



JH 875

PRIME MINISTER

CONFIDENTIAL

Prime Minister ⁽¹⁾

Mr Tebbit wishes to transfer the Mercury licence from C&W (with Mercury as agent) to Mercury itself. Neither I nor policy unit can see any objection, though FCO may have reservations. Agree, subject to colleagues?

Yes no

AT 16/2

MERCURY LICENCE

I am increasingly concerned that the present arrangements, whereby the Mercury licence is granted to Cable and Wireless (C&W), with Mercury Communications Ltd as its agent, may be damaging Mercury's prospects.

2 Our present policy is for Mercury to be the only network competitor for BT. We hope that by the end of the decade Mercury will have emerged as an effective second network giving telecommunication users a choice of network. The Mercury venture is, however, full of risks and we cannot afford to put any unnecessary obstacles in its way.

3 We adopted the present licensing arrangement because allowing a second network was an unprecedented step and we wanted control to rest in the hands of an established telecommunications operator over half of whose shares were owned by the Government and with whom there was an established basis of trust. We were also influenced by considerations of national security.

4 Mercury has now progressed to the point where it has started to do a limited amount of business. Major construction



contracts have been let and in recent discussions C&W and BP have agreed in principle to accept licence obligations requiring them to install the Mercury network on a more extensive basis than planned hitherto. This obligation will require Mercury to invest large sums of money, possibly as much as £600 million. The precise sums and the nature of the obligation are not yet fixed, however, and the Mercury partners have been slow to reach decisions.

5 Some of this may be attributable to the arrangement whereby Mercury is merely C&W's agent, which generates commercial tensions between BP and C&W. One of the partners, C&W, is the licensee and as a result appears to have the upper hand in the venture even though it puts up less than half the cash. BP puts up an equal amount of cash but finds itself as the minor partner.

6 Legally, the agency arrangement adds complexity. There is a series of joint-venture and management agreements which mean that lawyers have to spend time considering the legal implications of decisions and even how they are to be taken. There are complications for the new licence which Mercury will need under the Telecommunications Bill.

7 C&W and BP have now joined together to ask that the new licence should be granted to Mercury Communications Ltd direct and not to C&W. I would welcome your agreement that this should



be done. It would provide a much simpler arrangement, enabling the venturers to put their money into a single company which could get on with the job of installing the new network and attracting customers from BT.

8 Since we granted the original licence the Government's shareholding in C&W has been reduced below 25% and is lower than the 31.75% shareholding in BP. Mercury is an established company and its new Chairman, Air Chief Marshall Sir Douglas Lowe, formerly Chief of Defence Procurement, is someone we can trust completely to handle national security issues. Moreover, the Telecommunications Bill will provide a watertight legal basis for giving Mercury specific directions in the interests of national security and international relations. This was lacking when the Mercury licence was first granted. I understand that the Home Office are content that these new powers would be adequate for their purposes.

9 One possible objection to giving the licence to Mercury is that Mercury itself and not C&W would then be designated as a public telecommunications operator. As a consequence, the Government would not be able to give C&W directions about its other activities overseas, for example in Hong Kong. I understand that the Foreign and Commonwealth Office would prefer to retain arrangements under which C&W could be directed to continue operations in Hong Kong even if the company wanted to



pull out for commercial reasons. I do not think this is a realistic concern. At present C&W is investing heavily in Hong Kong for the long-term future. If eventually C&W did want to withdraw for good commercial reasons, it would be wrong in principle for the Government to use powers of direction to overrule the company's judgement. I would also resist any idea that we ought to keep C&W in a position where it would be directed to remain in small colonies and other overseas territories; if in future the Government wanted to secure that C&W provided telecommunications service in any overseas territory, we should surely do this under a commercial arrangement.

10 Against this background I would be glad to have your agreement that when the Telecommunications Bill enters into force I should grant the Mercury licence direct to Mercury Communications Ltd, on the understanding that the text of the licence itself and of any direction that needs to be made in the interests of national security or international relations was agreed with the Home Secretary and the Foreign and Commonwealth Secretary.

11 Copies of this minute go to Geoffrey Howe, Leon Brittan and Nigel Lawson and to Sir Robert Armstrong.

N T

15 February 1984

15 FEB 1964

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CONFIDENTIAL

bc. J. Redwood

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10 DOWNING STREET

From the Private Secretary

17 February, 1984.

Mercury Licence

The Prime Minister has seen your Secretary of State's minute of 15 February. She is content that the Mercury licence should be granted direct to Mercury Communications Limited on the understanding that satisfactory agreements are reached with the Home Secretary and the Foreign and Commonwealth Secretary.

I am sending copies of this letter to Brian Fall (Foreign and Commonwealth Office), Hugh Taylor (Home Office), John Kerr (HM Treasury), and Richard Hatfield (Cabinet Office).

Andrew Turnbull

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

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CCNO

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AT 26/3

From: THE PRIVATE SECRETARY

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HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

23 March 1984

Dear Callum,

MERCURY

The Home Secretary has seen a copy of your Secretary of State's minute of 15 February to the Prime Minister about a proposed change in the licensing arrangements for Mercury Communications. He is content for the change to proceed subject to the making of a direction, the terms of which have been discussed by officials, under what is now clause 92 of the Telecommunications Bill, to cover the national security interest in the matter.

Copies go to Andrew Turnbull (No 10), Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,
Hugh Taylor

H H TAYLOR

Callum McCarthy, Esq

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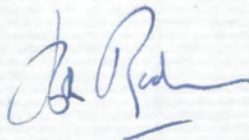
MR TURNBULL

MERCURY LICENCE

I have telephoned Mr Taylor in the DTI and asked whether it mattered that the licence would now be passing from a financially strong profitable group to a start-up company experiencing substantial cash outflow.

He countered by saying that the important thing was the commitment of the two principal shareholders, Cable and Wireless and BP and that they saw it as a way of bringing BP more fully into the net. They had considered this aspect and were satisfied.

In view of this I do not think we should trouble the Prime Minister concerning this pedantic question and can see no other objection to the proposal as set out by Norman Tebbit.



JOHN REDWOOD
16 February 1984

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