



*annuity Mr Dept's
committee
R.*

PRIME MINISTER

TELECOMMUNICATIONS MONOPOLY

Last September I announced the intended separation of the Post Office into two corporations responsible for Posts and Giro and Telecommunications respectively. The latter corporation will be called British Telecommunications (BT). At the same time, I said that we would be carrying out consultations with a view to early relaxation of the Post Office telecommunications monopoly in the field of attachments and telecommunications services using Post Office circuits.

2. These consultations are now completed and, subject to the agreement of colleagues, I should like to announce our detailed proposals in a Parliamentary Statement as soon as possible and certainly before the middle of July.

3. In general I propose a substantial liberalisation of the monopoly, with scope to make further progress as and when appropriate.

Freedom of Supply

4. In particular I have concluded that there should be free competition in the supply and installation of attachments subject to the following exceptions which are necessary to ensure that a basic and uninterrupted service is provided for



12 1
 2
 3
 4
 5
 6
 7
 8
 9
 0

1 - JUL 1980



all domestic and business users by British Telecommunications (BT):

- a) the first telephone provided with each direct exchange line and the associated wiring; and
- b) the maintenance (but not supply or installation) of private branch exchanges and associated wiring.

5. All attachments except for the prime instrument are to be freely allowed and discrimination between large and small PABXs is to be eliminated. Even so I appreciate that some would have preferred to see liberalisation go even further to include all attachments and wiring. I am, however, satisfied that this is as far as is feasible at the present time, bearing in mind all relevant considerations. The Post Office Engineering Union (POEU) is strongly opposed to certain aspects of the proposals, particularly in respect of business subscribers' wiring, but Adam Butler has explained our proposals to them and I think they may reluctantly accept the outcome, since rejection will not win them any public sympathy.

6. Technical approval of attachments of terminal equipment such as second phones, answering machines, printers, and facsimile machines is necessary to safeguard the integrity of the network and I propose that the British Standards Institution (BSI) should draw up the standards after discussion with interested parties, subject to Ministerial approval,



and carry out the requisite certification and quality assurance functions. This will ensure control by an independent body without creating a new regulatory organisation. The BSI's functions in this respect will be financially self-supporting except that it might need to look to the Department for initial financial support in the region of £50,000 to pay for staffing the new standards-making committee.

Development of New Services

7 I should like at the same time to have seen an early and thorough-going relaxation of the monopoly over use of the network for telecommunications services. However, the present structure of telecommunications tariffs results in the bulk of profits being made on long distance calls and a sudden change of regime might allow private operators to lease long distance circuits and to offer cheap telephone calls in competition with BT. The Post Office has estimated that such "creaming off" could reduce profits by over £100 million within five years. Compensation for this loss would require increasing the average residential bill by some 25%, with wide implications for users in general. I intend, therefore, to liberalise initially only services which provide additional facilities - genuine added value services, in the form of information, storage and processing - and not the mainly switching and transmission services provided by the network. The growth of added value services is likely to be very substantial and I

/shall ...



shall want to see how much further we can go towards full liberalisation in the light of an independent study of the economic implications. The study will be completed before the passage of legislation.

The role of British Telecommunications

8 BT will continue to have an important role to play. It will be empowered to compete with the private sector across the full range of liberalised activities. In order to maintain the size and effectiveness of its business in this new competitive climate BT will have to make use of its existing expertise - and its professional skills are widely respected - to play a leading part in stimulating developments in information technology and the use of the network. It will, however, be essential to ensure that such competition is fair and that there is no cross-subsidisation from BT's monopoly activities. For this purpose adequate arm's length financial arrangements will be necessary and, despite opposition from Sir William Barlow, I intend to take powers to require BT both to set up a separately accounting subsidiary or subsidiaries to deal with its competitive activities and to dispose of shares in them. This will also facilitate regionalisation if we so desire. Further to ensure that BT is competing fairly, the Director General of Fair Trading will be in a position to take appropriate action under the existing Competition and Fair Trading Acts.

Licensing

9 In order to implement these changes I propose to seek
/general ...



5.

general powers to license any activity falling within the scope of BT's monopoly, subject to such conditions as the Secretary of State may think fit. This will also give Ministers the necessary flexibility to make appropriate changes in the scope of the monopoly in future. It will be highly contentious, but may help to condition attitudes within BT.

Effects of the Changes

10. The effects of these changes will be far reaching. Although domestic subscribers, for the time being at least, will still have to look to BT for the installation and maintenance of their basic telephone service, they will be able to purchase an expanding range of extension telephones and other terminal equipment from private suppliers and to choose who maintains them. Business users will gain to an even greater extent from competition in the supply of all types of business attachments and the installation of subscriber wiring, which is at present an irritating and persistent cause of delay in the provision of telecommunications services to business, particularly in the City. A wider range of information and data processing services, particularly for business, should also become available as enterprising operators make use of the new opportunities to contribute to the development of the electronic office.

11. For our telecommunications industry and for the associated



6.

service companies the changes will introduce a breath of fresh air, widening the market directly available to them, even though competition will be increased. The conditions will be created for the growth of new firms and even new industries in this rapidly expanding field. The manufacturers, in addition to having an incentive to develop advanced products for the home market, will no longer be constrained to design their products with the requirements of the British Post Office in mind and will be free to take full account of the needs of export markets. Wide opportunities for the providers of new information processing services will be opened out.

12. Too sudden a move, however, to an open market would lead to a dangerous influx of imports. I have, therefore, decided to phase the introduction of competition over a three year period to allow British industry time to adjust to the new trading situation and to develop new products in the areas in which it is weak. I also intend in advance of liberalising specific product groups to seek reciprocal trading opportunities from countries that do not already provide them. Discussions are already in progress in Brussels to achieve the first steps towards this objective under the Davignon initiative on telematics in the EEC. Similar discussions will be necessary in relation to other countries with competitive telecommunications industries such as Japan, USA, Canada and Sweden. But we shall need to be sure that any agreements we make are effectively implemented by the countries concerned.



7.

13. I am confident that the new arrangements will stimulate an improvement in the level of service provided by BT and a more market-orientated attitude throughout the Corporation. Indeed, there are signs that this is already happening. BT will stand to lose some market share of attachments. If the US precedent is anything to go by this should be a long-drawn out process, and the financial effects are not likely to be very significant and have been already taken into account in the Post Office's current forward plans. Employment in the Post Office in the areas immediately affected will be trimmed and some redeployment of staff will be necessary, but on a timescale that management should be well capable of handling. Overall, job opportunities in telecommunications activities should increase.

14. Similar developments in the US, which date from the Carterphone decision in 1968, are now regarded as an unqualified success. Once the initial problems of transition have been overcome the same could and should be true in the UK.

15. I would be grateful for your agreement to proceed on the lines proposed. I shall be circulating later a draft statement.

16. I am sending copies of this minute to other members of the Cabinet, the Minister for Transport, the Chief Whip and to Sir Robert Armstrong.

LJ.

KJ

Department of Industry
Ashdown House
123 Victoria Street, LONDON SW1E 3RB

1 July 1980