



✓ Mr Hoskyns
Mr Ingham
Mr Wolfson

PRIME MINISTER

TELECOMMUNICATIONS LIBERALISATION

I am convinced that most of the problems associated with British Telecommunications (BT) - delays with connections, high charges, slow introduction of modern equipment, the stranglehold of the Post Office Engineering Union - flow from its monopoly and the consequent lack of competition.

2. The BT Bill paves the way for a major opening out of competition in the supply of telecommunications services. This should secure a badly needed improvement in attitudes, efficiency and customer service whilst reducing unit costs and stimulating a host of new business activities some of them as yet undreamed of; indeed the threat of competition has already brought about a sharpening of BT's attitudes in recent months. I foresee this country becoming a focal point for telecommunications services exploiting our national skill in software and innovation and providing new jobs and new scope for small businesses. I am also planning measures which will make it possible in the longer run to privatise a substantial part of BT's activities.

3. This minute seeks colleagues' agreement to two immediate further steps towards greater freedom in the telecommunications market.

4. I announced, on 21 July last year, the broad outline of our plans to introduce greater competition in three aspects of telecommunications. The first concerns the freedom of private sector companies to supply business and consumer apparatus for connection to the telecommunications network in competition with BT. The main

/element



element of this part of our policy was published last July and detailed practical arrangements are evolving well in consultation with user and producer interests, BT and the unions. As you know, we recently announced a substantial further relaxation of BT's monopoly in the maintenance of ^{digital} stored programme ^{controlled} ~~digital~~ PABXs.

4 The second and third strands of our plans embody:

(a) greater competition in the supply of value added network services (private sector provision of services over the network owned by BT); and

(b) additional telecommunications services (private sector provision of additional telecommunications networks in competition with BT).

5 There is a risk that these services might divert revenue away from BT and push up domestic telephone rental charges which are at present subsidised by uneconomically high long-distance charges.

6 The problem, as it relates to the freedom to offer services over BT's network, has been examined by Michael Beesley, a professor ... of economics at the London Business School. I attach a copy of his report. He has concluded that BT's potential loss of revenue would be small in relation to its turnover.

7 Under the worst case assumptions, and I stress that they are the worst, BT's potential loss of revenue by 1984-85 could be recouped by an increase of £6.4 in the annual domestic telephone rentals by then expected to be £60 (that is, an increase of 11%). But



in practice the effect of diverting traffic away from BT is likely to be very much less. Beesley points out that any loss of revenue will tend to be offset because demand would be stimulated by competition and this would work through into a greater demand by service operators for leased BT circuits. Moreover, in practice, BT has already started to move towards equalising its returns from local and long-distance traffic by raising domestic rentals and local charges more than long-distance charges. Beesley recommends complete freedom for private sector firms to use the BT network subject to certain safeguards to ensure fair competition. Beesley's prescription would have the added advantage of requiring very little regulatory effort; complete freedom of network use for value added services could be accomplished by the issue of a single irrevocable general licence under the powers contained in the BT Bill.

6 Private sector provision of additional telecommunications networks in competition with BT was outside Beesley's terms of reference. He has argued, however, on the basis of US experience (the only available guide) that the practical effect of allowing competition in the provision of networks would be small but that it would have an important influence on BT's behaviour. Competition would provide a market, as opposed to regulatory, safeguard against overcharging, delays and poor service by BT, particularly for business users.

7 Beesley's arguments are persuasive. His conclusions have, nevertheless, been challenged by BT and are likely to be criticised by the POEU. Both gave detailed evidence on the unrestricted use



of BT lines during the study and the indications are that both recognise their defensive arguments as thin - the total estimated loss of revenue is an insignificant percentage of BT's annual turnover. However, there has, of course, been no public debate on Beesley's findings and I, therefore, think that it would be appropriate to publish his report and to invite public representations before final policy decisions are taken. But I consider that there should be a firmly positive ministerial response now.

8 I would like, at the same time, to carry forward the other strand of policy to which I have referred - namely the provision of additional network and transmission services in competition with BT. The impact of this demonopolisation is, however, difficult to judge in advance. US experience suggests that the number of competitors will be small. The extent of competition will depend on complex market judgements and on the costs involved. I would, therefore, like to issue a general invitation for proposals from private interests before policy decisions are taken, as an even-handed and effective way of securing basic information on which such decisions must rest. The Department has kept in touch with Cable & Wireless (C&W) about the proposal for an independent business network that C&W has been investigating with BP and Barclays. There would be certain advantages if additional network services, at least on a national scale, were to be provided by an organisation like C&W with a sizeable Government shareholding. But I do not wish at this stage to limit consideration to a single consortium.

