



10 DOWNING STREET

From the Private Secretary

9 November 1982

BRITISH TELECOMMUNICATIONS: REGIONALISATION

The Prime Minister held a discussion this morning on the issues raised in the note attached to your letter to me of 13 October. The Home Secretary, the Chancellor of the Exchequer, the Minister of State, Industry (Mr. Baker), Sir Robert Armstrong, Mr. Sparrow and Mr. Walters were also present.

The Prime Minister said she was attracted to the idea of having a number of local telephone companies instead of one national monopoly. It would enhance competition in telecommunications, and would provide a means of comparing the performance of one company with another. A local monopoly would be subject much more to local control, and local companies would have both incentives and opportunities to innovate and try new techniques. Your Secretary of State said he had considered this matter carefully and he saw the advantages of breaking up BT into local companies. But BT had no management or accounting system which would enable such a break-up to be brought about. Sir George Jefferson had found not one qualified accountant in any one of BT's 61 areas when he took over as Chairman. Devolved accounting and management arrangements were now in process of being introduced. But it would take many years to set in place a structure of successor companies to BT, and to identify the assets and liabilities to be allocated to each company. These measures would postpone flotation of BT for many years. There would be, furthermore, very considerable opposition within BT to privatisation on a devolved basis. The network was an integrated one (unlike the position in America). Finally, breaking up BT would damage consumer interests, particularly in rural and remote areas.

The Prime Minister said that she did not agree with a number of these arguments. But it had to be accepted that to embark now upon breaking up BT into local companies would set back privatisation to an unacceptable extent. She regretted that these issues had not been thoroughly displayed at a much earlier stage.

I am sending copies of this letter to the Private Secretaries to those present at this morning's meeting.

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

SUBJECT.

File
bc JV
JD
Post + Tale.

cc. Minister's desk.

AK