

CONFIDENTIAL

P.0959

PRIME MINISTER

Possible British Telecom Involvement in Purchase of International Aeradio Ltd:

E(NI)(83)4

BACKGROUND

The Ministerial Sub-Committee on Nationalised Industries (E(NI)) considered the corporate plan of British Telecom (BT) in July 1982. It was told that BT might wish to acquire International Aeradio Limited (IAL), a subsidiary of British Airways (BA) which operates mainly overseas, providing (among other things) airport communications systems. BA is divesting itself of IAL as part of the privatisation programme.

2. While not reaching a final decision, E(NI) took a hostile attitude to the possibility, on the grounds that IAL's main activities were not closely linked with BT's; and that acquisition would represent an undesirable extension of BT's activities. The Sub-Committee's view was that there was a 'very strong presumption' against agreeing to acquisition, which could be removed only by 'new and persuasive arguments' (E(NI)(82)6th Meeting, Item 1).

3. The Secretary of State for Industry wrote to the Secretary of State for Trade on 6 January forwarding a letter from Sir George Jefferson, the Chairman of BT, asking that BT should be allowed to bid for IAL, now that BT was to be privatised. Sir George said that BT would aim at a 51 per cent holding, with the balance either widely spread or perhaps in the hands of a number of minority industrial partners. The Secretary of State for Trade opposed the request on the grounds that it would make the eventual privatisation of BT more difficult because it would entail a higher purchase price; that it would divert the attention of BT's management; and that it was absurd that BA should be required to divest itself of IAL in the interests of privatisation only to find IAL bought by another nationalised industry (even though intended for privatisation).

4. The Secretary of State for Industry wrote again on 1 February, putting forward a revised proposal from BT, under which they would buy IAL in a joint

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FLAG D / venture with Racal (which manufactures radio and data communication equipment). Mr Sparrow's letter of 3 February suggests that the proposal is an improvement on the previous version; but that it is important to ensure that Racal has control of the joint venture. The Chief Secretary, FLAG E / Treasury (letter of 4 February) also supports the proposal, subject to a rather less stringent condition concerning control of the joint venture, and provided that the management of IAL supports the move and that BT's monopoly in other fields is significantly reduced. FLAG F / The Secretary of State for Trade's letter of 4 February, however, maintains his previous objections.

FLAG G 5. In his memorandum E(NI)(83)4 the Secretary of State for Industry suggests that the conditions laid down by the Chief Secretary either have been or will be met; but he rejects Mr Sparrow's suggestion that Racal should have control of the joint venture.

MAIN ISSUES

6. The issues before the Sub-Committee are as follows.

- (i) Should BT be permitted to bid for IAL at all?
- (ii) If so, what conditions should be attached to this permission?

Should BT be permitted to bid?

7. The arguments on either side are set out clearly in the correspondence. In favour of a bid:

- (a) there is said to be industrial logic in linking BT with IAL, since IAL has overseas experience, which BT have not, while BT has technical expertise and 'clout';
- (b) more precisely, 'clout' presumably means that a good many potential customers of IAL welcome the involvement of public utilities in the contracts they wish to let (they may indeed also want a Government or public sector stake - this is an argument which has been advanced with some force in the context of Cable and Wireless Ltd);

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(c) It would demonstrate to BT's staff that privatisation can bring new opportunities.

8. On the other side:

(d) it would divert BT's management efforts;

(e) for this reason and others it might make privatising BT more difficult;

(f) it would be odd if an exercise intended to reduce the size of the public sector led to IAL's being transferred from one nationalised industry to another (or from one candidate for privatisation to another);

(g) to the extent that the arguments about 'clout' depend on BT's being a public sector body (or at least having a Government stake) they go against the aims of privatisation.

Conditions

9. It seems likely that if the Sub-Committee are willing to accept that BT should be allowed to bid for IAL at all, they will insist that it should be on conditions such as those suggested by Mr Sparrow and the Chief Secretary. They may also wish to explore whether it would be possible to strengthen the involvement of Racal, for example by insisting that the bid should be submitted by Racal as leader (though naturally with BT's support) and that Racal should have control at all stages.

HANDLING

10. You will wish to ask the Secretary of State for Industry to open the discussion. The Secretary of State for Trade, the Chief Secretary, Treasury and Mr Sparrow could then be asked to develop the points that they have made in the correspondence. Any of the other members of the Sub-Committee may wish to contribute.



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CONCLUSIONS

11. You will wish the Sub-Committee to decide whether BT should be allowed to make a bid with Racal for IAL; and if so, on what conditions.

