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MR. SCHOLAR

CABLE: THE CHIEF SECRETARY'S LETTER OF 4 MARCH

The Chief Secretary is proposing something similar to my proposal in my memorandum of 2 March (copy attached). He suggests that the restriction of competition for data services in the City of London be for a period of, at most, four years. I suggested five. I had reason to believe that the Department of Industry would go along with the latter.

The real issue, however, still remains on the restriction of voice competition. As I understand it, the present situation is that Mercury and BT, together with Hull, have exclusive rights on voice transmission "for the foreseeable future". I think it's most important to get a restriction on this time period. I suggest that when the Prime Minister next meets the Secretary of State for Industry she suggests that the restriction be imposed for about five years. Then it would be open for competition. This is important in the current context since the franchises for the cable operators are for a period of 12 years.

These
are
other
arguments
for
maintaining

the BT/Mercury
monopoly of voice
telephony.
MCS 9/3

AW

ALAN WALTERS
9 March 1983

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cc JV

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cc. IPS

4 m/s



- FST
- MST(C)
- MST(R)
- Sir D Wass
- Sir A Rawlinson
- Mr Wilding
- Mr Christie
- Miss Kelley
- Mr Burgner
- Mr F K Jones
- Mr R H Wil
- Mr Ridley
- Mr French
- Mr Harris

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1E 6RB

4 March 1983

Dear Sir, J. Skid

CABLE

Thank you for sending me a copy of your minute to the Prime Minister of 28 February, proposing that only Mercury and BT should be allowed to provide data transmission services within the City of London and that in certain other business centres Cable operators seeking to provide such services should be required to do so only in collaboration with them.

As you explain the purpose of your proposals is to help to foster Mercury, not to protect BT, nevertheless in practice they will do both. I do not see that BT needs this kind of help. As far as Mercury is concerned it already has the substantial advantages conferred by the decisions not to licence any further voice carriers and to permit only BT or Mercury to transmit signals between different Cable systems. While I sympathise with your aim of fostering Mercury, I believe it is undesirable in principle that this should be done by further substantial restrictions of competition.

In giving BT and Mercury the effective duopoly over data services in the City of London possible Cable operators will be deprived of one of their most immediately attractive openings. This is highly discriminatory and unlikely to help with the rapid development of Cable operations which we agreed need to be encouraged. The proposed concessions for Westminster and Camden and the business centres of Manchester and Birmingham are of a lesser order but still essentially restrictive and likely therefore to damage prospects for Cable.

I recognise that Mercury is being disappointingly slow in getting off the ground and that it is in all our interests to see the development of effective competition to BT. However there is surely a balance to be struck between putting all the eggs in the Mercury basket and the possible damage this will do to the

development of competition from other sources. If Mercury does not come up to expectations then it will not be helpful to have given it all sorts of exclusive rights however desirable these may seem now in order to help to get it going. I believe we should confine any restriction of competition for data services in the City of London to a very short time period of between two and at the most four years. At present your proposal provides for no time limitation at all. Any restrictions on competition in other areas should not be for any longer period.

I am copying this letter to the Prime Minister and other members of E(TP), and to John Sparrow and Sir Robert Armstrong.

Yours sincerely

J. G. Giv

Jr LEON BRITTAN

[*Approved by the Chief Secy.*]

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Broadcasting: Cable: P+2

8 MAR 1983

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CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06286

From: John Sparrow

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The Rt Hon Patrick Jenkin MP
Department of Industry
ASHDOWN HOUSE
S W 1

7 March 1983

Dear Patrick,

CABLE

I have seen a copy of your minute to the Prime Minister of 28 February proposing protection for Mercury against competition for data services in certain key business centres. This raises some important longer term policy issues.

The Government has announced on several occasions that it intends to break the state monopoly in telecommunications. To this end Mercury was licensed a year ago and envisaged initially as a competitor to BT on the national network. During the work on cable by MISC 73, the possibility of introducing competition into the local telecommunications network was perceived and it was agreed that cable systems should be permitted to offer switched two-way services in competition with BT and Mercury, except in the case of voice telephony.

If Mercury is now protected and given, together with BT, special rights to data services, there is no doubt that it will be encouraged in the short term. However, these proposals have a number of disadvantages -

- (a) this will constitute a reversal of cable policy as announced by Kenneth Baker in December 1982;
- (b) if BT and Mercury are given exclusive rights to data services in the City of London, this will indefinitely prevent further competition from developing, regardless of the requirements of business consumers to whom telecommunications services represent an important feature of their operations;

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(c) in the other centres competition will be restricted for twelve years; this restriction may inhibit the growth of cable as an entertainment medium in these areas as in the City;

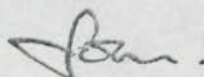
(d) it is possible that Mercury may not have the capability or wish to offer data services in all of these centres. If this is the case, BT is left without competition.

A White Paper on cable is currently in course of preparation. It is unlikely, on present projections of franchising and construction, that cable systems (other than BT and Mercury) could be operative until 1986 or 1987 at the earliest. Thus Mercury, which should be capable of offering data services in these centres during 1984, already has a head start.

As a result, we do not see that there is an over-riding case to be made out for giving Mercury indefinite protection in the City of London or protection for twelve years in other key business centres. Mercury already has special rights which should enable it to develop as a competitor to BT without further privileges. And the creation of a protected duopoly hardly seems the right way of achieving the policy aim of breaking the state monopoly of BT.

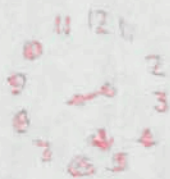
I am sending copies of this letter to the Prime Minister, other members of E(TP), and Sir Robert Armstrong.

Yours sincerely,



John Sparrow

- 8 MÄR 1983





CABINET OFFICE
Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765

Can I have



a word
about this.

There are 2

10 DOWNING STREET

conflicting interests and
do not know how to (1)
Prime Minister judge the right
time limit - not

Cable: restriction of competition

You thought a time limitation of
4 years too short.

Agree to 12 years in Westminster,
Camden, Manchester and Birmingham
; and an unlimited time in the
City of London? (As proposed by S/S)

or would you prefer 12 years
everywhere?

MUS 10/3



10 DOWNING STREET

①

Prime Minister

Restricting Cable competition

You have already seen Patrick ^{May A}

Jenkins's proposals to restrict

competition in data transmission

services, to protect Mercury (and BT).

Please see now 2 minutes by

Alan Walters, one by John Spanner

and one by the Chief Secretary.

Agree to a time limitation of

4 years on this restriction of

No. Mercury
will never get
going if we
competition? restrictions into
short.

Provided that Mercury does in
fact offer data services in all
these centres (see X in John
Sparrow's note)?

Agree not to pursue Alan
Walter's point on voice telephony?

MS 9/3

Yes

no