

PREM 19/260

PART 1

Confidential Filing

National Enterprise Board,  
Introduction of a new clause in the  
Industry Bill covering NEB's financial limits.

INDUSTRIAL  
POLICY

May 1979

| Referred to          | Date | Referred to | Date | Referred to | Date | Referred to | D |
|----------------------|------|-------------|------|-------------|------|-------------|---|
| <del>6.5.79</del>    |      |             |      |             |      |             |   |
| <del>10.7.79</del>   |      |             |      |             |      |             |   |
| <del>15.7.79</del>   |      |             |      |             |      |             |   |
| <del>14.11.79</del>  |      |             |      |             |      |             |   |
| 20.11.79.            |      |             |      |             |      |             |   |
| <del>21.11.79.</del> |      |             |      |             |      |             |   |
| <del>28.11.79</del>  |      |             |      |             |      |             |   |
| 12.12.79             |      |             |      |             |      |             |   |
| 24.1.80              |      |             |      |             |      |             |   |
| <del>28.1.80</del>   |      |             |      |             |      |             |   |
| <del>31.5.80</del>   |      |             |      |             |      |             |   |
| <del>16.6.80</del>   |      |             |      |             |      |             |   |
| <del>18.6.80</del>   |      |             |      |             |      |             |   |
| <del>23.6.80</del>   |      |             |      |             |      |             |   |
| <del>24.6.80</del>   |      |             |      |             |      |             |   |
| <del>26.6.80</del>   |      |             |      |             |      |             |   |
| 1.7.80.              |      |             |      |             |      |             |   |
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| ENDS                 |      |             |      |             |      |             |   |

PREM 19/260

● PART 1 ends:-

NBS to PM 30/6/00

PART 2 begins:-

Hunsard extract 1/7/00.

TO BE RETAINED AS TOP ENCLOSURE

## Cabinet / Cabinet Committee Documents

| Reference  | Date     |
|--|----------|
| E(EA)(79) 7 <sup>th</sup> Meeting, Minute 3            | 11/07/79 |
| CC(79) 23 <sup>rd</sup> Conclusions, Item 4b (Extract) | 28/11/79 |
| E(DL)(80) 8  | 13/06/80 |
| E(80) 20 <sup>th</sup> Meeting, Item 2                 | 17/06/80 |
| E(DL)(80) 3 <sup>rd</sup> Meeting, Item 2              | 24/06/80 |
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The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed

*A Wayland*

Date

*6 May 2010*

PREM Records Team



## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 21 November 1979,  
Columns 388-399 "National Enterprise Board and Rolls-Royce"
2. National Enterprise Board: Annual report and accounts 1979

Signed AWayland Date 6 May 2010

**PREM Records Team**



10 DOWNING STREET

PRIME MINISTER

Sir Keith Joseph wishes to make a statement tomorrow announcing the Government's decision on Ferranti. We have agreed that he may do so, subject to events tomorrow morning. You might perhaps have a word with him about it when you see him at breakfast.

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The Department of Industry will send us a draft of the statement as soon as it is available, but that will not be until tomorrow morning.

*ms*

*MS*

30 June 1980



FERRANTI: STATEMENT BY THE SECRETARY OF STATE

With permission, Mr Speaker, I will make a statement about the disposal of the NEB's shareholding in Ferranti. I undertook in our recent debate to study what was said and to report to the House.

The overwhelming view of the House was that if the NEB's shares were to be sold, they should be sold in such a way as to safeguard, at least temporarily, Ferranti's independence.

I had told the House that a placing of shares to achieve such a purpose would tend to be below market price, so that the taxpayer would probably get less than he would if bids for the company were considered. Moreover, to place the shares without conditions might not meet the purpose, since it might be possible for an over-bid at an attractive price to succeed. In that case the taxpayer would not have the benefit from the higher price, and the independence of the company, which would have been the purpose of the exercise, would not have been preserved.

I pointed out that conditions could be imposed, but that they would further lower the price. I explained that a placing of shares, with conditions, with a group of institutions, would not provide a guarantee of independence.

/The Board ...



The Board of the NEB told me that in all the circumstances, as a matter of commercial judgement, they considered the right course was to place the shares with institutions. But they thought that to impose conditions on the disposal was not a normal commercial action and accordingly they asked me to give them a direction. This I have done. Under powers in the Industry Act 1975 I directed the NEB yesterday to sell their shares on terms under which each purchaser agrees not to dispose of any interest in them for 2 years without the consent of the NEB. I have also directed the NEB to retain 4% of their holding for Ferranti's employees under an appropriate scheme. A copy of this direction has been laid before Parliament.

The NEB hopes to place the shares at £5.30 each. This compares with £5.97, the price immediately prior to the suspension of the shares yesterday morning - a discount of about 11%.