As

P L GREGSON
Cabinet Office.
8 February 1983

for E(N1) review

CONFIDENTIAL

Prime Minister

ms 8/2

PRIME MINISTER

BRITISH TELECOM RACAL AND INTERNATIONAL AERADIO LIMITED

The proposal that a joint BT/Racal bid for 100% of IAL be approved, should depend critically upon the issue of control. The suggested arrangement of a fifty-fifty split between BT and Racal raises many questions. In principle, neither would have control. But since Racal was quite willing to go ahead without control yet up to, say, 49% participation, is itself an interesting observation on how both Racal and BT construe their interests. Indeed it looks very much as though, from Sir George Jefferson's letter of 28 January, as though Racal is in it mainly for the protection of BT as "big brother" not merely in overseas markets but also in domestic developments.

But whether or not these suspicions are justified, I can see no argument against John Sparrow's point that one company should have control. With fifty-fifty arrangements there are likely to be many doubts about the question of who is the ultimate arbiter of the policy of IAL. Certainly before BT is completely privatised, it would be a mistake to put control in the hands of BT and allow them to build up on their existing advantages. Therefore I think it is right that Racal should have the controlling interest. If subsequent to privatisation of BT, they feel that it is in their market interest to acquire a controlling share of IAL, then so be it. It's up to them. Their shareholders will pay the price for any mistake then involved.

At present I cannot see why a minority interest by BT would inhibit the sort of joint ventures in overseas markets which Sir George Jefferson outlined in his letter. If there is a mutuality of interests and a dovetailing of expertise, then it clearly cannot be a critical matter to have a fifty-fifty ownership basis. Indeed most joint operations, so far as I am aware, do not have any such equal split.

I conclude, therefore, that in addition to conditions (ii) and (iii) suggested by the Chief Secretary, you also insist on the controlling interest being taken by Racal. Until BT is effectively privatised, the control should not be allowed to pass into the hands of BT.

AW

8 February 1983

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ALAN WALTERS



From the Secretary of State

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
London
SW1

4 February 1983

Dear Patrick,

IAL

with PM
Thank you for your letter of 1 February.

I have very considerable reservations about the suggested joint bid by British Telecom and Racal which smacks to me too much of an attempt to sidestep E(NI)'s decision not to allow British Telecom to bid for IAL. The more so because Sir Ernest Harrison admitted that Racal had considered making a bid themselves but had decided not to do so. Nor did I find the reasons he gave for the joint venture approach at all convincing. The advantages he claimed would flow from collaboration with British Telecom could just as easily have been obtained if Racal themselves had bought IAL. Indeed one was left with the impression that the motivation was much more one of giving British Telecom the opportunity of expanding overseas.

The joint bid therefore leaves me with the same fundamental reservation that I - and indeed most of our colleagues - had about the original bid, namely that it would be diverting British Telecom from the most important task of all, namely pulling its own socks up prior to privatisation.

I have read John Sparrow's letter of 3 February. I find it sits very oddly with what was said in the recent CPRS paper on State Monopolies. But were the bid to be allowed to go ahead it would certainly be essential that it should be subject to stringent conditions of the kind he suggests. There might well be other conditions

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From the Secretary of State

that needed to be imposed as well, as indeed Leon Brittan indicates in his letter of 4 February.

We are already concerned about the delay in disposal of IAL. We need the proceeds by 31 March. We will need therefore to continue to process other bids and we could not hold up a decision once that point is reached pending settlement of this particular proposal.

I would think that as we are effectively considering reversing a decision taken by E(NI) the issue ought now to go back to that Committee.

I am sending copies of this letter to the members of E(NI), Sir Robert Armstrong, and to John Sparrow.

A handwritten signature in black ink, appearing to read 'Lord Cockfield', with a long horizontal stroke extending to the right.

LORD COCKFIELD

CONFIDENTIAL

24 JAN 1983





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

4 February 1983

Sec Secretary of State

SALE OF INTERNATIONAL AIR RADIO

Thank you for sending me a copy of your letter of 1 February to Arthur Cockfield together with a copy of Sir George Jefferson's letter to you of 28 January containing a fresh proposal that BT should buy only 50% of IAL the other half being acquired by Racal.

