

PART V.—RECOMMENDATIONS.

39. As the outcome of these negotiations, we submitted the scheme outlined below for consideration by the Governments concerned, as providing the best solution of the problem referred to us.

40. The objects of the scheme are—

- (a) To secure as far as possible all the advantages to be derived from unification of direction and operation :
- (b) At the same time to preserve for the Governments concerned control over any unified undertaking which may be created, so as to safeguard the interests of the public and the cable and wireless users :
- (c) To secure these desiderata at a minimum cost to the Governments.

41. Before setting out our recommendations in detail we desire to record that His Majesty's Government in the Union of South Africa has stated that it fully realizes the necessity for maintaining adequate means of communication between the various parts of the Empire, and with that object participated in this Conference. It was because the Union of South Africa is in an entirely different position from that of Great Britain and the other Dominions, who possess in some instances financial control, and in others financial interests either in cables or in wireless, or in both, that the Union Government made the reservations referred to in paragraph 33 above.

42. We wish also to note that the existing joint-purse arrangement between the Eastern companies and the Indo-European Telegraph Company and the Indo-European Telegraph Department of the Government of India will not be affected by acceptance of the recommendations detailed below, although the precise terms of these arrangements may possibly require revision.

43. Our recommendations are accordingly as follows :—

Recommendation 1: The Merger Company.—“The merger company to be formed will acquire as from the 1st April, 1928, all the ordinary shares of the Eastern, Eastern Extension, and Western Telegraph Companies, and all ordinary and preference shares and debentures (if any) of the Marconi Wireless Telegraph Company.”

This merger we consider forms an obvious basis for the creation of a company to combine the respective interests of the cable and Marconi groups. Bearing in mind that the cable and Marconi groups have large investment interests and manufacturing interests respectively which are not directly concerned with communication services, an entirely separate company on public-utility lines is proposed to own the assets and conduct the business of the merger in so far as communication services are concerned. (See recommendation 2.)

Recommendation 2: The Communications Company.—“There will also be formed a Communications Company to which the Cable and Marconi Companies will sell as at the 1st April, 1928, all their communication assets in exchange for shares. The Communications Company will therefore hold all the communication assets of the Cable and Marconi Companies, except in so far as these belong to the subsidiary companies in which the Cable and Marconi Companies' holding is less than 100 per cent. The Communications Company will acquire the holdings of the Cable and Marconi Companies in those communications companies in which the Cable and Marconi Companies' holding is less than 100 per cent. The Communications Company will also acquire the Government cables and hold the lease of the Post Office beam. The capital of the Communications Company is not to exceed at its inception £30,000,000.”

By this means an arrangement is made to segregate in the Communications Company what may be termed the purely communications assets of the undertaking. Further, the proposed capitalization of the Communications Company will bear a direct relation to this aspect, thus enabling a scheme to be devised for the equitable apportionment of the future profits derived solely from communications operations as between shareholders of the company and users of the service. (See recommendation 5, below.)

Recommendation 3: Terms of Transfer of the Governments' Cable and Beam Assets.—“The Communications Company to take over as from the 1st April, 1928, the Pacific Cable Board's cables, the West Indian cable and wireless system worked by the Pacific Cable Board, the Imperial Atlantic cables, and the lease of the Post Office beam service (including provision for the transfer to the company of existing staffs) on terms to be arranged.

“The beam service to be leased for twenty-five years at a rental of—

“(a) A basic sum of £250,000 per annum :

“(b) As from the 1st April, 1931, an addition equivalent to 12 per cent. on any increase in the company's profits (from communications services) above the standard revenue (see recommendation 6) ; a payment of £60,000 to be paid in such manner as may be agreed.

“The Communications Company to undertake to meet the annual service of the outstanding debt on the Pacific Cable Board as on the 1st April, 1928, and to pay in addition a capital sum of £517,000 for the Pacific Cables, together with interest at 5 per cent. as from the 1st April, 1928 ; to pay £300,000 for the West Indian cable, and £450,000 for the Imperial cables. The rental payable by the Communications Company and the service of the Pacific Cable Board debt will be guaranteed by the merger company.”

Recommendation 4: Direction and Management of the Undertakings concerned.—“The board of directors of the merger company, the Communications Company, the Cable and Marconi's Companies will be identical. Two of the directors, one of whom shall be the chairman of the Communications Company, to be persons approved by His Majesty's Government on the suggestion of the Cable companies.”