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PRIME MINISTER

MERCURY: PROCUREMENT POLICY AND TELECOMMUNICATIONS

I mentioned to you my concern that in the field of Government procurement of telecommunications we are not yet sufficiently responsive to the existence of Mercury Communications. It has a crucial role as the single competitor to British Telecom. The company's success is an important aspect of both our competition and telecommunications policies.

2 Mercury is now making substantial progress in the installation of its fibre-optic "figure of eight" network. It is taking other steps to develop its systems and its services. It is nevertheless in a fragile position. Its customer base remains relatively small, partly because it will only command greater confidence with customers when it can demonstrate a significant revenue stream. In that context, I am anxious that Government Departments should do all they can, within the existing Treasury guidelines on public procurement, to give Mercury a fair chance to prove itself. I began preaching this message to colleagues at the end of 1983 and more recently Geoffrey Pattie has been corresponding with Peter Rees. But little has been achieved despite goodwill in Departments and CCTA actions. So far Mercury has total contracts with Government Departments worth only £31,570 per annum. I believe that this results in part from the inertia engendered by the previous monopoly environment.

3 Neither I nor Geoffrey Pattie would wish to see special treatment for Mercury. Indeed we have said in the British

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Telecom prospectus that the normal Treasury published guidelines will apply to telecommunications. But Departments need to be aware that procurement decisions in favour of Mercury may be justified, even though the initial cost is greater, if improved value for money can be expected in the longer term as a result of the establishment of vigorous competition.

4 The guidelines contain a significant amount of flexibility in this respect. What I am anxious to ensure is that colleagues fully appreciate the importance of that flexibility in the context of telecommunications procurement decisions. I am drawing the issue to your attention because although the recent correspondence between Geoffrey Pattie and Peter Rees on this subject, to which I have referred, revealed a common understanding of the problem, I would wish to see a more explicit recognition on the part of the Treasury that Departments should take full account of the broader effects of individual procurement decisions. Otherwise reluctance on the part of Departments to place orders with Mercury will continue or even be enhanced.

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4 April 1985

Department of Trade and Industry

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Post & Telecom : Future R.D.



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