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To: PRIME MINISTER

23 July 1982

From: JOHN SPARROW

BT's Corporate Plan and Corporate Objectives

1. The Secretary of State for Industry circulated yesterday two papers for discussion at E(NI) on Monday 26 July. This leaves little time for Ministers to consider what are fundamental issues involving, not only the future of BT, but of telecommunications generally and other topics such as broadband cable, information technology and the development and supply of telecommunications equipment.
2. The CPRS is content with the paper on Objectives for BT.
3. However, the paper on the Corporate Plan raises issues requiring further detailed consideration. Even after the present liberalisation measures have been put into effect and after privatisation, BT will remain, for most of its business, a monopoly supplier. BT is not an efficient organisation. Wage levels are high, there are bad working practices and there is a shortage of information about the business. Sir George Jefferson has called for improvements in 'operating efficiency'. There is evidence that manufacturers have suffered because of BT's dominance as the main customer. As a result their products are of too high a specification and are not competitive in world markets. BT has also dominated their research and development efforts.
4. The Secretary of State asks the Committee to note that he will be keeping the question of BT's future diversification into major systems manufacture under continuing review. We believe that this continuing review should cover all BT's ideas on diversification, because we put great emphasis on the Secretary of State's proviso (paragraph 15) that BT 'should not abuse their monopoly power to undermine potential and actual competitors'. This does not ride comfortably with his earlier view that 'we should not seek to restrict BT's freedom', and we believe that the proviso should prevail.



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5. A number of specific areas are discussed in paragraphs 16-17 of the paper:

(a) In our view there are several arguments against allowing BT to acquire International Aeradio from British Airways; it is in an area not closely linked to BT's traditional business.

Agreed

(b) We also have doubts about allowing BT to become involved in vertically integrated business such as manufacturing. The aim must be to create a strong telecommunications manufacturing industry, and BT's entry into this field may inhibit that.

So have I

(c) BT wish to be involved in broadband cable developments, and this might be seen as a natural development for them. But if responsibility for broadband cable were given to organisations other than BT, a rival telecommunications system might be developed, in competition with BT. As the paper proposes, we should await the outcome of the Hunt Committee report and the review of this topic by officials.

(d) Information technology is not mentioned in any detail in the paper, but it is possible that here too BT may cause harm if given a dominant role. We should await the report of the Alvey Committee, and restrain BT until then.

6. The CPRS recommends that the question of BT's future diversification into these areas should be kept under continuing review. In view of their importance to the telecommunications industry as a whole, we recommend that Ministers collectively should be kept informed of major developments. For the time being BT should be restrained from expanding its activities, given its dominant position.

7. I am sending a copy of this minute to Sir Robert Armstrong.