This is certainly an improvement on the previous proposal whereby BT acquired at least 51%, the balance being either widely spread or spread among a number of minority industrial partners. It hangs together better in commercial and industrial terms. I would be ready to agree to it provided that:

- (i) control is genuinely shared ie. there is nothing in the arrangement with Racal which gives or would if invoked give BT ultimate control over IAL;
- (ii) it is clear that the IAL management support the move as in the best interests of the company - obviously it would be extremely difficult for the Government to defend, if they did not;
- (iii) we are able to agree in the next few days moves which represent "a significant opening up of the BT monopoly" - this seems to me an important part of the bargain with BT and they should not be left in any doubt that our willingness to allow them to expand their horizons is dependent on it. The Government's position must surely be that BT cannot be allowed to expand and diversify on the basis of monopoly profits.

I am copying this letter to Arthur Cockfield and to other members of E(NI), and to Sir Robert Armstrong and John Sparrow.

yours sincerely

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Approved by the Chief Secretary & signed in his absence
LEON BRITTON

4 FEB 1983





CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow
CONFIDENTIAL

Qa 06247

3 February 1983

The Rt Hon Lord Cockfield
Department of Trade
1 Victoria Street
S W 1

Dear Arthur,

International Aeradio Limited

I have seen Patrick Jenkin's letter to you of 1 February, and the earlier correspondence. Having been unenthusiastic about BT's initial request to bid for 100 per cent of IAL, I find the present proposal that they should be permitted to bid jointly with Racal more attractive.

Sir George Jefferson has put forward in his letter of 28 January and in his earlier letter of 17 December some persuasive commercial reasons for BT to have an interest in IAL. The main reasons advanced against the initial request from BT (i.e. division of BT management, transfer of IAL from one public sector owner to another) to a large extent fall away under this new proposal for a joint venture with Racal. However, I think it is important that in addition Racal should assume control of the Board of IAL, for example, by having the exclusive power to appoint the Chairman. This would have the following advantages:

- (a) it would be clear that IAL was passing out of the public sector, regardless of the planned privatisation of BT at a later date;
- (b) a dispute over policy or management issues would in the last resort be capable of being settled within IAL (often 50/50 joint ventures experience problems because no one has the final say);
- (c) BT would not control IAL and therefore the extension of its monopoly would be limited.

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I therefore suggest that you should permit Racal and BT to make a joint bid for IAL, provided that the terms are structured in such a way that Racal has control of the joint venture if the bid is successful.

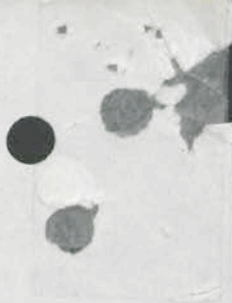
I am sending copies of this letter to the Prime Minister, the other members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

John.

John Sparrow

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future of the
Post Office, #6



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JF2579

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

1 February 1983

The Rt Hon Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1H 0ET

Prime Minister (2)

To see X

MUS 1/2

Dear Arthur,

You and Leon Brittan wrote to me on 11 and 12 January respectively with comments on my proposal that British Telecom (BT) be allowed to bid for International Airadio Ltd (IAL). Notwithstanding my views, you both felt that the balance of arguments lay against the proposal, for reasons including the differences in nature between the two enterprises, the fact that the acquisition would make BT still bigger and so more difficult to sell, and of course the fact that the acquisition would at least for the time being have left IAL within the public sector. I understand these arguments, but I do not entirely accept the conclusion you both draw from them. I would in particular not agree that BT's management, if a BT bid were successful, would be unacceptably diverted from its main task, given the strength of IAL's existing management team.

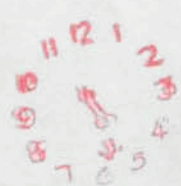
2 The situation, as you will know, has now changed in that BT want to make a joint bid with Racal. I attach a copy of a letter from Sir George Jefferson dated 28 January asking "in the next two or three days" for authority to make a bid. I should like to give him that authority. I expect to put proposals to E(TP) very shortly involving a significant opening up of BT's monopoly and an element of regulation in the interests of the consumer that BT will find unpalatable: permitting BT and Racal to make this bid would give BT's top management the spur and encouragement they need to continue to work vigorously to make this the really successful example of privatisation we all want. I do hope that on reflection you and colleagues can agree. One feature of the proposal in its present form is of course that it would take IAL out of the public sector.

3 I am copying this letter and enclosure to the members of E(NI), Sir Robert Armstrong and John Sparrow.

Yours
Patel

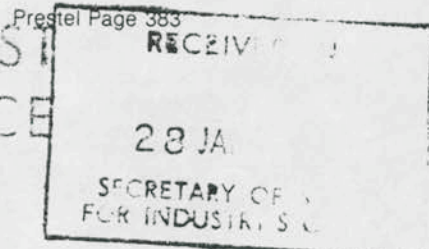
Post e Tels.
Future of the
Post Office, No. 6.

