NBPM

SC N.O

PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

MCS 1/9

31 August 1983

Dear Cecil,

TELECOMMUNICATIONS BILL TIMETABLE

Thank you for your letter of 2 August in which you sought my preliminary views on your suggested timetable for the progress of the Telecommunications Bill.

I fully appreciate your anxiety to have the Office of Telecommunications established by 1 July 1984 and I agree that we should aim for enactment of the Bill in time to meet this deadline. Pending the return of Parliament, however, I do not think it would be helpful to speculate about the best way to achieve our target. As you say, we shall need to weigh the attitude of the new Opposition team once they are appointed and I think the right course would be for me to let you have my considered views once John Wakeham has held some initial discussions through the usual channels. As far as the Committee Stage is concerned, this will commence on 25 October and thus an early start is assured once the House returns.

One further thought which occurs to me is that, if the timetable should at any point appear difficult to achieve, we should look critically at the need to allow a two month interval between receipt of Royal Assent and the Bill's entry into force. This might be shortened considerably in view of the fact that the Bill's provisions are already well understood by those principally affected. I imagine that criticism of such a change might well be avoided if HMSO were able to ensure rapid availability of prints of the final Act after receipt of Royal Assent.

/You also drew...

The Rt Hon Cecil Parkinson MP
Secretary of State
Department of Trade and Industry

You also drew to my attention the attitude which the Post Office Engineers Union might adopt in the light of progress on the Telecommunications Bill. I should be grateful if you would keep me in touch with developments in this area as the Union's views may well influence the Opposition's approach to the handling of the Bill.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, Norman Tebbitt and John Wakeham.

Yours

John Biffen

JOHN BIFFEN

cc [illegible]

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2 August 1983

JU273

Secretary of State for Trade & Industry
Rt Hon John Biffen MP
Lord Privy Seal
House of Commons
London SW1A 0AA

JB 3/8

Dear John,

TELECOMMUNICATIONS BILL TIMETABLE

Last week's Second Reading debate on the Telecommunications Bill confirmed that we shall again be faced with considerable opposition when the Bill goes into Committee. I think we are likely to face major timetable difficulties in achieving our objective of flotation for British Telecom in the Autumn of 1984.

According to our merchant bank advisers one of the essential pre-conditions for ensuring a successful flotation at that time is the establishment of the new regulatory authority - the Office of Telecommunications - by at the latest 1 July 1984 so that the City will have time to see the regulatory body in operation before taking the relevant investment decisions. Our advisers say that three months is the very minimum required for this. Allowing for the conventional two months' delay before the Act takes effect this points to having the Bill on the statute book by Easter 1984. The attached hypothetical programme shows how that deadline might be met. It represents a tight, but not impossibly tight, timetable, which I think we should make every endeavour to achieve.

As far as the Committee Stage in the House of Commons is concerned, I believe it essential that the Committee sits in the afternoons straight away from 25 October. If they do so, there would be 5½ hours debate each sitting day, rising at 7.30pm, except for the first and last days. This would mean 71 hours of debate if the Committee reports on 8 December.

I very much hope that it will be possible for Kenneth Baker to reach agreement with the Opposition at an early stage of the Committee about the progress that is to be made, and that we shall be able to meet the suggested timetable without having to resort to a guillotine.

The Opposition spokesmen will initially be the same as on the previous Committee, as the Labour Party will by then not have elected their new spokesmen. This in itself presents problems since they are likely to be reluctant to commit their successors to any timetable and their successors may not themselves be keen to agree anything. If a voluntary agreement cannot be reached, however, my own inclination is to impose a timetable quickly so that we can have a balanced and orderly discussion of what is by any standards a long and complex measure which has of course been considered at great length before. We should not take risks with anything of such financial importance as the BT flotation. One aspect of this I must mention, however, is that the Post Office Engineers Union may react strongly to an imposed timetable, possibly with strike action. This is uncertain at present, but we will have a better idea after their special conference on privatisation on 18 September.

