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Copy No ...1... of ...9....

SECRET  
AND MARKET SENSITIVE

Prime Minister

PRIME MINISTER

MERCURY RESTRUCTURING

Yes - but we  
shall need to  
have them  
quickly  
not

I am sure you will  
want Sir G Howe's views,  
and Mr Brittan's, as well as  
Sir R Armstrong's.  
MC 27/1

Cable and Wireless and BP the leading partners in Mercury are in the process of restructuring the company in the wake of the withdrawal of one of the founding members - Barclays Merchant Bank. Barclays made clear from the outset their intention to end their 20% equity participation once Mercury investment exceeded £50m.

2 Eric Sharp and Peter Walters decided earlier in the year that the best way of both guaranteeing Mercury's future and reinforcing its competitive position in a rapidly changing world telecommunications environment, was to bring in as a minority holder a leading American operator. They chose AT&T both because of the technological excellence of Bell Laboratories and because a partnership with AT&T would prize open the US market to Mercury and strengthen Cable and Wireless' chances of making a breakthrough in their US operations. Patrick Jenkin sounded out AT&T's reaction to such a link as part of an overall package when he visited the Chairman of AT&T on 8 April. There was agreement in principle that a link with Mercury was of mutual interest within the framework of a broader AT&T commitment to build up their European base in the UK. Since April, AT&T have been



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seeking to collaborate with Racal, BT and Plessey in cellular radio, with BT on an advanced communication service, with BT and possibly ICL on software for itemised billing, and with GEC-MacMichael on videoconferencing. They have also undertaken to establish a Bell R and D centre in the UK and to consider manufacturing VLSI (256k RAM and 32 bit microprocessors) and digital exchanges in the UK.

3 Following discussions with Kenneth Baker, I decided it would be best to bring in another British partner in addition to AT&T and there now seems a good chance that Reuters will be prepared to join a reconstituted Mercury consortium in which Cable and Wireless hold 40%, BP 30% and Reuters and AT&T the remaining 30%. Eric Sharp and Peter Walters have now invited Kenneth to join them in the next round of negotiations with AT&T towards the end of September.

4 The advantages of a link with AT&T to both Mercury and Government telecommunication policy which is so dependent on the success of Mercury are clear. The link does, however, raise several sensitive issues - the reaction of BT and the POEU, of British Industry, and of the European PTTs. Opposition from BT and the POEU are likely to be muted by BT's own negotiations with AT&T and AT&T's own discussions with the POEU on a possible memorandum of understanding. While many in British industry



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have already opened their own negotiations with AT&T we can expect some negative reaction, especially from Lord Weinstock who has himself been unsuccessful in his attempts to buy into both Cable and Wireless and Mercury. Some European cries of "Trojan Horse" can also be expected.

5 I have considered these difficulties carefully. I believe we will need to tighten some of our controls in the Mercury licence to safeguard UK industrial interests but have concluded that on balance we should not stand in Mercury's way of introducing US expertise into the UK, especially at a time when Cable and Wireless are establishing joint ventures with American companies to run new networks of equivalent size to Mercury in the United States itself.

6 The next step would be for Kenneth Baker to visit AT&T with Eric Sharp to discuss these issues further. But this is obviously a sensitive area, and there are other implications which may be of concern to Geoffrey Howe and Leon Brittan. Before any arrangements are made for Kenneth to visit AT&T, I should therefore be grateful for your views and those of the other recipients of this minute.

7 I am copying this to Geoffrey Howe, Leon Brittan and Sir Robert Armstrong.

Department of Trade & Industry  
Ashdown House  
123 Victoria Street  
London SW1E 6RB

C P

29 July 1983

29 JUL 1983

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From: THE PRIVATE SECRETARY

SECRET

MARKET SENSITIVE



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

4 August 1983

Dear Willie, <sup>mm</sup> 4/8

MERCURY RESTRUCTURING

We had a word on the telephone about the minute of 29 July to the Prime Minister from the Secretary of State for Trade and Industry. As Mr Parkinson anticipated, there are implications in the proposal for Mercury restructuring - in relation to establishing a capability for interception - which are of concern to the Home Secretary and to the Foreign and Commonwealth Secretary. Although you asked us originally for a very early response to Mr Parkinson's minute, this letter is to confirm what I said on the telephone: that it will take a few days to assess the implications in consultation with the FCO and for the Home Secretary to set them out in a minute to the Prime Minister. The Home Secretary expects to settle his position next week. You and others may like to know for planning purposes that it is possible that the Home Secretary, supported by the Foreign and Commonwealth Secretary, will suggest a Ministerial discussion before policy on Mercury restructuring is settled.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry and Sir Robert Armstrong.

Yours sincerely,  
A R Rawsthorne

A R RAWSTHORNE

Willie Rickett, Esq

SECRET

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