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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

FUTURE POLICY ON TELECOMMUNICATIONS

Memorandum by the Secretary of State for Industry

1 We need to decide the next steps in our reform of communications policy in the United Kingdom. Under the British Telecommunications Act 1981, we are taking three major steps to liberalise the telecommunications environment: "Mercury" will be providing a competing network; from 1 April this year there will be competition in the supply of services using British Telecommunications (BT)'s network; and by July 1983 we will have completed our phased programme to liberalise the supply of subscriber apparatus. Mercury's negotiations with BT have left two issues which need to be resolved shortly, whether liberalisation should extend to international services and whether there should be freedom to resell capacity on circuits leased from BT; I am having these studied.

2 Internally, Sir George Jefferson is overhauling BT's management to enable BT to respond to competition and to root out extensive inefficiencies. Separate self-accounting arrangements are being set up where BT is in direct competition with the private sector and I intend that these should become Companies Act companies. Active consideration is also being given to the creation of separate accounting arrangements for BT's trunk services and for each local area. Progress is slow but there is improvement.

3 Telecommunications investment is crucial to our making a success of the new information technologies. BT is already spending around £2000 million a year on the modernisation and improvement of its trunk network and to enhance its services. This programme is being constrained by public sector borrowing rules; since BT's borrowing counts against PSBR limits, BT has been forced to raise most of its investment funds from charges to subscribers but there is a limit on how high these can be pushed.

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BT has not the funds to convert its local network to broadband cable capable of carrying the full range of digital telecommunications services as well as television and high quality sound.

4 We need to break this log jam. The Chancellor and I have already reached broad agreement on the terms under which BT may raise finance direct from the City, the so-called "Buzby Bond" and £150 million could be raised in this way in the autumn this year. However, the Buzby Bond money will not be enough to finance BT's long-term investment and I seek the Committee's agreement to go further and to create conditions under which the private sector can play a full partnership role in BT's investment programme. I already have powers to require the creation and disposal of BT subsidiary companies; I may want to use these powers in areas where BT is in direct competition with the private sector for example BT's telephone shops, but the effect on BT would be negligible. I have considered the possibility of selling off BTI and some parts of BT's customer apparatus side. However, practical considerations - BTI being the sole source of BT profits and the unsatisfactory state of BT's internal accounts - rule out these options before 1984/5.

5 I have decided therefore that our main aim should be the conversion of BT as a whole into a Companies Act company, BT Ltd, and the subscription by the private sector of as much new capital as the market would bear, which would initially be between 20 and 25% of the total equity of the company. These funds could be used to finance investment instead of relying so heavily on revenue raised from high charges. We could also consider giving up commercial control as we have with British Aerospace and Cable and Wireless, although we would need to take a power to retain certain other controls over BT in the national interest.

6 I also envisage public/private partnerships at the local level where, subject to the outcome of the study of the impact of cable television on existing broadcasting arrangements, the private sector might join with BT to provide combined telecommunications, television and other services over broadband cable. Under these arrangements BT would provide the critically important wayleaves, ducts, technical skills and telecommunications facilities while the private sector would provide the funds for the cables (and possibly the local exchanges) and the programmes.

7 In these circumstances, the private sector would hold a substantial shareholding both in BT Limited, which would become a holding company, and in the local cable/telecoms companies providing services to customers. This would be a major step towards BT transforming itself into an enterprise like American Telephones and Telegraphs (AT&T) in the USA.

8 I therefore seek policy approval for the introduction of legislation next session which would provide for:

- the conversion of BT into a Companies Act company (BT Ltd) and for the sale of new shares;

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- the licensing of local cable systems run by the private sector in partnership with BT carrying both telecommunications and television services.

9 If colleagues accept such legislation I would take the opportunity to amend the BT Act 1981 to permit separate accounts etc for Giro - a step towards possible privatisation - and to modify some of its telecommunications provisions which have proved difficult to implement in practice. I would also propose to amend the Telegraph Acts, which mostly date from the 19th century, so as to replace twelve obscure, inconsistent and obsolete Acts by a single up-to-date code. As well as tidying up the law, the Bill will make substantive changes; it will remove the requirement that BT has to consent to the use of Telegraph Act powers by others (e.g Mercury); and it will make it easier for subscribers to obtain the telecommunications services they want by providing better procedures for reconciling this with the rights of land-owners.

10 There is one other step consequential on these measures, which I believe will be necessary. At present, BT, as the monopoly supplier, has various regulatory and licensing functions, for instance, the approval of attachments to the network and licensing of so-called "value added network services". As monopoly gives way to competition it will be inappropriate to leave these essential controls in the hands of BT. Instead these functions might be transferred either to the Government or to a regulatory body which might also handle radio regulatory issues. We need to consult interested opinion about the options before taking provisions in legislation. We also need to consult affected parties about amendment of the Telegraph Acts. I seek colleagues' agreement to my issuing consultative documents on both subjects. I will circulate drafts and hope they may be agreed by my colleagues most directly concerned in correspondence.

P J

DEPARTMENT OF INDUSTRY
4 March 1982

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