I should be grateful for your preliminary reaction to such a proposal.

I am sending a copy of this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, Norman Tebbit and John Wakeham.

Yours ever,

Cecil

CONFIDENTIAL

25 October	cc House of Commons Committee Stage begins
<u>week beginning</u>	
8 December:	House of Commons Committee Stage completed (This allows for 14 sitting days - 71 hours in total).
(two weekends' gap)	
19 December	Report and Third Reading - the House of Commons
23 January	House of Lords - Second Reading
2 April	House of Lords - Third Reading
9 April	House of Commons - Consideration of Lords Amendments
18 April	Royal Assent

MA5/MA5AAO

Post + Telecom. Future
Pt 7

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26th July, 1983

Dear Cecil,

Thank you for your letter of 5th July, 1983 about Telecommunications.

I am sorry you have determined to keep the old Bill to all intents and purposes intact, and to carry forward its substantial shortcomings in the new legislation.

With regard to your fourth paragraph, the case for placing exceptional restrictions on BT's activities is the reflection of the simple and indisputable fact that its position in the market is exceptional. It constitutes an overwhelming monopoly, and the rights of monopolies must be restricted to protect the rights of others.

Your proposition that BT could conceivably be compared with ATT lends a new dimension to the argument, since I have not previously heard advanced any official support for the notion that BT should become a manufacturer. Apart from the fact that BT has no manufacturing experience, its position as a monopoly buyer of equipment for the

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main switching system would place it in a position to wipe out the existing manufacturers of main telephone exchange and transmission equipment. It also gives credibility to the persistent rumour that BT is negotiating a licence from L M Ericsson. This seems to be a threat which the industry must take seriously, especially since BT has now told its UK suppliers of enhanced demand for switching equipment which it proposes to buy from LME on the pretext (false) that Plessey and GEC will be unable to meet the requirement.

Whatever the past shortcomings of the UK manufacturers, BT bears a heavy burden of blame for the way in which they have exercised the dominance, technical and commercial, to which they have clung for decades, and for forcing on the equipment makers one incompetent decision after another. That there is a wind of change now blowing in BT is no doubt a good thing, but there is no evidence as yet of any substantial improvement in the extremely low level of its operating efficiency.

I am glad that you at least agree that BT should not be able to compete unfairly in the UK apparatus market, but I believe it is inherently impossible to achieve this objective on the terms proposed in the Bill.

/.......

Our principal fear about the new style BT concerns the supply of terminal equipment, or subscriber's apparatus, where it is HMG's stated purpose to seek to improve the products and services available to customers through the stimulus of competition.

Despite the British Telecomm's Act of 1981, 95 per cent plus of this market is presently held by BT. When BT plc starts up, you are beyond all shadow of doubt creating a private monopoly in place of a public one. More than this, and uniquely, this monopoly will be the principal customer of most of its potential main UK competitors. Whether effective competition can ever become remotely possible depends on the terms of the licence and the attitude of BT with regard to its monopoly; we have had no grounds for reassurance here.

Even with the restraints that DoI have tried to apply from time to time, the way in which BT has recently been going on has given us good cause to be apprehensive. Some abuses of this sort will fade out of their own volition. As to the rest, and others not yet envisaged, the licence will be the only long term protection. Our experience of BT's attitudes, on the one hand, and the speed of technological change on the other, indicate the necessity

/.......

for an impossible degree of omniscience in a licence drafted in 1983 capable of coping with all future developments. But, and this is the most critical thing, even if the licence were perfect, the fact that BT will continue to control the fortunes of its major UK suppliers will enable it to apply irresistible pressures on the potential British competitors. No licence and no attempt at elimination of "cross-subsidies" can alter this. BT is doing pretty well at stifling competition, and there is every reason to believe that they will continue unremittingly to apply this pressure. Only our foreign competitors operating in the newly liberalised UK market cannot be so coerced by BT, on whose orders they are not dependent.

