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PRIME MINISTER

*To note Gov report and Policy Unit
Comments attached.*

AT 14/13

BT FLOTATION

The principal objective for my Department this year is the successful flotation of British Telecommunications. This is a mammoth task, with a very tight timetable indeed. The extent of the complexities and issues which must be settled, many in very short order indeed, is such that we shall need to make exceptional efforts to cut through the many difficulties. If we allow the timetable to slip, these problems will prevent the flotation. The danger of this is severe. I am therefore writing to give warning to you, and other colleagues most involved, of both the scale of the problems we must sort out and of the detailed timetable we must meet.

2 There are broadly three sets of constraints

- Parliamentary, industrial and financial (though they are interconnected). Next Monday we begin the Report Stage in the House of Lords on the Telecommunications Bill. In Committee the Lords created substantial difficulties for Leon Brittan, on the interception of messages, and for me. The remaining stages of the legislation will be far from



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easy. This week Kenneth Baker and I are opening discussions with Sir George Jefferson on a range of issues which are important to BT's future: the interconnection of BT and Mercury facilities; the third party use of BT's private circuits; the coverage and size of the RPI-X formula (which will affect BT's tariff policies); and BT's capital structure; each will determine to an extent BT's future market posture.

3 The juxtaposition of these discussions - in the House of Lords and within Government and with BT - illustrates the difficulties inherent in the privatisation of British Telecom. Before the flotation, we will have to introduce a new regulatory regime for all telecommunication operators, which will be administered by the Office of Telecommunications which we are establishing. We will have to finish complex negotiations with BT and Mercury on their draft licences. We will have to expose the BT and the Mercury drafts to the possibilities of debates in both Houses of Parliament. We must complete our financial negotiations, especially on RPI-X and on capital structure, in good time to allow the smooth transfer of BT from a nationalised industry to a public limited company which can be sold in the autumn. We must devise imaginative proposals to encourage private shareholders, especially telephone subscribers themselves, to invest in BT. Throughout the summer we shall have to market BT effectively. This we must do at home - to institutions and private shareholders - and probably in the United States and Europe.



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4 Our timetable necessarily allows us no margin for slippage. An autumn flotation will be extremely difficult if we have not secured approval of the Telecommunications Bill by both Houses by Easter. It will be impossible if the competition issues (interconnect; third party use of private circuits) and the financial issues (RPI-X and BT's capital structure) have not been solved by then. We must complete the Licence negotiations with BT and Mercury by the middle of May; we must lay the drafts before each House by the end of May, and allow for possible debates in the weeks that follow. I attach, as an annex to this minute, the detailed timetable. Only this timetable will enable the investing public sufficient time to assess BT plc, and its regulatory framework, before our autumn invitation to purchase shares. BT's management and our City advisers, as well as Kenneth Baker and I, will need many weeks for the marketing effort.

5 These constraints are formidable. Nevertheless I am certain that, if there is sufficient determination on the part of all those concerned, we can meet the timetable and succeed in our effort to commit BT to the private sector. But I must stress that it will be possible only if we all are determined to make this come about; and if all concerned recognise that the difficult decisions which will need to be taken must be taken on time. Inevitably, this will mean subordinating some longcherished official concerns



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to our wider interests. Unhappily, our recent experience over the detailed terms of the appointment of the Director-General for Telecommunications does not provide an encouraging precedent.

6 I am copying this minute to Willie Whitelaw, Nigel Lawson, Leon Brittan and to Sir Robert Armstrong.

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9 March 1984

Department of Trade & Industry



BRITISH TELECOMMUNICATIONS FLOTATION
TIMETABLE

DATE

ACTION REQUIRED

During March

Decisions on nature of widespread share ownership measures

Decisions on details of employee share incentives

Ministerial discussions with BT on interconnect; third party use of private circuits; RPI-X; capital structure.

By 1 April

Publication of BT's 1983-84 interim results on basis of agreed depreciation policies

By Easter

Negotiations completed on

- competition issues
- RPI-X
- capital structure especially regarding debt profile and level of gearing

Parliamentary approval of Telecommunications Bill

BT prepared to launch employee communications programme



DATE

ACTION REQUIRED

April and
May

Commence marketing of BT to professional investors.