1 FEB 1983



from the Chairman
Sir George Jefferson CBE

IN STRICTEST
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The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

TO: Mr Shap	COPIES TO
FOR: Mr Shap	PS/KB
FOR: Mr Shap	PS/LB
FOR: Mr Shap	PS/Sec
FOR: Mr Shap	Mr Croft
FOR: Mr Shap	Mr Solomon
FOR: Mr Shap	Mr Ellison

28 January 1983

Dear Patrick

IAL

Following our discussion yesterday, I said I would let you have an outline of our current thinking on the possibility of a joint purchase, with Racal, of IAL, and the industrial logic which we believe underlies it.

In my letter to you of 17 December I set out, in broad terms, the reasons for believing that a British Telecom purchase of IAL would make good sense for both companies. A copy of my letter is attached for ease of reference.

I believe that a joint purchase with Racal would potentially increase those benefits, while at the same time remove some of the objections to the original proposal.

Let me first set out the kind of arrangement which Racal and ourselves envisage, subject to closer study and discussion between us. We have in mind a joint 50/50 ownership. However, I should stress that we would wish to keep IAL together, as a separate operating subsidiary, and specifically not break it up and merge the different parts in our own businesses.

However, it may well be that the balance of IAL's current activities is ready for change. Although they have hitherto operated predominantly in the aviation market, their communications activities, although still of lesser importance, have now begun to develop significantly. Moreover, their profits from the aviation business are declining in real terms. Given, inter alia, the difficulties of the aviation market, I believe that the present management of IAL would support the view that that company will need to develop much more into the telecommunications and related markets if it is to grow and maintain profitability. An association with the expertise, experience and resources of two companies like British

/Telecom

IN STRICTEST COMMERCIAL CONFIDENCE

- 2 -

Telecom and Racal - the former with its recognised skill in telecommunications technology, the latter with its management and financial skills and entrepreneurial drive - would greatly aid IAL through what might otherwise be a difficult transitional period, and help it to develop in new fields. I know that Sir John King would endorse the industrial logic of that approach.

Racal and British Telecom themselves have largely complementary skills. British Telecom in research, developing and operating telecommunications systems - but largely within the UK. Racal is a world leader in the supply of radio and data communication equipment, and over 72% of its sales are to overseas countries. IAL's particular ability is the operation of electronics systems in overseas countries.

One of the most important developments in telecommunications is cellular radio. In the United Kingdom, Racal has been chosen by the Government as the operator of a second radiotelephone system, in competition with a British Telecom-Securicor consortium. Cellular radio has, however, immense potential beyond the relatively narrow field of the car-phone services currently in question. It is likely to be of increasing significance in the development of local, as well as national, communications, particularly in rural areas.

The combined abilities of British Telecom and Racal, using IAL as an operating company in overseas countries, could give the UK an opportunity to become a world force in the development of cellular radio. It is difficult to see in what other way, or by what other means, the UK can establish a significant foothold in this developing market. IAL's presence, and experience of establishing operations, in overseas countries would be particularly valuable in this context, since it would short-circuit the need for Racal or British Telecom to develop this expertise.

Another area in which the combination of skills offered by Racal, British Telecom and IAL could be of great benefit to the UK is the development and operation of cable systems in overseas markets. Racal is likely to become more active in this field in the UK and, through the Racal Oak company, in the USA. IAL could greatly benefit in this field from a combination of Racal's and British Telecom's expertise.

We would of course, compete vigorously in the cellular radio market in the UK. I do not think this is in any way incompatible with co-operation in overseas markets, particularly as we are both being required to adopt the same technical system. We will therefore essentially be competing for market share through tariffing and marketing initiatives, rather than through any fundamental difference in the type of service being offered. There are plenty of examples of competitors in domestic markets co-operating,

/for the

IN STRICTEST COMMERCIAL CONFIDENCE


- 3 -

for the sake of the UK, in overseas countries. Moreover, in our case, the use of a separate entity - IAL - for our co-operation in overseas markets would enable us to maintain separation in the domestic market and ensure that a cosy relationship did not develop there.

These are necessarily initial thoughts. We will clearly need to have much more detailed discussions, and a much closer examination of IAL's books. We believe, however, that the arrangements which I have outlined in this letter provide a basis for an arrangement of great potential benefit to the parties concerned, and to the UK. If we are to proceed, it is now of the greatest urgency that we should be given the authority to do so in the next two or three days.