This is the principal reason why I suggested that BTE and the National Network should be constituted under separate ownership; there is no other obvious chance that UK suppliers will be able to compete on an equal basis, although starting with a competitor holding 95 per cent of the market is an odd sort of equality anyway.

I am grateful for your offer of consultation on the terms of the licence, which we will of course take

/.......

up. But it does little to quieten my considerable anxiety that the Government is set upon an imprudent course, the end of which it does not clearly foresee, one which, since its consequences will turn out to be seriously adverse to an important part of the telecommunications and electronics industry, will involve increasing hostility from those who will be the principal sufferers, and one which will, sooner or later, demand substantial amendment.

Lord Weinstock

The Rt. Hon. Cecil Parkinson, MP.,
Secretary of State.
Department of Trade & Industry,
Ashdown House,
123, Victoria Street,
LONDON, SW1E 6RB.

CONFIDENTIAL

Ref. No: IN (83) 9
13.7.83

Telecommunications Bill

2nd Reading

Monday 18th July 1983

Contents

Conservative Research Department,
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Enquiries on this brief to:
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This bill is substantially the same as the Telecommunications Bill which lapsed at the dissolution of the last Parliament. Significant new amendments are mentioned in the appropriate sections below.

PURPOSE OF THE BILL

Information Technology (IT) is a rapidly growing and rapidly developing sector of the economy. Its development demands access to a modern telecommunications network. The Government is determined that:

* the telecommunications supply industry should not be held back unnecessarily in responding to expanding IT markets;

* that BT should be free to participate on equal terms with private sector companies in this expansion;

* that BT's customers should be relieved of the need to finance investment through charges, where this could be done by the markets;

* that BT's customers should benefit from free and fair competition in the supply of telecommunications services.

Already, telecommunications is being liberalised. Arrangements are being made for users to have a choice:

- of network - Mercury and the private sector radio telephone companies will give business and some other users a choice of telephone company for their calls;

- of services - users will have a choice of company when they want a service provided over the telephone;

- of apparatus - users will have the choice of whether to buy or rent most of their telecommunications apparatus, from BT or other suppliers.

The present Bill will take the process of liberalisation to its logical conclusion.

PROVISIONS OF THE BILL

Ownership
BT will be changed from a nationalised industry to a public limited company, BT plc. All its existing assets and liabilities will be transferred to the successor company. In Autumn 1984 the Government plans to sell 51% of its shares.

Monopoly
The present exclusive privilege of BT to run the telecommunications system will end. BT and the other operators will run under licences issued by the Secretary of State, and BT will no longer have powers to license other operators. One rival, Mercury, has already been licensed under the British Telecommunications Act, 1981, and expects to begin operating soon.

License Provisions
BT's licence will contain safeguards to prevent the company from abusing the monopoly that it is likely to enjoy in the provision of most telephone services before competition develops. These safeguards have been strengthened by the Government's acceptance of the main proposals of the Littlechild Report, which examined ways of curbing

BT's monopoly after privatisation. These were announced in the House by Mr. Kenneth Baker, Minister for Information Technology on 7th February. The main points are:

a) BT will have a duty to provide a telephone service throughout the country. Rural areas need not fear being deprived of their service. At the moment BT thinks (its accounts are drawn up in such a way that it cannot be sure) that the rural services, which are easier and simpler to run than their urban counterparts, are profitable. Should this cease to be the case the services will be safeguarded by the income BT will derive from the access fees it will charge Mercury, the radio-telephone networks, and Hull for the right to interconnect with its system.

b) Income from the access fee will also be used to run the 999 emergency service, which is free, and the call box service. BT acknowledges that it loses about £80 million on the latter. BT will have a duty, imposed by the licence, to maintain these 'social services'.

