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MR TURNBULL

8 June 1984

MERCURY

The equal division of responsibility between Cable and Wireless and BP has not been successful. The top management of Mercury also needs strengthening although there are signs that the new Chairman, Sir Douglas Lowe, is aware of this problem.

If Mercury is to stand any chance of developing as a viable competitor to BT, it must have strong management and the full confidence of its shareholders. In these circumstances we support Cable and Wireless' wish to increase their shareholding to 55%.

It is not yet clear whether BP will accept this proposal. We do know that they would be happy to reduce their shareholding to as little as 20% although they had hoped that a third party, preferably with telecommunications experience, could be recruited to the Mercury consortium. The prospects of such a third partner appear to be diminishing.

Our competition policy towards telecommunications is based on the expectations that Mercury will develop into a national network in competition to BT. The seven year period of protection for Mercury, the duopoly, was designed

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to give Mercury every chance of achieving this objective.

Norman Tebbit refers to the need to secure assurances from Cable and Wireless that they are prepared to devote the necessary management resources to Mercury. In view of the significant changes in the ownership and control of Mercury since our competition policy was confirmed last year, we recommend that the Prime Minister should also seek assurances that Cable and Wireless fully intend to develop Mercury as a national competitor to BT, subject to commercial considerations.

If this is not the case and the shareholders are having second thoughts about their willingness to invest on the scale required, we shall need to re-assess the duopoly policy.

We suggest that the Prime Minister could also enquire whether there are any prospects for a third partner. Both AT&T and Pacific Telesis have expressed interest in the past and we consider that the addition of an international telecommunications company would be just the sort of boost which Mercury requires to move it into the big league.

DLP.

DAVID PASCALL

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10 DOWNING STREET

Pune Minister ①

The telecoms policy hinges on the development of Mercury as a competitor to BT. Policy Unit want to be reassured that the management / shareholder changes, which are necessary in themselves, will not become the occasion for a reduced role for Mercury.

Agree a letter to DTI to confirm that in new structure Mercury will have the resources to complete the task allotted to it?

Yes Mr

AT  
8/6



BF with PM response  
BT 217

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PS Secretary of State for Trade and Industry

28 June 1984

CONFIDENTIAL AND MARKET SENSITIVE

A Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Dear Andrew,

MERCURY

Thank you for your letter of 11 June. I am sorry not to have replied sooner.

2 My Secretary of State entirely shares the Prime Minister's view that the success of the Government's telecommunications policy depends crucially on the establishment of Mercury as a strong competitor to BT. It seems likely that at the outset the Mercury partners may have underestimated the size of the investment, in terms of staff resources as well as finance, that would be required to make Mercury a convincing alternative to BT. It needs to be remembered that so far Mercury has only some 200 staff compared with BT's 240,000; and while Mercury's shareholders have already invested some £50m in facilities, with a further £110m committed, BT's fixed assets are valued at some £8,500m. Cable and Wireless, however, are better placed than any other British company to understand the magnitude of the task Mercury is taking on; and it is encouraging therefore that after careful reflection C&W have decided that they want to take full responsibility for Mercury's future.

3 So long as there continues to be clear evidence of a firm commitment by the shareholders (whether C&W alone, or in conjunction with BP) to making Mercury fully successful, my Secretary of State will want to leave as much scope as possible for Mercury's management to decide, on commercial grounds, which are the particular market sectors on which it should concentrate its efforts in the next few years. The interconnection arrangements recently agreed in principle between BT and Mercury should provide

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the latter with plenty of opportunity to build a profitable business, but Mercury still needs to show determination and skill in identifying and satisfying customer requirements if it is to make an effective market impact.

4 In accordance with the statement on telecommunications policy which Mr Baker made on 17 November last year, we intend the new Mercury licence currently under discussion to include an obligation concerning the geographical spread of its network. My Secretary of State regards this as the necessary counterpart to the Government's undertaking that no further national network operators will be licensed before 1990. At the same time, it will be necessary to recognise that Mercury will only be able to extend its network so as to provide national coverage in due course if its commercial success creates adequate justification for the substantial investment that will be needed.

5 The Prime Minister may recall that the possibility of a large international telecommunications company's joining the Mercury consortium has already been raised twice, in relation to AT&T and Pacific Telesis. On both occasions the Home Office and the Foreign and Commonwealth Office saw some difficulties in what was proposed. At present Cable and Wireless appear to have reached a firm decision not to pursue such possibilities; but they could recur and we will discuss with the Home and Foreign and Commonwealth Offices whether, and if so on what conditions, they would be prepared to see foreign interests taking part in Mercury.

6 I am copying this letter to Margaret O'Mara (Treasury), Peter Ricketts (FCO), Christine Heald (Home Office) and to Richard Hatfield (Private Secretary to Sir Robert Armstrong).

*Yours ever,*  
*A. D. Lansley*

ANDREW D LANSLEY  
Private Secretary

Past - Present; Future A8

Ric ECL



CC HMT

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FCO

Cab. Off.  
DP.

10 DOWNING STREET

*From the Private Secretary*

11 June 1984

MERCURY

Following your Secretary of State's minute of 6 June, the Prime Minister has been giving further thought to the implications for ~~telecoms~~ policy of the changes in management and shareholding in Mercury. The success of that policy depends crucially on the establishment of a strong competitor to BT. She hopes, therefore, that the changes in Mercury do not presage any weakening on its part in its intention to become a national competitor to BT. Were there to be any such weakening on Mercury's part in its willingness to invest on the scale required, it would be necessary to reconsider the duopoly policy.

BF

The Prime Minister has also asked whether there are any prospects for new partners in Mercury. She would be interested in an assessment of the advantages and disadvantages of having a large international telecommunications company come in.

Andrew Turnbull

Callum McCarthy, Esq.,  
Department of Trade and Industry.