



Treasury Chambers, Parliament Street, SW1P 3AG  
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1 May 1984

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry

*Dear Secretary of State,*

BT: ANNOUNCEMENT ON 2 MAY

You wrote to me on 30 April enclosing a copy of Sir George Jefferson's letter to you of 25 April and the draft of the announcement which you propose to make tomorrow. I am pleased that we have now reached agreement with BT on RPI-X and capital structure and very much agree that an early announcement of our decisions is essential if we are to quieten press speculation and move BT successfully towards flotation.

I am broadly content with the draft statement, and only have one general comment on presentation, and two detailed points on substance. I suggest that the statement might be improved if the sequence were reversed and it referred first to the capital structure and RPI-X rather than to the incentive schemes. Capital structure and RPI-X are the key components of the announcement and it would look a little odd to leave them to the end, while the arrangements for employees and customers should provide an effective punch-line.

On the detail, I am rather uneasy about your description of the proposed rental voucher scheme. So far, we have only agreed in principle to some form of incentive to telephone subscribers. You will recall that one of the options we have asked officials to work up includes arrangements for subscribers to receive share bonuses as an alternative to a rental voucher and I am concerned that your statement as currently drafted could preclude this option. I would therefore prefer the second complete paragraph on page 2 to be redrafted as follows:

"Second, we have decided to offer special incentives to telephone subscribers. One possibility would take the form of vouchers which could be used to offset part of the cost of quarterly telephone bills



for a subsequent period. Details will be announced closer to the flotation".

My other detailed comment refers to the description of capital structure. Here I suggest that the second sentence of the final paragraph on page 2 should be redrafted to read:

"We have concluded that the initial debt of the company to the Government should be in the form of debentures with a capital value of £2750 million ....."

This would make it clear that BT's present liabilities are being converted into debentures.

I understand that you propose to confirm, if asked, that we continue to expect to sell 51 per cent of BT's ordinary voting shares this Autumn and that payment will be by instalments. I would have no difficulty with a confirmation of these features of the sale on the understanding that you would make no reference to the details of any instalment arrangements nor to Kleinworts' proposals.

I am copying this letter to the Prime Minister.

*Yours sincerely*

*Margaret O'Hare*

NIGEL LAWSON

*(approved by the Chancellor  
and signed in his absence)*