c) BT will be obliged to keep price increases for installation charges, domestic rentals and local calls to a figure fixed below the Retail Price Index for five years. This will ensure a continuing reduction in the real cost of telephone services to the consumer, and a spur to continuing improvements in BT's efficiency. These regulations will be policed by OFTEL, the new Office of Telecommunications that is being set up to monitor BT.

d) BT will lose its present monopoly of the first telephone in each home or business. Customers who have standard sockets will be free to purchase or rent their phone from the supplier they choose.

e) Mercury, the private telecommunications service that the Government has licensed to compete with BT, will have the right to interconnect with BT (see above), as will any other competitors.

f) The maintenance of new equipment will be opened to competition by the Department of Industry. BT will be able to offer its own service, on a fair commercial basis.

g) The Bill also provides for the Telegraph Acts, most of which date from the nineteenth century, to be replaced by a new Telecommunication Code, which will provide for telecommunication operators to be authorised to install their plant in private land, streets etc. The Code has been drafted so as to make sure that no person should unreasonably be denied access to a telecommunications system because of difficulties in connecting his home or business to a public telecommunications system.

h) The Bill also seeks to amend some provisions in the Wireless Telegraphy Acts.

Cable TV

The new Bill contains a new section, Part 1V, which updates and replaces the existing provisions in The Post Office Act, 1969. on the licensing of cable TV services. These new licensing arrangements are an interim measure as it is likely that responsibility for this will eventually pass to the new Cable Authority. It is necessary to amend the Post Office Act in advance of the Cable Bill in order to remove BT's present exemption from licensing, and thereby fulfill the Government's intention of placing BT on an equal footing with its competitors.

BT RESULTS

	1978-9	1979-80	1980-1*	1981-2
Turnover £m	3,243.9	3,558.9	4,554.2	5,708.1
Profit/(loss) £m	336.4	129.1	123.9	457.8
Capital requirement £m	1,045.8	1,352.1	985.0	1,837.6
Self-financing ratio	106.1	79.2	111.9	88.8
Capital employed £m	11,995.1	13,540.1	14,574.6	15,285.4
Return on capital employed at replacement cost:				
Target %	6.0	5.0	5.0	5.0
Achievement %	6.9	4.6	4.4	6.5
Tariff index (1970 = 100) adjusted for inflation	82.6	74.0	76.8	82.5

*Accounting policies were modified in 1981, so some figures are not strictly comparable.
The results and accounts for 1982-3 are due out on Wednesday July 20th.

The Corporation reduced its real unit costs by an average of 2.9% pa in the four years 1978-9 to 1981-2, and the figure in 1981-2 was 2.1% below that in 1980-1. The target set in 1978 (currently under review) was a reduction of 5% pa. over the five years 1978-9 to 1982-3.

CAPITAL PLANS

The target real rate of return for 1982-3 and 1983-4 is 5½%. The EFL for 1982-3 has been revised to £310 million, and capital expenditure in 1982-3 will be £1.59 billion. The EFL for 1983-4 has been set at minus £100 million. BT's capital expenditure programme for 1983-4 will be substantially less at £1.72 billion than was earlier expected - partly because the recession has reduced the demand but also because BT has been able to negotiate lower contract prices and pay settlements.

POINTS TO MAKE

Rural Areas

1. Rural Services will not be rundown. BT will have a duty, enforced by OFTEL (see below) to provide a universal service. Anyone who has or wants a telephone will be able to get it. In the new Bill Clause 3 which incorporates this duty, has been redrafted to make it clearer that the requirements to safeguard the rural and other socially necessary services which the bill places on the Secretary of State and the Director General of Telecommunications are statutory duties.

2. Charges for Rural Services. BT indicates that the rural services are probably profitable. If they fo make a loss they will be financed by the access fees, in the same way as the call box and 999 services. At present BT have a standard rate for rentals and local calls throughout the country, and after privatisation BT will be prohibited by its licence from unfairly discriminating against rural customers.