9 I intend to publish the Beesley report on 7 April, the earliest

/practicable ...



practicable date after the BT Bill has left the House of Commons.

On the same day I would propose to make a statement along the

... lines of the attached draft to which I seek colleagues' agreement.

... 10 I am sending copies of this minute and the attachment to the
Chancellor of the Exchequer, the Home Secretary, the Secretaries
State for Trade, and for Transport, the Chief Whip,
Sir Robert Armstrong and Robin Ibbs.

KJ

3^{K J}
April 1981

Department of Industry
Ashdown House
123 Victoria Street

DRAFT STATEMENT

With permission, Mr Speaker, I would like to announce the Government's next steps towards greater freedom in the telecommunications market in the United Kingdom.

2 On 21 July last year, I explained to the House the framework for new competitive arrangements covering apparatus attached to the British telecommunications network. Since then we have made good progress. Independent standard making and certification bodies are now at work on rules, which will replace the present monopoly over approvals of apparatus enjoyed by British Telecommunications (BT). Both BT and main suppliers are gearing themselves for the competitive era.

3 Today, I am publishing the report which I commissioned from Professor Beesley on the subject of network services. I have arranged for copies to be placed in the Libraries of both Houses.

4 Professor Beesley has completed an economic survey of the impact of complete freedom of network use. His conclusions are radical. First, in his principal findings he recommends full freedom for private sector suppliers to use the national network to provide telephone and telecommunications services to third parties. He envisages BT setting an open and uniform price for all users of its network irrespective of whether the users resell any of the capacity they lease. This means that private companies, in Professor Beesley's view, should be able to lease circuits - parts of the networks-
/from ...

from BT and sell to the public telecommunications services carried on those circuits. Secondly, Professor Beesley suggests progressive liberalisation of use of international telephone and telecommunications links from the UK, subject to the payment of a royalty to BT. This would mean that consumers would have a greater choice of international telecommunications services. Thirdly, Professor Beesley argues in favour of the provision of additional networks. And fourthly, he stresses the need for removal of constraints on BT's capital investment.

5 Professor Beesley bases these radical conclusions on the premise that data generation and telecommunication technologies are rapidly converging making the boundary of the existing BT monopoly arbitrary and constricting. The national network is a national, and not exclusive BT, asset. Professor Beesley argues that, if private firms were free to use the network in innovative ways, this would bring substantial consumer and user benefits which would outweigh his projection of the possible maximum loss - some 2% of turnover - net revenue by BT which would result from the reduction in its monopoly. BT, which provides good but far from perfect service, would be free to compete subject to minimum safeguards to ensure fair competition.

6 If Professor Beesley's proposals are adopted, I envisage that BT would be spurred to provide an even better service.

/I ...

I also envisage new profitable enterprises and new jobs being generated as both BT and new entrants stretch themselves to capture a share in new, and in many cases as yet unknown, markets.

7 Professor Beesley's reports marks a clean break from previous approaches. Implementation of his recommendations would transform the UK market for telecommunications.

8 The Government sees great merit in the free market, please-the-customer, regime recommended by Professor Beesley. It would promote the UK as a communications centre serving the whole world. The implications are, however, far reaching and I propose to invite views over the next two months before coming to detailed decisions in July.

9 The Government has decided to go forward with plans for the consideration of / the introduction of telecommunications transmission networks provided by the private sector in addition to [redacted] those provided by BT. I am, therefore, inviting the formal submission of initial proposals, if possible by the end of June, for the competitive supply of additional transmission networks. I will wish to consider these first proposals so that I can be in a position to issue licences later this year. I will also be considering the rules for interconnection of private networks with the main BT network.

10 The opportunities for both BT and new market entrants over the whole field of telecommunication terminals, transmission and services are immense. The quicker we seize these opportunities and expand our range of products, systems and services at home the better for us as users and

as providers both in the domestic and the highly competitive
but ever expanding world communication market.

Post and Telecons

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HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

7 April 1981

Dear Nick,

✓ms

*I have told the PM
that the statement
has been deferred*

ms

7/4

TELECOMMUNICATIONS: LIBERALISATION

The Home Secretary has seen the minute of 3 April from the Secretary of State for Industry, with the draft of a statement on Professor Beesley's Report, upon which he invited views.