Sir Ernest Harrison has seen this letter, and fully endorses the content.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'George', with a large, sweeping flourish underneath.

SIR GEORGE JEFFERSON



Post & telecomm

Prime Minister

(2)

Both Lord Cockfield

and Mr Brittan are

Treasury Chambers, Parliament Street, SW1P 3AG

against allowing

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

BT to buy IAL.

Ms 15/1

12 January 1983

2 Pages

SALE OF INTERNATIONAL AIR RADIO

in Box

Thank you for sending me a copy of your letter to Arthur Cockfield of 6 January reopening the case for BT being allowed to buy IAL.

It seems to me that with a company as diverse as IAL industrial logic will probably support most of the bids for it. I would myself be wary about BT being allowed to swallow every company it takes a fancy to. Like AT & T it is only at the very beginning of getting away from its philosophy of "one company, one policy, universal service". A company as centralised and monolithic as BT currently is, is hardly likely to provide the best conditions for the diversity and enterprise of an IAL to flourish in.

Meanwhile the priority is for BT's management to concentrate on getting its own house in order, and, as we discussed recently at E(NI), this is going to take all the time it has.

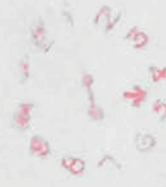
I have no doubt that BT has and will continue to have the cash with which to outbid everyone else in this sort of instance but that does not take away from the fact that there will be no public expenditure benefit from a sale by BA to BT. More importantly, IAL, which clearly ought to be detached from the financial problems of its parent and free to compete in the private sector would have to remain in the public at least until after the next General Election.

For all these reasons I believe it would be wrong to reverse the view already taken against allowing BT or any other public sector body to bid for IAL.

LEON BRITAN

Post & Tels, Future of the Post Office, Pt 6

17 JAN 1983



*Prime Minister**From the Secretary of State*

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

*Lord Cockfield argues
against Patrick Jenkin's
suggestion that BT should be
allowed to bid for International
Aeradio.*

11th January 1983*Dear Patrick,*

INTERNATIONAL AERADIO

You wrote to me on ^{7th} 6 January suggesting that British Telecom (BT) should, after all, be allowed to bid for International Aeradio (IAL). I still do not feel that we should allow such a bid to be made.

I would not think it right to extend the frontiers and activities of a nationalised industry, even though it was the firm intention to privatise that industry in due course. Even assuming that no delay occurred in the plans to privatise BT - and there are many precedents to the contrary - I would have thought that by increasing the "ante" it would make privatisation more difficult: and that ownership of IAL would divert the attention of BT's top management at a time when they need to concentrate every effort in putting their own house in order as a prelude to privatisation.

Additionally, it does seem to me to be inherently absurd that BA should be expected to divest themselves of IAL as part of the process of privatisation, only to find IAL snapped up by another nationalised industry on the argument that it is consistent with privatisation of that organisation.

The effect on the EFL is primarily a matter for the Treasury, although it could be argued that BT ought never to have been allowed so big an EFL in the first place. Here again it seems to me to be a bizarre situation that BA should be selling IAL to avoid their having to ask for an inflated EFL, whilst BT should then be permitted to buy IAL because they were given an inflated EFL. This seems to me

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From the Secretary of State

to place the quirks of book-keeping in a position of eminence they do not deserve.

I am copying this to recipients of your own letter.

Yours,
Arthur

LORD COCKFIELD

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Post & Telecomms.

Future of

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Prime Minister (2)
ms 7/1



JF2359

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

January 1983

The Rt Hon Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1H 0ET

Dear Arthur,

I attach a self-explanatory letter from Sir George Jefferson
about International Air Radio.

2 You will remember that when this was discussed in E(NI) last July the matter was not finally concluded against BT but it was left that if BT could make an overwhelming case for buying IAR they would come back to Ministers at a later stage. Since then, we have introduced the Bill to privatize BT and the legislation is currently in Standing Committee. You will know that it is our intention, as soon as possible after the next election, to offer shares in BT to the public with the intention that the Government's holding should become a minority one. While the decision to privatize BT was taken shortly before the E(NI) discussion on IAR, progress with the legislation since then seems to me to put BT's interest in IAR in a more clearly private sector context and although I realize it is somewhat late in the day, I would hope very much that you would be able to let BT have the prospectus and make a bid which would be considered along with the others you are receiving.