3. Installation Charges. At present BT charges £70 for a domestic connection, and there is no extra charge for the first 100 hours of work needed. Last year only 0.1% of all installations required more than this. The Bill strengthens the hand of the potential rural customer by allowing him to complain to OFTEL if the installation charge is higher than the standard one. OFTEL can instruct BT to

reduce the charge if the Director decides BT is asking too much. At present POUNC can take up these complaints, but it has no powers over BT. So the new arrangements strengthen the rights of the potential rural customer.

4. Remote call boxes. If a box produces less than £185 per annum it becomes a candidate for closure since the maintenance costs are about £2000. BT closed 32 boxes in 1979-80, 30 in 1980-1 and 63 in 1981-2. Local authorities have the power to pay a subsidy towards the maintenance of uneconomic boxes and 7 are so maintained in Wales. maintenance of the call box service will be a social obligation of BT under this Act. This is the first time that this obligation has been imposed by law. The losses on the service will be financed by the access fees (see above), and the provision of call boxes will continue as at present.

Consumer Protection

Prices: The introduction of competition is an effective curb on prices; BT has already reduced charges on its 100 most densely used trunk routes and on many international calls. Following liberalisation there was also a significant reduction in the price of telex teleprinters. However, the Government accepts that BT will dominate some telecommunications sectors. Because of this BT will be obliged to keep price increases for domestic rentals, installation charges and local calls to a figure priced below the Retail Price Index for five years. This will ensure a continuing reduction in the real cost of services.

OFTEL: The Post Office Users National Council (POUNC) will no longer deal with telecommunications once BT enters the private sector. A new Office of Telecommunications (OFTEL) will take over these responsibilities. OFTEL will be charged with policing BT's licence and, unlike POUNC, will be able to enforce the remedies it suggests for consumers problems.

Legal Redress: At present BT does not normally provide services under contract and customers cannot normally sue BT for negligence etc. The Bill requires BT to provide services under contract and removes, in most cases, immunity from civil action. Customers will be able to sue BT just as, for example, they can sue shops which supply faulty goods. In order to ensure that BT complies with its licence, and to prevent anti-competitive activities by BT, the new Bill sets out clear provisions for anyone (including BT's competitors) to seek unlimited damages in the courts for losses they incur if BT or any other licencee fails to comply with an order by the Director General of Telecommunications.

The Disabled: A new provision in the Bill recognises the needs of the disabled, both those working as telephonists and the disabled or elderly domestic subscriber. It will allow the Government to fund the cost of developing variants of standard equipment to make it suitable for disabled users. This, combined with standards requiring equipment to be adaptable to the needs of the disabled, and the grants already available from the Manpower Services Commission for carrying out the actual adaption of the equipment, should go a long way to allay the unfounded and misleading fears raised in some quarters about the effect of privatisation on the disabled.

The Sale

The precise method of sale will be decided in the light of market conditions at the time. The issue will be the largest ever carried out in this country. The Government hopes that many of BT's 250,000 employees and 18 million subscribers will buy shares. Ways of encouraging them are being considered.

The Articles of Association of BT plc will prevent foreign or domestic takeovers. The claims of BT, the pre-1969 pension defiency and the taxpayer will be considered in relation to the proceeds of the sale. It is hoped that the sale will take place in Autumn 1984.

The Workforce

Telecommunications is a major growth area. The removal of restrictions on financing will allow BT to take maximum advantage of this, along with the other telecommunications firms. There should be more, not fewer, jobs in the industry.

There has been talk of a cut of 45,000 in BT jobs. It is certainly true that BT does need to improve its efficiency. It could provide the present level of services with fewer people. However the BT Bill offers chances to expand the service.

