

Prime Minister (2)
AT
30/7

OFTEL vindicate BT's second
sourcing policy, but recommend
that its application be tempered.

MR TURNBULL

30 July 1985

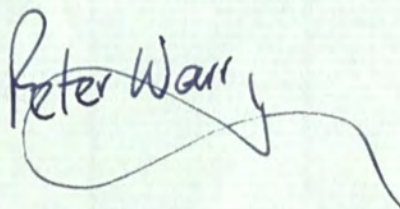
OFTEL REPORT

Bryan Carsberg has reported on British Telecom's (BT) proposal to meet some 20% of their digital exchange requirements with the Thorn-Ericsson System Y instead of the British developed System X from Plessey or GEC. Carsberg endorses BT's decision but recommends that System Y purchases should be limited to a maximum of 20% for the next three years in order to give GEC/Plessey time to adapt to the new competitive environment. If at the end of the three years BT wish to further expand System Y purchases then they should endeavour to maximise technology transfer and UK content of System Y, whilst continuing to support System X export efforts and the UK's own R&D capability.

If Plessey and GEC had used the easy profits during the fat years when BT was a nationalised industry to make themselves competitive, then System Y would never have had a look-in. But now that the cold winds of genuine competition (as opposed to mock public sector competition) are blowing, they are screaming foul. They have no moral case.

It is of course in BT's interest that the System X capability should survive, but their judgement - and ours too - is that GEC/Plessey will survive anyhow. George Jefferson wants GEC and Plessey (and perhaps his own purchasing people) to understand that the rules of the game have changed, he also wants to ensure that OFTEL does not become a soft touch, hence he is shouting loudly about the OFTEL report. But in reality we wonder whether he would actually want to place more than the 20% on System Y to which he is committed.

Carsberg's report is clever. It supports BT in principle, yet assuages the GEC/Plessey lobby without actually giving them anything of substance. The Government should do likewise: it should support OFTEL's report whilst, if necessary, suggesting that BT could ask to have the matter re-examined if it needs to increase the System Y percentage beyond OFTEL's recommendation of 20% during the next three years.

A handwritten signature in blue ink that reads "Peter Warry". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

PETER WARRY