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KENNETH BAKER'S OFFICE

Prime Minister

(2)

Willie Rickett Esq
10 Downing Street

You asked if BT's
charges were the highest in
Europe - as asserted on BBC
7 September 1982
On these figures they are
5th and 7th highest.

Dear Mr Rickett

TELEPHONE CHARGES AND BT PROFITS

MUS 7/9

As requested when we spoke on the telephone recently, I now attach a defensive line to take and explanatory background notes on BT Profits and Telephone Charges.

Of course since we spoke BT have deferred their proposed tariff increases but you may still find the attached useful. One point I ought to make is that straight tariff comparisons of the sort made in the Sunday Times article attached at Annex 2, and I suspect mentioned also on BBC world service are misleading because of the degree of cross-subsidisation between services by telecommunications administrations. A much more realistic comparison can be gained by using a "basket" of typical charges which are set out in the table in Annex A.

Yours sincerely
Gene Roberts

M57/M57ABP

APPROVED BY MR MCMILLAN AND SIGNED IN HIS ABSENCE



BRITISH TELECOM: TELEPHONE CHARGES AND BT PROFITS

Line to take

British Telecom's £458m profits and the rapidly falling inflation rate have allowed the Corporation to defer its proposed increases in standing charge and unit fee from 1 November until at least 1 April next year. This is welcome news for all consumers.

Typical British residential and business telephone bills are about average compared with those in other western countries. The typical British subscriber would, for example, be charged more in West Germany, Italy and France. However, this is not good enough: we want the most competitive service in the world and that is why we have introduced competition and intend to privatise British Telecom.

Background Note

1 Profits

British Telecom's profits were £458m in 1981-82 on £5,700m turnover. All the profit was re-invested contributing towards financing capital requirements now running at £2 billion a year.

2 Deferral of tariff increases

BT's decision on 31 August to defer its tariff increases came after considerable criticism from consumers including the statutory Post Office Users' National Council. BT, however, stressed the improving economic situation - lower interest rates and inflation forecasts - and its own operating success as the most important factors contributing to the decision.

3 International comparisons

Comparisons of tariff details can be misleading due to cross-subsidisation between services in different administrations and different tariff structures. BT for example have larger differences between peak and off peak unit charges - so comparison of peak charges as in the ^{attached} Sunday Times article show BT to be disproportionately expensive. More accurate comparisons are possible using a "basket" of charges reflecting a typical UK subscriber's call habits.

BT surveys using typical UK bills show UK ranking in a "league table" of 10 countries, putting the cheapest at the top, to be seventh for a typical business bill and fifth for a typical residential bill. If the proposed tariff increases had gone ahead in November the UK's ranking would not



have changed for the business bill but would have dropped one place for a residential bill. A table is annexed.

Telecoms Division

Department of Industry

INDEXED TO UK = 100

	<u>TYPICAL SINGLE LINE BUSINESS BILL</u>	<u>RANKING</u>	<u>TYPICAL SINGLE LINE RESIDENTIAL BILL</u>	<u>RANKING</u>
UK	100	7	100	5
SWEDEN	45	2	75	2
BELGIUM	72	5	102	6
FRANCE	112	8	147	9
W GERMANY	123	9	162	10
NETHERLANDS	59	3	87	3
SWITZERLAND	64	4	93	4
ITALY	128	10	134	8
DENMARK	37	1	55	1
USA (New York Bell)	77	6	107	7

NOTES:

- 1 The Residential and Single Line business typical bills are calculated using 10% of connexion fee, the rental charge, and a package of inland telephone calls which impose a typical UK subscribers call habits on the foreign pricing structure.
- 2 Overseas tariffs have been converted to a common currency using the purchasing power indices produced by the W German Federal Statistical Office.

Buzby coins it in —and pips the world

BRITISH TELECOM'S tariff increases this autumn will place the United Kingdom's telephone system firmly at the top of an international price league, a Sunday Times survey shows.

From November 1, private subscribers will be paying some 69 per cent more than two years ago. In the same period, none of the other leading industrialised countries has increased the price of its phone rentals by even half as much—and in some cases charges have actually been reduced.

Over the past five years, the gap between Britain and the rest in the basic cost of local calls is still more marked.