The Home Secretary believes that if the recommendations in the Report were given full effect they would have security implications both on his side, and for the Foreign and Commonwealth Secretary (who has now been sent a copy of the proposed statement). He takes the view that the recommendations in the Report will need careful study here and in the Foreign and Commonwealth Office, and further discussion with the Department of Industry. While the draft statement does not commit the Government to how, or to how far, effect should be given to the Beesley Report's recommendations, the Home Secretary believes that its tone - even in the amended version circulated with Ian Ellison's letter of 6 April - will be taken as a warm endorsement of the Report, and to that extent will prejudge the important discussions which are necessary. A shorter and more neutral statement was not, I understand, acceptable to the Secretary of State for Industry.

With this consideration in mind, and the understandings reached previously on the maintenance of digital PABXs, the Home Secretary believes it right that the Ministers concerned should have an opportunity to consider the issues more fully before a statement of the sort proposed is made. I have passed on the Home Secretary's views to Ian Ellison in Sir Keith Joseph's office, and I understand that the statement has now been deferred.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Foreign & Commonwealth Affairs, the Secretaries of State for Trade, Industry and Transport, the Chief Whip, Sir Robert Armstrong and Mr. Ibbs.

Yours ever,

J. F. Halliday

J. F. HALLIDAY

N. J. Sanders, Esq.

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-7 APR 1984



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Pat & Del RA



10 DOWNING STREET

From the Private Secretary

6 April, 1981

Telecommunications Liberalisation

The Prime Minister has seen your Secretary of State's minute of 3 April. She is content for him to make an oral statement along the lines he suggests tomorrow, subject to the agreement of other colleagues concerned, including the Home Secretary.

I am copying this letter to John Wiggins (HM Treasury), John Halliday (Home Office), Stuart Hampson (Department of Trade), Tony Mayer (Department of Transport), Murdo Maclean (Chief Whip's Office), Nick Huxtable (Chancellor of the Duchy of Lancaster's Office) David Wright (Cabinet Office) and Robin Ibbs (CPRS).

N. J. SANDERS

I Ellison, Esq
Department of Industry

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DEPARTMENT OF INDUSTRY
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NOTE

Statement deferred
for further consideration

by Home Office, FCO + DOI 6 April 1981

NBPM at this stage

ms

7/4

Secretary of State for Industry

John Halliday Esq
Private Secretary to the Home Secretary
Queen Anne's Gate
London SW1

Dear John

TELECOMMUNICATIONS: DRAFT STATEMENT

... I enclose a revised version of the draft statement which my Secretary of State plans to make tomorrow, 7 April. This includes a number of changes designed to meet the Home Secretary's reservations about the text enclosed within my Secretary of State's minute of 3 April.

2 It would be most helpful if you would let me know before 11.30am tomorrow whether the amended draft is acceptable to the Home Secretary.

3 Copies of this letter go to Francis Richards (FCO), John Wiggins (Treasury), David Hayhoe (CDL), Stuart Hampson (Trade), Tony Mayer (Transport), Robin Ibbs and David Wright. A copy also goes to Nick Sanders (No 10) and *Mr Heap in the foreign commerce office.*

Yours ever

Ian

I K C ELLISON
Private Secretary

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DRAFT STATEMENT

With permission, Mr Speaker, I wish to make a statement about the Government's policy on moving towards greater freedom in the telecommunications market in the United Kingdom.

2 On 21 July last year, I explained to the House the framework for new competitive arrangements covering apparatus attached to the British telecommunications network. Since then we have made good progress. Independent standard making and certification bodies are now at work on rules which will replace the present monopoly over approvals of apparatus enjoyed by British Telecommunications (BT). Both BT and suppliers are gearing themselves for the competitive era.

3 Today, I am publishing the report which I commissioned from Professor Beesley on the subject of network services. I have arranged for copies to be placed in the Libraries of both Houses.

4 Professor Beesley has completed an economic survey of the impact of complete freedom of network use. His conclusions are radical. In his principal findings he recommends full freedom for private sector suppliers to use the national network to provide telephone and telecommunications services to third parties. He envisages BT setting an open and uniform price for all users of its network irrespective of whether the users resell any of the capacity they lease. This means that private companies, in Professor Beesley's view, should be able to lease

/circuits ...



circuits - parts of the network - from BT and sell to the public telecommunications services carried on those circuits.

5 In the course of his report Professor Beesley also suggests progressive liberalisation of the use of international telephone and telecommunications links from the UK, subject to the payment of a royalty to BT. This would mean that consumers would have a greater choice of international telecommunications services. In addition, Professor Beesley recommends that it would be consistent with a policy of liberalisation to consider allowing the provision of additional networks. Finally, he stresses the need for removal of constraints on BT's capital investment. Professor Beesley bases these radical suggestions on the premise that data and voice communication technologies are rapidly converging making the boundary of the existing BT monopoly arbitrary and constricting.