The cost to the taxpayer of this arrangement, as distinct from selling the shares to the highest bidder, cannot be known. It must be recognized, however, that a successful bid might - I repeat, might - have been referred to the Monopolies and Mergers Commission, and some months would have passed before the outcome was known. Had the decision gone against the bidder the taxpayers' interest would have suffered, and even a favourable decision would have deferred the sale receipts for some time. I believe, therefore, that the balance of advantage lies with a placing, subject to conditions,

/despite ...



despite a small net loss to the taxpayer.

I believe that the whole House will wish the company well.

**CONFIDENTIAL**



cc HO D/ENERGY  
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10 DOWNING STREET

*From the Private Secretary*

26 June 1980

Ferranti disposal of NEB shareholding

The Prime Minister has considered your Secretary of State's minute of 25 June reporting on the discussion in E(DL) of the Ferranti disposal question. The Prime Minister accepts the Committee's conclusion that the NEB should aim for a widely dispersed shareholding as a result of the disposal, and she agrees that your Secretary of State should now discuss the proposals privately with the NEB Chairman.

I am sending copies of this letter to Private Secretaries to members of E(DL) and E Committee, Brian Norbury (Ministry of Defence), Godfrey Robson (Scottish Office), John Craig (Welsh Office), and David Wright (Cabinet Office).

J. P. LANKESTER

Ian Ellison, Esq.,  
Department of Industry.

**CONFIDENTIAL**

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✓  
MS

Mr Saunders,

Scottish  
Daily  
Express

June 25, 1980

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Harold Gill

# DEAR MAGGIE

DEAR Mrs. Thatcher:

Remember us? We're the long-suffering folk north of the border.

The ones you visited last month with the message: "We are well aware of Scotland's special problems."

If ever you had the chance to demonstrate that awareness, it is tomorrow—when your Cabinet decides how to dispose of the nation's 50 per cent share-holding in Ferranti.

On the eve of that decision, let me tell you what it means for Scotland. And—if the Cabinet make the wrong decision—what it means for your Government's credibility in Scotland.

We realise the rightness of selling the National Enterprise Board stake in Ferranti. But if Ferranti is sold simply to the highest bidder, it will be selling out Scotland. Don't let anyone sell Scottish jobs and Scottish hopes.

And after Ferranti, what? You might as well sell Edinburgh Castle—and indeed the Palace of Holyroodhouse—to an Arab oil sheikh.

## FAITH

Make no mistake—we Scots see Ferranti as a test case of the Government's intentions. By selling it to a Ferranti—with their 10 Scottish factories and 7,500 Scottish jobs—to retain their independence, you will be re-affirming your faith in Scotland's future.

When you visited your Scottish party faithful in Perth last month, you asked them to have patience through the hard times as your policies brought inflation under control.

But that patience has been sorely tried. Since you spoke, thousands more Scottish jobs have gone, because companies could not afford to wait until the economy turned the corner.

Your opponents have had a field day, particularly in the Glasgow Central by-election where voting takes place tomorrow as you decide, Labour and the Scottish Nationalists allege that the Cabinet has written off Scotland, because Scotland voted predominantly Labour at the General Election and swung even further left at last month's district polls.

If the Scottish Nationalists come out ahead of the able Tory candidate in tomorrow night's count, it will be because that smear has stuck.

## IGNORED

It is alleged that Scottish Office Ministers are ignored on vital issues. That decision—such as those made on British Caledonian Airways and Hampden Park last week—illustrate their impotence.

Yet we know that Scottish Secretary George Younger fights for Scotland in Cabinet and in Whitehall. Make sure your colleagues heed his voice on the Ferranti issue—for he speaks for Scotland.

All Scotland is behind him when he argues for Ferranti's independence—not only the workers whose jobs are at stake, the trade union movement, people of all political parties and none, and even the Kirk of Scotland has, through the moderator, thrown its non-episcopal hat in the ring on grounds of compassion to people and their jobs.

And not just with head and heart—Scots are prepared to put their money behind Ferranti. A consortium of Scottish financial institutions has been formed to take over the shares now

An open letter to the Prime Minister from an Express writer

By TOM BROWN

being held by the National Enterprise Board.

This is one time when Scotland is not asking for hand-outs, or for a change in Government policy.

The Scottish factories contribute the bulk of the Ferranti profits—announced at £112 million yesterday. The Scottish workers and management have done more than any to transform Ferranti into the glamour stock that everybody wants to grab.

A few years ago, any profit from Ferranti was unthinkable—since his was the company least to be rescued by the National Enterprise Board.

The NEB investment of £7 million is now worth over

said if there was an "Association" with Ferranti's redundancies in Scotland were "inconceivable".

What is "inconceivable" is that a major company like GEC, which is in competition with Ferranti, should take it over and then not indulge in the age-old absentee-owner ploy of rationalisation.

## SCARS

Industrial Scotland bears the scars of big-business "rationalisation" and elimination of competing plants—it means lost jobs and closed-down factories.

