

Prime Minister (2)  
To note AT 15/15



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
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PS/Secretary of State for Trade and Industry

10 May 1985

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

Dear Andrew,

Sir George Jefferson, the Chairman of British Telecom, saw Mr Pattie earlier today and told him that BT expected to announce today the intended acquisition of the Mitel Corporation, a substantial Canadian manufacturer of telecommunications equipment. Mitel also has a UK subsidiary manufacturing telecommunications equipment at Port Skewett in Wales.

2 This intended acquisition by BT gives rise to competition issues which Ministers here will need to address. Because of the size of Mitel and its supply activities within the UK of certain kinds of telecommunications equipment this will be a merger qualifying for possible reference to the Monopolies and Mergers Commission under the Fair Trading Act 1973. This being so, in the light of whatever advice is given by the Director General of Fair Trading, my Secretary of State will have to decide whether or not the Monopolies and Mergers Commission should be asked to investigate the proposed acquisition. It is only if the Monopolies and Mergers Commission conclude that a merger would be against the public interest that there is power to prevent the acquisition.

3 Even after liberalisation the dependence of other UK equipment manufacturers on BT's outlets is still so great that this Mitel-BT proposed link-up will re-awaken fears of BT's manufacturing intentions voiced so strongly during the passage of the Telecommunications Bill. The calls from Lord Weinstock and others for the acquisition to be prevented (or at least referred to the Commission) are likely to be strident.

4 The existing BT licence contains conditions intended to ensure that BT's existing apparatus supply interests are not unfairly advantaged because of BT's position as an operator. Much emphasis was placed on these licence provisions whilst the Bill was being

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considered in Parliament in defence of the Government's decision to privatise BT without a prohibition on its involvement in manufacturing. The conditions relate to unfair cross-subsidies, separate accounts for the apparatus supply business, the separation of that business from the rest of BT's telecommunication activities, the prohibition of preferential treatment, the prohibition of linked sales and the prohibition of certain exclusive dealing arrangements. The safeguard that these conditions represent would apply in respect of the Mitel interests that BT acquired by takeover. Amendment to BT's licence to strengthen the safeguards could only come about with BT's agreement or, in its absence, a reference by the Director General of Telecommunications to the Monopolies and Mergers Commission.

5 In industrial and commercial terms the acquisition by BT of a substantial overseas telecommunications company has arguments to commend it. Because competition implications exist, however, in the light of the advice given by the Director General of Fair Trading, Ministers are likely to have to choose between:

- (a) referring the proposed acquisition to the Monopolies and Mergers Commission;
- (b) not making a reference but relying on the existing conditions in the BT operating licence to provide the safeguards against the enhanced BT equipment supply monopoly that would follow from the acquisition.

6 That decision cannot be made until the Director General of Fair Trading's considered advice, which will need to be arrived at in association with the Director General of Telecommunications, is to hand. In the meantime the line we shall be taking here is the standard one for qualifying merger situations - that the Secretary of State will take his decision in the light of the Director General's advice.

7 I am copying this letter to the Private Secretaries to the Lord President and to the Secretary of State for Wales.

Yours ever,  
A. D. Lansley

ANDREW D LANSLEY  
Private Secretary

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Secretary of State for Trade and Industry

S June 1985

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
Welsh Office  
Gwydyr House  
Whitehall  
London SW1A 2ER

*D Nick.*

Thank you for your letter of 21<sup>st</sup> May concerning BT's proposed acquisition of a controlling interest in Mitel.

I am very conscious of your interest in this matter and of course appreciate the importance of Mitel's Welsh operation. However, the competition aspects of this acquisition are particularly important and I am still awaiting the advice of Sir Gordon Borrie on whether or not a reference to the Monopolies and Mergers Commission should be made. I will naturally keep you informed of developments on this issue.

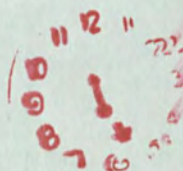
Copies of this letter go to the Prime Minister and to Willie Whitelaw.

*Y. M.*  
*Norman*

NORMAN TEBBIT

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Tel. 01-233 3000 (Switchboard)  
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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

21<sup>st</sup> May 1985

**CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE**

I have seen your Private Secretary's letter of 10 May to No 10 referring to BT's proposed acquisition of a controlling interest in Mitel and to the consideration by the Director General of Fair Trading, and perhaps later by yourself, of the competition aspects of this.

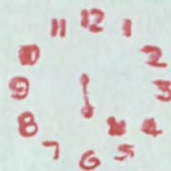
Mitel, as you clearly know, is already a major employer in South East Wales but my interest in the company goes deeper than that. The announcement of the Mitel project in 1980 was a very significant landmark in the industrial restructuring of South Wales. In employment terms the company has not yet lived up to our expectation, its present labour force of 790 being under half of the 1,700 forecast in 1980. In part this stems from the difficulties faced by Mitel in Canada and elsewhere. But whatever the cause I regard the consolidation and development of Mitel's Welsh operation as important in itself and of crucial significance in the context of microelectronics developments along the M4 west of the Severn Bridge. It seems to me that, in that context, BT's acquisition of Mitel would be a splendid thing. I was in fact strongly tempted to express such a view in this week's Welsh Grand Committee debate but refrained from doing so for fear of compromising your position, should you have to consider advice from the Director General on the question of a reference to the Monopolies and Mergers Commission.

The fact that your Private Secretary's letter was copied to mine indicates your awareness of my considerable interest in Mitel's future. Could I however please ask you to keep me closely in touch with developments in this matter. Copies of this letter go to the Prime Minister and to Willie Whitelaw.

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry

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21 MAY 1985





PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

14 May 1985

*Dear Andrew,*

*attached* —

The Lord President has seen a copy of your letter of 10 May to Andrew Turnbull about British Telecom's intention to acquire the Mitel Corporation.

Lord Whitelaw has commented that Lord Weinstock and others will indeed create a tremendous row if the acquisition goes through without reference to the Monopolies and Mergers Commission.

I am sending copies of this letter to Andrew Turnbull, and to Colin Williams in the Welsh Office.

*yours ever.*

*Janet Lewis-Jones*

JANET A LEWIS-JONES  
Private Secretary

Andrew Lansley Esq



15 MAY 1985

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