The telecommunications manufacturing industry has lost 40,000 jobs in the last ten years. That shows that the mixture of monopoly and protection does not pay. Since liberalisation, the prospect of an expanding industry has opened up:

1. On the equipment side, new market entrants, such as Mitel, GTE/ Ferranti & Harris, have already put down plants and are generating new jobs in manufacturing. Retailers such as Discoms, Tandy and many other smaller people are already expanding into the liberalised market and are recruiting new staff.

2. Value added services will provide a whole new industry. An increasing number of businesses wish to provide new services on the network and these are expected to provide many new jobs. The recently announced 'Total Access' radio telephone system, to be provided by two companies, Racal and a new consortium BT-Securior, is expected to produce up to 12,000 jobs by 1990.

3. Mercury itself will create new jobs as well as pull through more on the supply side. BT in response has created new posts to provide competitive digital services.

The legislation will safeguard existing employee pension rights, and will in no way disadvantage employees or weaken their pension position. The Government cannot guarantee how pension arrangements will evolve in the future, even in the nationalised industries.

POLITICAL POINTS

* Nationalisation has had an unhappy history in this country. It has cost over £40,000m at today's prices in grants and capital write-offs since the war (Hansard, 9th November 1982, Col.456). Nor is it popular. A survey by NOP in August 1982 showed that 65% of the electorate and 35% of Labour voters want no more nationalisation. The recent Labour manifesto contained sweeping proposals for further nationalisation, but during the actual campaign Labour leaders tried to play these down.

The nationalised industries' record of service to the customer has often been patchy and their prices have risen more rapidly than prices as a whole. In February 1983, for instance, the overall rate of inflation was 5% but in the public sector it was 13%. Nor in the long run does nationalisation protect jobs. Under the last two Labour Governments about 200,000 jobs disappeared in coalmining and about 40,000 jobs at BSC went during the 1974-1979 Labour Government.

Some of the practical day to day problems that have beset BT as a nationalised industry are illustrated by the following extracts from a letter sent by its Chairman to his staff in December 1981:

'In the past management hasn't laid sufficient emphasis on labour efficiency and output....'

'...over 40 per cent of field supervisors' time is spent on paperwork. There's more emphasis on reporting up than on securing useful and timely information for the work in hand'.

'We've been hampered by things like inter-union arguments on operating computer terminals in mixed clerical/engineering work areas...'

'...For every two hours spent on installation in the field, one hour is spent in control, line plant allocations and replacements. The number of survey officers has remained unchanged for 20 years, although the need for them has reduced. In America, AT & T installation and maintenance staff average seven visits a day, compared with our average of three'.

'....despite reductions in such things as travelling time over the last two years (ineffective time) still represents 40 per cent on cost'.

'In exchange maintenance, studies show that manning levels could be reduced by better work organisation'.

'Then there's grade drift - people being paid a grade or so higher than their work deserves'.

'The problems are compounded by:
- demarcation problems;
- inflexible work practices;
- rigidity on manning levels; and
- slowness to accept changes'.

'A succession of surveys show that BT salaries are generally above the average; at best, they're near the very top of the market '.

'In addition to the staff's contribution of 6% of salary, BT also contributes to the Pension Fund at the rate of 15½% - much more than most other large organisations'.

'There are many other ways in which the business overspends, eg:

- THQ staff has grown by over 10 per cent since 1978.
- Over 30 per cent extra SSS staff (half of them in THQ) in the same period.
- There are 25,000 THQ staff, some 8,000 RHQ staff, to say nothing of Area HQs.
- Over-generous accomodation, compared with commercial firms, particularly with so may HQ staff in London.
- Slow and expensive promotion and appointments procedures, with seniority often more influential than merit'.

* The recent Labour Manifesto paid lip service to the need for technological development but at the same time made clear that Labour would only really countenance it provided:

1. That it can be nationalised. Their Manifesto promised not only to retain BT in the public sector, but to forcibly incorporate Mercury into it and then extend the resulting monopoly by giving it the exclusive right to provide cable TV and other cable services. It also promised that Labour would establish a significant public stake in electronics - a pledge that could cost up to £12 billion if the country's top seven electronic companies were to be nationalised.