By mid-May

Complete Licence negotiations with BT

By end May

Lay draft Licence before Parliament

Decisions taken on broad structure of sale (fixed price offer or tender etc)

Decision on parallel flotation in North America

June/July

Investor advertising campaign launched.

First UK "road show" including BT sales train.

By end of
June

Complete preparations for vesting including:-

- Capital Structure
- Memorandum and Articles
- All other administrative matters.

Decision on possible flotation in Japan.

Decision on form of possible European flotation.



DATE

ACTION REQUIRED

First half
of July

OFTEL established.

Licence granted to BT.

BT business vested in successor company

By end of
July

Decision on level of generosity of
Government incentives for small
shareholders

Publication of Annual Report and
Accounts of BT for the year to
31st March 1984.

August

BT plc's financial projections to
have been updated.

Decision on whether "mini prospectus"
should be circulated to several
million households or not

September

Decisions concerning precise timing,
pricing and underwriting arrangements.

Preparation and review of any detailed
profit or dividend forecast for the year
to 31st March 1985 to be completed.

Preparation and review of working
capital position to be completed.



DATE

ACTION REQUIRED

Finalisation of prospectus.

Early
October

Publish "red herring" prospectus to financial institutions (if the US practice of a "red herring" - a final prospectus without the price - is followed)

Commence second UK "road show".

Second wave of TV and press investor advertising.

Late October/
Early November

Flotation

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ecc

cc David Pascall
(Policy Unit)

10 DOWNING STREET

From the Private Secretary

15 March 1984

BT Flotation

The Prime Minister was most grateful for your Secretary of State's minute of 9 March setting out the timetable for the BT flotation and identifying the obstacles that need to be overcome. She shares your Secretary of State's wish to complete the BT flotation this autumn and hopes that all concerned will make the necessary efforts.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), John Kerr (Chancellor's Office), Hugh Taylor (Home Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry

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TURNBULLPrime Minister ⁽²⁾
To note this report14 March 1984BT FLOTATION

We agree with Norman Tebbit's assessment that the BT flotation can take place in late October or early November. Nevertheless there are formidable difficulties to be overcome and success will require a high degree of commitment from all concerned.

A greater emphasis now on the need for effective implementation rather than for creative ideas has been reflected in recent personnel changes at DTI. The detailed timetable and the close liaison among DTI, Treasury, Kleinwort Benson and the Bank of England are encouraging developments.

The reference to "subordinating some longcherished official concerns to our wider interests" in Norman Tebbit's paper emphasises a need to cut through red tape rather than to compromise on policy objectives.

Legislation

Our difficulties in the Lords are unlikely to cause any significant changes to the Bill although they will continue to attract public attention.

The amendment to Clauses 16-18 on the legal right to interconnect which the Prime Minister approved in February are to be discussed in the Report Stage on Monday. These proposals are controversial as we are taking legislative authority to thwart trade union action against interconnect in cases where trade union immunities would normally apply. Nevertheless, they are necessary to ensure Mercury's success.

Immediate Priorities

The key competition issues (interconnect and third party use of private circuits) and financial issues (RPI-X and BT's capital structure) need to be resolved by Easter to maintain the timetable and the City's confidence. There is a reasonable chance that this deadline can be met. The Prime Minister is only likely to become involved if the timing pressures require unwelcome concessions to BT.

OFTEL

The recent nomination of Professor Carsberg as the Director General of OFTEL is an important development. The role of OFTEL is critical in ensuring that our policy on liberalising telecommunications is effective.

Wider Share Ownership

Various proposals are being considered including a year's free rental with £1,000 of shares or a loyalty bonus on the lines of the Britoil offer. The Policy Unit will be assisting John Moore and Kenneth Baker in devising suitably imaginative proposals.

BT/IBM/ICL

Although not directly related to the flotation, the Prime Minister will be faced shortly with difficult and important decisions on

- whether BT procures ICL or IBM for its data processing requirements
- whether BT enters into a joint venture with IBM on value added network services.

We have been studying these questions in some depth in order to provide the Prime Minister with appropriate advice when DTI submit their proposals.

Conclusion

Our objective of floating BT in the Autumn is on target.

DLP.

DAVID PASCALL