BT's pension deficit and its lobbying campaign to keep Openreach

by DIETER HELM

But it is at it again. This time it is Simon Lowth, its new finance director, in the Daily Telegraph (Viewpoint 10/10/16). It is as if continually repeating a set of very flawed assertions will make them somehow correct.

Amongst many, there are two which keep cropping up: the claim that separating Openreach will lead to less investment; and the claim that its break up would cost billions because of BT's pension deficit.

The first is just vacuous. Why should a stand-alone utility-like structure invest less than a cash-strapped BT with all its commitments to sports' rights and its other diversifications? At least Lowth does not repeat the claim that Openreach's cost of capital would be higher than BT's, as his chief executive keeps asserting. There is no convincing evidence at all to support these claims, and lots of evidence from the utility sector to suggest both a lower cost of capital for an independent stand-alone Openreach, and more - and critically more unbiased - investment. A separate Openreach would slot into the universal service providers in the utility sector, and it would have no skin in the game in terms of BT's particular vertically integrated interests. Competition (including from BT) would be on a level playing field.

The second - on pensions - is also simply asserted, but without much recognition of both the causes and the consequences of BT's pension deficit. It is enormous: BT is in some respects a pension deficit with a business attached. Just why the public interest in an open broadband should be held to ransom because BT has a large pension deficit is not explained. Why is the public interest to be held to ransom by BT's private interests? Presumably the pension deficit is a constraint on BT's ability to invest generally. It is not clear why Britain should have to have an inferior broadband network because of BT's stewardship of its pension fund.

Let's ask a simple question: why does BT have a large pension deficit? And another question: why hasn't it solved it? A deficit arises because the fund does not have sufficient money invested in it to meet the commitments the company makes to its employees. BT has been in the private sector for 30 years, and it has had all this time to properly fund its pension liabilities. Further it could be asked: what is BT doing buying up other companies and investing in sports' rights when it has this deficit? These are private matters for BT and its pension fund trustees: they should not be relevant to the public interest in our broadband future.

The real question about BT's lobbying is why BT wants to hold on to Openreach so badly. It claims that it does not rely on Openreach to support its dividends or to underpin its diversifications like sports' rights. Not only is this open to serious challenge, but if it were true, it undermines its need for Openreach. It is clearly desperate to hang on to Openreach. Why?

Britain needs an independent Openreach, because Britain needs a world class broadband, above and separate from the commercial interests of the BT and all the other suppliers of stuff to go through the network. Ofcom and Ministers should avoid conflating Britain's interests with those of BT.