2. That it can be placed under the control of the unions by making it subject to new technology agreements dictated by them. Labour's luddite instincts are never far from the surface, in their Manifesto they said:

   'new technology has brought major job losses in some sectors. Only Labour can plan new technology to meet our commitment to full employment'.

   The real objective of new technology agreements is to increase the powers of trade unions and ensure that new technology is not allowed to disturb the employment patterns on which their system is based. This was made clear in Labour's Programme 1982, which was endorsed by last year's Labour Conference and formed the basis for the 1983 Manifesto. It said:

   'Trade unions have been relatively successful over the post-war period in extending joint control over day-to-day decisions in their enterprises. Although progress has been uneven, they have in many places extended the frontier of negotiation beyond terms and conditions of employment to include issues formerly within the managerial prerogative. Among these issues are the - organisation and pace of work; staffing levels; recruitment and deployment of labour; demarcation and labour flexibility; quality, stock and financial control; grievances and discipline; and health and safety. Workforce influence in these areas has been enlarged mainly through developments in the scope of collective bargaining. <u>Much of the impetus for these developments has come in recent years from the negotiation of New Technology Agreements</u>. These have been accompanied by significant changes in trade union structure. The shift to plant and company bargaining has led to the growth of Joint Union Committees which have strengthened the ability of workforce representatives to pressurise management on key issues relating to the organisation of production'.

The recent experience of the printing industry's attempts to negotiate new technology agreements with the unions is not encouraging. If other unions were enabled by a Labour Government to exercise a similar veto over developments in their industries the results would be disastrous.

* British Telecom's performance under the last Labour Government was notably lacklustre and contrasts strongly with its performance since 1979. BT's profits have increased rapidly form £123.9 m in 1979-80 to £457.8m in 1981-2. This has been achieved at the same time as tariff increases have been kept below inflation, rebates introduced for low users and many charges for trunk and international calls reduced. When BT is privatised it will continue to hold many of its price increases below inflation (see above). This compares with the

situation under the last Labour Government when charges for local calls doubled in their first year in office, and charges in general rose by 60 per cent between 1975 and 1976 alone.

Furthermore under Labour BT was starved of investment whereas under the Conservatives investment has increased substantially.

Capital Requirement £m

Outturn

1976-7	1977-8	1978-9	1979-80	1980-1	1981-2	1982-3
816	844	993	1,215	1,545	1,898	1,590*

*estimate

ALLIANCE VIEW

The SDP-Liberal alliance take the view that it is irrelevant whether industry is state owned or privately owned and that therefore, as Mr William Rogers has put it,
'a further programme of privatisation...is wholly irrelevant to the major economic and industrial needs of the country' (Hansard,9th November 1982 Col. 464). In their recent Manifesto the Alliance argued in favour of leaving the present boundaries between the State and private sectors exactly where they are and said the Government should concentrate instead on making the nationalised industries more efficient. They also put forward a scheme of committees and commissions which they hoped would succeed where all others have failed, and would accurately simulate the pressures of the market. This, however, flies in the face of all past experience for, as Mr Patrick Jenkin, the then Secretary of State for Industry, has said:

> 'Anyone who argues in the light of nearly 40 years' experience that there must be a way of managing State monoploies that will increase their efficiency, satisfy their customers and yield a return on the taxpayers' investment instead of being a burden on the taxpayer must believe in fairies...Every device has been tried and none has solved the fundamental problem of the State industries...The system has failed. Are we to sit back and do nothing about it?' (Hansard, 9th November 1982, Col. 457)

The problem of the nationalised industries is not just one of management but also one of ownership. The three fundamental weaknesses in the public trading sector - monopoly, finance and accountability - are all primarily questions of ownership. The Alliance ignores these problems when it argues that BT's status should remain unchanged.

RE/AM
12.7.83