



CONFIDENTIAL

PRIME MINISTER

CABLE

CC(82)51st agreed the recommendation of E(TP), as described in C(82)39, that cable operators should be allowed to offer non-voice data services on cable systems for which they held a franchise, in competition with similar services which BT and Mercury could provide on their own networks. This decision means that cable systems in the United Kingdom will more closely resemble an enhanced telecommunications system than the ordinary cable systems in the United States where a division has been drawn, so far at least, between entertainment and communications systems. It also erodes to some extent the assurance we gave to Mercury in November 1981, which was confirmed as recently as November 1982 in the House, that it was not the Government's intention to issue licences for more national networks in the foreseeable future.

2 It is therefore not surprising that both Mercury and BT have expressed concern to me about the effect which this would have upon their revenues, particularly in areas of high business density (you will yourself be aware of British Petroleum's current unhappiness at the way they see Mercury's business being eroded by cable). Both have argued strongly that, in at least



ten of the principal business centres in Britain, BT and Mercury should be given the sole right to provide data services, whether on the enfranchised cable system or their own network. This would be in addition to the exclusive right we have agreed BT and Mercury should have for the transmission of signals between cable systems and for voice telephony.

3 There is some justification for Mercury's concern since Mercury is very dependent on the business data market in a small number of cities for the bulk of its revenue in its start-up phase. This dependence can be gauged from estimates that almost 70% of Mercury's traffic over the next few years will result from its operations in the City, Central London (the Boroughs of Westminster and Camden), Manchester and Birmingham. There is a serious risk therefore that unrestricted competition for the provision of data services could have embarrassing consequences for Mercury such as the withdrawal of BP or even, in the longer term, the collapse of Mercury. We cannot afford this, especially as all the evidence at present is that companies interested in introducing advanced communication systems are all seeking co-operation with BT. If our commitment to a competitive alternative telecommunications network is to be realised we must ensure that the viability of Mercury is not compromised, whilst retaining as far as possible the position agreed at CC(82)51st.



4 The city centres where Mercury's business will be initially concentrated are in fact significantly different in kind from most of the rest of the country from a cable standpoint. Few people actually live in them, so entertainment services will be of little importance. Conversely, business services such as data traffic, which can be carried equally readily on either "telecommunications" or "cable" systems, will tend to be dominant. So the traffic carried by cable systems in city centres would in practice be very similar to that carried by "traditional" telecommunications systems. I believe therefore that it is possible to devise and justify special arrangements for these city centre areas which will help to ensure that Mercury becomes a genuine competitor for BT as a telecommunications operator while at the same time doing little damage to the policy we have evolved for cable systems. My specific proposals are as follows:

a) the terms of a cable franchise for the City of London should not permit the operator to provide data services (as you know, Mercury plans to start up by establishing a market position in the City of London where data traffic is heaviest);

b) in the boroughs of Westminster and Camden, and the business centres of Manchester and Birmingham, a franchisee wishing to provide data services would be required to do so in collaboration with Mercury and/or BT. This



collaboration constraint should, however, apply only for the initial period of the franchise (ie 12 years) following which the operator would be free to decide whether to continue the collaboration or to offer the services independently;

(e) in all other places the franchisee would be free to offer all data services in competition with BT and Mercury or, indeed, should he wish, in collaboration with one or both of them.

5 I believe the above proposal is the least that can be done so as not to jeopardise Mercury's position.

6 I have also considered whether the exceptions set out above could be limited to Mercury alone, given the other advantages which BT necessarily has, such as the possession of ducts for cable systems. I have come to the conclusion, however, that there are no reasonable and publicly justifiable arguments for making a distinction; to select one only would inhibit competition and I see distinct advantages in Mercury and BT competing for the franchisee's favours in the specific cities mentioned. In turn the cable authority would ensure that neither played too hard for a franchisee to get. The authority would also need to define what constituted the 'business centres'



of Manchester and Birmingham.

7 It would be helpful if this matter could be agreed by correspondence in advance of discussion of the draft White Paper on Cable Systems so that I can allay some of Mercury's and BP's concern. I should be grateful therefore for the agreement of colleagues to my proposal that the decision on data services agreed at CC(82)51st should be amended as follows:

- a) only Mercury and BT be allowed to provide data services within the City of London;
- b) cable operators seeking to provide data services in the Boroughs of Westminster and Camden, and in the business centres of Manchester and Birmingham, should, for the initial period of the franchise, do so only in collaboration with Mercury and/or BT.

