANY.

MOREOVER, THE TRUSTEES OF THE PENSION FUND ~~FOR POST OFFICE AND~~ ~~BRITISH TELECOM~~ HAVE THE DUTY OF PROVIDING PENSIONS AND HOLDING PENSION CONTRIBUTIONS IN TRUST.

THE BENEFITS PAID TO PENSIONERS ARE GOVERNED BY THE PENSION FUND TRUST DEED.

UNDER RULES ESTABLISHED BY THIS TRUST DEED BT'S PENSIONERS ARE ENTITLED TO PERIODIC INCREASES IN THEIR PENSIONS IN LINE WITH THOSE ENJOYED BY MOST CIVIL SERVANTS.

THE TRUST DEED PROHIBITS CHANGES WHICH WOULD REDUCE THE BENEFITS OF ANY PERSON ALREADY ENTITLED TO THE RECEIPT OF A PENSION.

IT WOULD NOT THEREFORE BE OPEN TO THE SUCCESSOR COMPANY, EVEN IF IT WISHED, TO REDUCE THIS ENTITLEMENT.

EXISTING EMPLOYEES ARE GENERALLY MEMBERS OF THE PENSION SCHEME BY VIRTUE OF THEIR CONTRACTS OF EMPLOYMENT.

AS THEY RETIRE, THEY BENEFIT FROM THE SCHEME'S RULES RELATING TO ITS PENSIONERS.

ANY CHANGE IN THOSE RULES IN RELATION TO EMPLOYEES RETIRING IN FUTURE WOULD REQUIRE THE AGREEMENT OF ALL THE TRUSTEES INCLUDING THOSE NOMINATED BY THE TRADE UNIONS.

AND ALL TRUSTEES ARE REQUIRED BY LAW TO ACT IN THE BEST INTERESTS OF THE TRUST BENEFICIARIES.

SO, WHILE NO-ONE CAN EVER GIVE UNCONDITIONAL GUARANTEES ABOUT THE FUTURE ANY MORE THAN IF BT WERE TO REMAIN A NATIONALISED INDUSTRY, THERE IS SUBSTANTIAL PROTECTION BOTH FOR BT'S PENSIONERS AND FOR BT'S EMPLOYEES UNDER THE TRUST ARRANGEMENTS.

THERE IS NOTHING IN THIS BILL TO CHANGE THAT PROTECTION WHEN BT IS TURNED INTO A PUBLIC LIMITED COMPANY.

I HOPE THAT THE BT UNIONS WILL THINK IT RIGHT TO GIVE AS MUCH PUBLICITY TO THOSE STATEMENTS AS THEY HAVE GIVEN TO THEIR SCARE STORIES.

THEN THERE IS THE QUESTION OF JOBS.

CERTAINLY, THERE IS AMPLE SCOPE FOR INCREASED EFFICIENCY IN BT, AS BT'S MANAGEMENT RECOGNISED WHEN THEY CALLED LAST YEAR FOR A 25 PER CENT INCREASE IN PRODUCTIVITY.

I HAVE NO DOUBT THAT, IF BT STAYED NATIONALISED WITH ALL THE CONSTRAINTS ON FINANCE AND COMMERCIAL FREEDOM, HIGH ^{ER} PRODUCTIVITY AND NEW TECHNOLOGY WOULD STEADILY REDUCE THE NUMBER OF STAFF AS FEWER PEOPLE WOULD BE REQUIRED TO MAN THE NEW EQUIPMENT.

BUT WITH THE NEW COMMERCIAL FREEDOM WHICH THIS BILL PROVIDES, AND WITH THE NEW OPPORTUNITIES WHICH FINANCIAL FREEDOM CONFERS, THERE IS ABSOLUTELY NO REASON AT ALL WHY EMPLOYMENT OPPORTUNITIES IN TELECOMMUNICATIONS SHOULD NOT EXPAND IN BRITAIN JUST AS THEY HAVE BEEN EXPANDING, FOR INSTANCE, IN THE UNITED STATES.

IF IT IS REALLY JOBS WHICH WORRY THE UNIONS, THEN LET THEM EMBRACE THIS BILL FOR IT IS THE BEST GUARANTEE OF EXPANDING JOB OPPORTUNITIES THAT THEY HAVE.

MR SPEAKER, THE CASE FOR THIS BILL IS AN OVERWHELMING ONE.

THE NEW TECHNOLOGY WHICH IS NOW AVAILABLE MEANS THAT STATE MONOPOLY IS NOW ^T ONLY UNNECESSARY; IT HAS BECOME A SIGNIFICANT BRAKE ON PROGRESS.

AT A TIME WHEN MOST OF THE WORLD IS IN RECESSION, AND WHEN NEW JOB OPPORTUNITIES ARE HARD TO IDENTIFY, IT CANNOT BE RIGHT TO KEEP THIS GROWING INDUSTRY IN THE ~~STRAIT~~^{at}-JACKET OF NATIONALISATION. ~~STRAIT-~~

THE PUBLIC ISSUES OF CABLE AND WIRELESS AND OF STANDARD ^{STC} ~~TELEPHONES AND CABLES~~ SHOWED THAT THE MARKET IS VERY READY TO FINANCE THE FAST EXPANDING WORLD OF TELECOMMUNICATIONS.

FOR SO LONG AS BT REMAINS IN THE PUBLIC SECTOR, THAT FINANCE CANNOT BE TAPPED, THAT EXPANSION CANNOT TAKE PLACE AND THOSE JOBS CANNOT BE PROVIDED.

THIS BILL WILL GIVE TO BT THE FREEDOM TO COMPETE, THE FREEDOM TO DIVERSIFY, THE FREEDOM TO EXPAND, WHICH AS A NATIONALISED INDUSTRY IT COULD NEVER HAVE.

I ASK THE HOUSE TO SUPPORT THE BILL IN THE LOBBY TONIGHT.