Although exchange rates and the differing facilities offered make exact international comparisons difficult, the picture emerging from our survey reinforces just how out of step British Telecom's charges have become. In this five-year period:

by David Beake

① The price of local calls in Japan has been unchanged and there have been considerable increases in the range of off-peak tariffs.

② France and New York have both held price increases to 23 per cent.

③ In San Francisco, the rental (which includes the price of local calls) has risen by only 13 per cent.

④ In the Netherlands, the cost of local calls is down by 12 per cent.

⑤ West Germany has made no change in the cost of local calls, has reduced rental charges by 14 per cent and has expanded the off-peak hours.

⑥ Italy, our nearest "rival" in the price league, is expected to raise the cost of local calls this autumn by about 30 per cent, in line with increases

already made in charges for longer-distance calls.

Seen against the 74.4 per cent rise in the cost of living in Britain during the same period, our phone tariffs may not seem so extreme. But the overall 69 per cent increase in charges to private subscribers which becomes effective this November will have been imposed entirely in the last two years, during which time the rise in the cost of living was down to 32 per cent.

Moreover, the fact remains that the Netherlands, West Germany and Japan either cut their prices or kept them unchanged despite their own five-year cost-of-living rises (respectively: 30.3, 25.2 and 23.9 per cent).

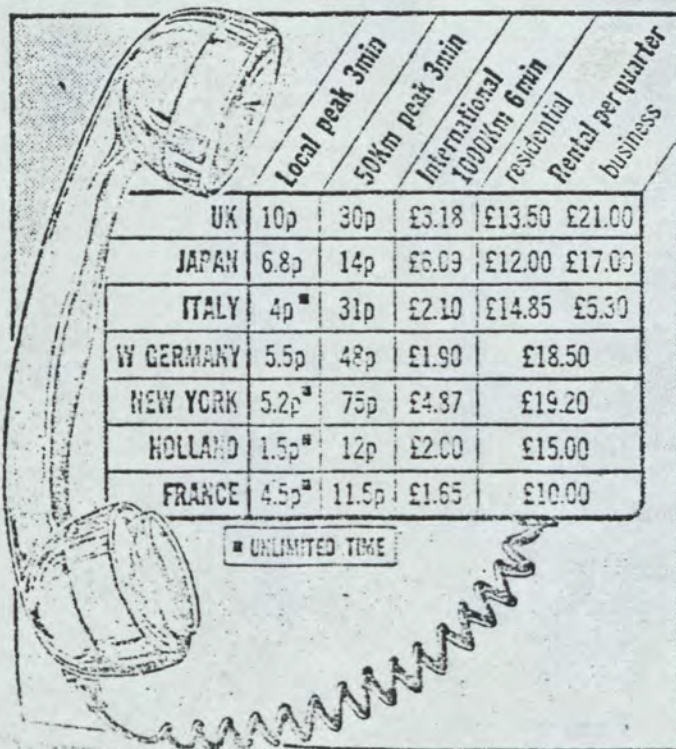
Even in France, where the cost-of-living increase, at 75 per cent, was slightly higher than our own, the rise in phone charges has been well under one-third of that rate.

This autumn's new charges will add significantly to British Telecom's profits of £450 million a year and contribute to an investment programme costing more than £1,500 million. Again, though, many of its principal counterparts abroad have succeeded in linking profit and investment to a price structure in favour of the customer.

Notwithstanding their price cuts, for instance, the German phone system remained self-supporting and the publicly owned Dutch system handed money back to the government and also reinvested.

A spokesman for British Telecom, which regards the 69 per cent rise as "a catching up exercise", explained: "Over the past 10 years, we've had four years without any increase whatever and one year in which we gave back a million pounds to the customer."

British Telecom says its subscribers are paying for tomorrow's technology. "By the end of the century, we will have replaced the entire system. Our interest charges on money we borrow are massive and these have to be passed on to the customer."



	Local peak 3min	50km peak 3min	International 1000km 6min	Residential Rental per quarter	business
UK	10p	30p	£5.18	£13.50	£21.00
JAPAN	6.8p	14p	£6.09	£12.00	£17.00
ITALY	4p*	31p	£2.10	£14.85	£5.30
W GERMANY	5.5p	48p	£1.90	£18.50	
NEW YORK	5.2p*	75p	£4.87	£19.20	
HOLLAND	1.5p*	12p	£2.00	£15.00	
FRANCE	4.5p*	11.5p	£1.65	£10.00	

* UNLIMITED TIME