8 I am copying this letter to colleagues on E(TP), to John Sparrow and to Sir Robert Armstrong.

PJ.

P J

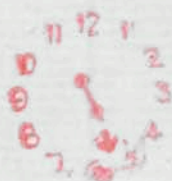
28 February 1983

Department of Industry

Broadcasting : Cable Systems Pt 3



20 FEB 1983





10 DOWNING STREET

(2)

Prime Minister

To see. I will  
resubmit when I have  
collected the views of others.

Mrs 28/2

*md*

CONFIDENTIAL

cc HO  
WPO  
CST  
DIT  
M/Trade  
CPRS  
CO

b c JV TMP



10 DOWNING STREET

From the Private Secretary

14 March 1983

Dear Jonathan,

CABLE

The Prime Minister was grateful for your Secretary of State's minute of 28 February in which he proposed protection for Mercury against competition for data services in certain key business centres. The Prime Minister has also seen a letter from the Home Secretary's Private Office dated 3 March, the Chief Secretary, Treasury's letter of 4 March and Mr. Sparrow's letter of 7 March.

The Prime Minister accepts, reluctantly, that there is a need to restrict the competition to Mercury on data services on the broad lines envisaged in your Secretary of State's minute. She considers that a 4-year limitation of this restriction would be inadequate, and would damage Mercury. But she is unclear about how long the limitation should ideally be; and doubtful about the wisdom of introducing an indefinite limitation, as proposed in paragraph 7(a) of your Secretary of State's minute, so far as the City of London is concerned.

The Prime Minister would be grateful for a note setting out the arguments for, say, a 5-year, 12-year or 15-year limitation on competition.

I am sending a copy of this letter to the Private Secretaries to the other Members of E(TP), to John Sparrow (CPRS) and to Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,  
Department of Industry.

CONFIDENTIAL



From: THE PRIVATE SECRETARY



**CONFIDENTIAL**

HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

3 March 1983

*Dear Jonathan,*

CABLE

The Home Secretary has seen your Secretary of State's minute of 28 February to the Prime Minister about non-voice data services on cable systems, and is content with its proposals.

I am sending a copy of this letter to the Private Secretaries to the Prime Minister and other members of E(TP), Mr. John Sparrow and Sir Robert Armstrong.

*Yours sincerely,*

*Lesley Pallett.*

MRS L PALLETT

Dr. J. P. Spencer

**CONFIDENTIAL**

7 MAR 1963

10  
9  
8  
7  
6  
5  
4  
3  
2  
1

060  
**CONFIDENTIAL**

cc Mr. Mount  
Mr. Vereker

MR. SCHOLAR

2 m's

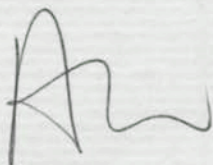
CABLE: PATRICK JENKIN'S MEMORANDUM OF 28 FEBRUARY

This is by way of being a compromise to square promises of exclusive rights to Mercury and BT on the one hand, and to allow Littlechild-type competition on the other. Our promise to Mercury was that in "the foreseeable future" there would be no additional national networks.

When Beesley was involved in this in the initial deregulation movement with Sir Keith Joseph, I understood that he believed this would be for a period of about five years, which would represent "the foreseeable future". Mercury clearly took it as being for ever.

But in the context of cable, the franchises extend for 12 years. And although Patrick Jenkin does not say so explicitly in this note, the exclusion of cable franchises from (non)-voice data services would be for that period. I think this would be a mistake. Twelve years is far too long to provide for exclusive services in an industry where the technology is changing and developing so rapidly. I would suggest the Prime Minister encourage Patrick Jenkin to think in terms of exclusivity for only about five years. This could easily be done by putting it in the original franchise. I doubt very much whether it will in any way inhibit the development and investment in the Mercury network.

The suggestion that this exclusivity be confined only to the City, Inner London and the business districts of Birmingham and Manchester is, I think, a good one. Again, it creates little islands which are excluded from the Littlechild competitive thrust, but it is likely that the business centres of Manchester and Birmingham will be quite narrowly defined, so there will be considerable competition playing all around the very large fringe areas.



ALAN WALTERS  
2 March 1983

**CONFIDENTIAL**