6 I turn to Professor Beesley's main recommendation, full freedom for private sector suppliers to use the national network to provide services to third parties. The national network is a national, and not exclusively a BT, asset. Professor Beesley argues that, if private firms were free to use the network in innovative ways, this would bring substantial consumer and user benefits which would outweigh his projection of the possible maximum loss - some 2% of turnover - of net revenue by BT which would result from the reduction in its monopoly. One reason for this small effect is that any loss of revenue should, be offset to some extent by increases in traffic as more and more services are provided by the private sector. BT would be free to compete



subject to minimum safeguards to ensure fair competition.

7 If Professor Beesley's recommendation were to be adopted, I am confident that BT would be spurred to provide an even better service. I also envisage new profitable enterprises and new jobs being generated as both BT and new entrants stretch themselves to capture a share in new, and in many cases as yet unknown, markets.

8 Professor Beesley's report marks a clean break from previous approaches. Implementation of his recommendation would transform the UK market for telecommunications.

9 The Government is attracted by the free market, please-the-customer, regime recommended by Professor Beesley. It would promote the UK as a leading world communications centre. The implications are, however, far reaching and I propose to invite views over the next two months before coming to detailed decisions in July. I will be inviting BT to participate in working out the implications and details of what is recommended.

10 I turn now to Professor Beesley's suggestions. I shall be considering further his ideas concerning liberalisation of the use of international circuits, though, as he himself recognises, the international dimension raises additional complexities. I am inviting BT to make their comments to me.

11 On the provision of additional transmission services the House will recall that I indicated in my statement of 21 July that I

/intended ...



intended to explore the scope for allowing the private sector to provide such services. I am aware that a number of organisations have been investigating the market possibilities. I now invite all those with an interest in this subject to submit proposals and comments before the end of June so that the Government can consider the implications of licensing an additional network later this year, following enactment of the BT Bill. We shall ensure that any comments by BT are taken carefully into account before any decisions are taken. I will also be considering the rules for interconnection of existing private networks and any new network with the main BT network.

12 Finally, Mr Speaker, the Government recognises the importance of a modern telecommunications infrastructure to the development of the whole economy and, within the inevitable constraints imposed by the need to control public expenditure, we will seek to provide BT with the greatest possible freedom to proceed with its investment plans.

13 The opportunities for both BT and new market entrants over the whole field of telecommunication equipment and services are immense. The quicker we seize these opportunities and expand our range of products, systems and services at home the better for us as users and as providers both in the domestic and in the highly competitive but ever expanding world communication market.

1. MR. SANDERS

2. PRIME MINISTER

Given the "radical" nature of these proposals,
involving opening up the domestic and international
networks to competition, I am sure that
we must await the Home Secretary's
advice before going ahead with this.

c.c. Mr. Ingham
MS 3/4

Sir Keith Joseph wishes to make an oral statement on Tuesday setting out his further plans for privatising British Telecoms: first, the provision of additional services over BT's network; and second, the provision of additional network and transmission services in competition with BT. The first of these is somewhat controversial because of the adverse effect some argue it would have on BT's revenue. But Professor Beesley of the London Business School has concluded we should not be worried about this effect. Nonetheless, Sir Keith feels it is prudent to ask for comments before a final decision is taken. Professor Beesley's report will be published on Tuesday at the same time.

Provided other Departments, in particular the Home Office, are content, do you agree that Sir Keith should make this statement and that Beesley's report should be published?

T.L.

3 April, 1981.

TL
Yes -
Home Secretary yes. MT

cc Mr. Wolfson
Mr. Hoskyns
Mr. Duguid
Mr. Strauss

MR. LANKESTER

BT PROPOSAL

I can well argue the case that British Telecom investment might have such a high rate of return, say 30%, that it would be well worth incurring an additional £½Bn on the PSBR this year if we were to thereby reduce it by £170 million in all years subsequently. Indeed as a tax payer I would not mind paying an additional £100 today ~~or~~ this year if I were to receive a remittance of £33 from my taxes in all subsequent years. Therefore you may well argue that there should have been an increase of half a penny on the standard rate in order to pay for BT's investment this year, which would reduce the PSBR back to £10½Bn.

The choice is an interesting one, but there is of course nothing sacrosanct about £10½Bn, and as you know I would have preferred an even lower figure. But if you have an enormously profitable investment, and everyone argues that the BT investment is desperately needed, then somehow it must be financed. That is the only point I was making. We cannot, or at least we should not, stick at an arbitrary cut-off.

Ah

3 April 1981