3 For me, a purchase by BT would make a good deal of industrial logic. It could be used as a lever to force more competition both internationally and internally on BT, something that we are all very anxious to see. It is also worth pointing out that an acquisition by BT this year would help to reduce the large BT undershoot on their EFL though I would not regard this last point as a major argument in their favour.



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4 I am copying this letter to the members of E(NI) and Sir Robert Armstrong.

You ever

*2
fatal*

from the Chairman
Sir George Jefferson CBEIN STRICTEST
CONFIDENCE

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

Previous papers sec-ICB 93 1982

<i>Mr Wimbett</i>	COPIES TO
	PS/Mms
	PS/Sec
	Mr Sterling
	Mr Croft
	Mr Gell
	Mr Solomon
	Mr Sharp

6/1/83

17 December 1982

*Dear Patrick,*INTERNATIONAL AIR RADIO

I wrote to you in June this year expressing the interest of BT in having an opportunity to consider a bid to acquire International Air Radio, as a positive step towards the development of our ability to operate in an international telecommunications business environment.

The eventual outcome was that I was advised by Warburgs that they were not authorised to supply information to us, as the policy of the Government would not permit a sale to a public sector corporation. I did not wish to burden you with further pressure on this issue and I have therefore let the matter lie.

However, it is my understanding that various matters have complicated and delayed the issue of prospectus document until the New Year, and in the meantime the Government has confirmed its intention to privatise BT and currently has legislation before Parliament to give the necessary powers to effect that change.

It is against this background that I am raising this issue once more, since I believe that a BT acquisition of IAL would make considerable industrial logic for both companies.

BT has immense resources of skill and experience in Telecommunications, runs an international consultancy, and of course has major international communications links with every country in the world; however, it has little experience of operating and managing contracts within overseas countries. We believe that, given the right resources, considerable potential exists to develop business based on the design, installation and operation of systems overseas, thus not only selling services abroad, but also facilitating the sale of British telecommunication equipment and other British equipment in those markets. This would be

/similar to the

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similar to the kind of operations performed so successfully by British Aerospace in their field, and of which, as you know, I have considerable experience.

IAL, for their part, have the kind of overseas skills and experience which BT lacks, but do not have the technical and expertise and clout to back them in the field of telecommunications; and I believe it would be counter-productive for them to be closely associated with any individual supplier.

I am confident it is not only my view that a union with BT would make industrial sense; it is also Jim Utterson's and I am writing to you at this time with his knowledge and, I believe, encouragement.

It might be helpful if I were to give some idea of the practical arrangements we would have in mind.

We would not wish to absorb IAL into BT, since that would be counter-productive. Rather, we would see it as a subsidiary company, with BT probably having an ultimate holding of 51%, the balance either widely spread, or perhaps with a number of minority industrial partners - depending on the views of IAL itself and of course the interest of others.

Whilst it could be argued that it would be more logical, in some respects, for such an acquisition to take place after privatisation, there are not in practice many opportunities of the kind presented by the sale of IAL, and one has to take these when they arise.

Should the Government wish, it could make it a condition of our acquisition that in the event of BT not being privatised, for whatever reason, the Government would have the option - after say five years - of requiring BT to divest itself of the company.

You will recall that in my letter of 22 June, I referred to the fact that IAL handle a number of important and politically sensitive contracts in Saudi Arabia, associated with the MOD.

I think it highly possible that the Saudi Government and other such customers would strongly prefer BT ownership to some other possible purchasers, and it is possible that this would be a helpful factor both to IAL and to MOD sales.

As a final point, you are aware that there are many people within BT who feel that privatisation is likely to lead to its decline and deterioration. Clearly, it is the Government's intention to introduce competition within the UK in most of the profitable areas of BT's activities. In leading this organisation through these turbulent times, I need to convince our staff, as intelligent people, that

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/privatisation

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- 3 -

privatisation will open new doors for BT to develop new markets for its telecommunications skills. Were the Board free - if it so decided - to seek to acquire IAL, it would give tangible evidence to counter some of the fears expressed by many staff and Unions at this time.

Naturally, if we received the go-ahead from you, the Board would wish to consider the case for acquiring IAL much more closely than has hitherto been possible. However, I believe that such an acquisition would be very likely to lead to a significant development of the UK's strength in the international telecommunications market.

May I therefore renew my plea that BT be permitted to examine the prospectus documents and, should it then so decide, submit, in consultation with your Department, a bid for IAL?

Yours sincerely

George

Post e Tels. Future of the Post Office, 1882, p. 6