As councillor John Crichton, Convener of Lothian Region in which seven Ferranti factories are sited points out: "We have had bitter experience of successful and profitable operations passing

'Scots see Ferranti as a test of your Government's intentions'

into control of larger groups in this field.

Takeover by a rival is the only way that Ferranti factories in Scotland would close. The company is one of the few in the Scottish economy that is expanding—there are plans for two more factories if the company's future is assured.

Its research and development work is carried out in Scotland—and that means the know-how that produces more jobs for the future.

When George Younger speaks for Ferranti in Cabinet tomorrow, he is speaking for your party's principles of spread of ownership, enterprise and competition and, of course, for Scotland.

At Perth last month you said: "Because some of Scotland's problems are of long-standing and are more deep-rooted, it is even more important that they should not be dealt with on the basis of short-term expediency."

Make sure your Cabinet colleagues remember that tomorrow Mrs. Thatcher, when you remember us,



Sir Keith: No heart?

sell to the Scottish institution—£20 million—so that if you frown, or turn the shares on to the open market, the taxpayers will have a handsome return on that investment.

Your Industry Minister Sir Keith Joseph made a typically opaque speech when Ferranti was discussed in the Commons last week.

Only two things became clear: He ruled out any prospect of the company falling into the hands of a foreign bidder. Since Ferranti is a major defence contractor, he could hardly do otherwise.

And he indicated his own preference for a sale to the highest bidder. He glossed over the Scottish interest saying: "No potential bidder is going to ignore the importance to Ferranti of its Scottish operations."

Sir Keith's desire to make as much as possible from the sale of the NEB shares—on top of the profit that will be made anyway—does him credit.

But what does he have for a heart—a computer? He is talking about people and jobs.

Sir Keith may have been lulled by the statement issued by the company most likely to take over Ferranti—if it is allowed.

The Giant GEC company



CONFIDENTIAL



DEPARTMENT OF INDUSTRY  
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*Secretary of State for Industry*

25 June 1980

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Tim *R 25/6*

FERRANTI: DISPOSAL OF NEB SHAREHOLDINGS

Earlier today my Secretary of State minuted the Prime Minister on the outcome of the meeting of E(DL) on Tuesday.

I have now had a message from the Cabinet Office, asking that this minute should be circulated also to members of E. I am therefore copying this letter, together with a copy of my Secretary of State's minute to the Prime Minister, to those members of E who are not also members of E(DL).

*Yours sincerely*  
*Catherine Bell*  
CATHERINE BELL  
Private Secretary

26 JUN 1960

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*of Mr Drysdale 1*



PRIME MINISTER

FERRANTI DISPOSAL OF NEB SHAREHOLDING

At the meeting of E(DL) on Tuesday we considered two board options for advising the NEB on the sale of their 50% shareholding in Ferranti:-

*Ann Butcher*  
*W. S. G. J.*  
 Are you content for Sir Keith to proceed as proposed? or do you want this taken in E first?

*DL*  
*25/6*

(i) To sell to the highest UK bidder, subject to satisfactory assurances about continuance of the company's Scottish interests - as recommended by Adam Butler in E(DL)(80)8 - and recognising that GEC and Racal would be the front runners.

(ii) To look for the best price available from placing the shares with the institutions with a view to a widely dispersed holding and on a basis which would take account of the Scottish interests - as recommended by George Younger in his letter of 12 June to me.

In looking at these options we noted that:-

(i) Sale to a single bidder would attract a premium whereas a placing would be at a discount, and the difference could be in the order of £10 million-£20 million.

(ii) The Government could be severely criticised if the shares were sold to the institutions at a discount and they immediately made a killing by selling them to the highest bidder - we would have lost a substantial sum for the tax



payer and failed to prevent the takeover of the company by a competitor.

(iii) John Nott now takes the view (in his letter of 23 June to me) that if GEC were to bid, and probably Racal too, the Director-General of Fair Trading could well recommend a reference to the Monopolies and Mergers Commission which we would have to accept. This would take six months, and in the meantime the offer to buy would be conditional. Even if the bid were approved the receipt of the revenue would be delayed, possibly into 1981-82; and if it were to be refused the NEB would then be left with the shares and we would have to start again.

Against this background a small but clear majority of the Sub-Committee were in favour of a widely dispersed shareholding for the following main reasons:-

- (i) Sale of this highly successful and independent company to a major competitor would be seen as contrary to our general policy of encouraging a vigorous and competitive private sector.
- (ii) With GEC in particular there would be a risk of rationalisation of capacity leading to a run down of the company's activities in Scotland.
- (iii) While sale to the highest bidder might give the highest



return to the taxpayer, account had to be taken of these wider objections to it, to the high return the taxpayer would get anyway from the original public sector investment of £8.7 million in 1975, and to the probability that costs of procurement by the Ministry of Defence would be higher in future as a result of the elimination of competition.

(iv) The possibility of encouraging employee shareholding and wider public ownership by this route.

Accordingly the Committee on balance favoured advising the NEB to reserve a proportion of the shares for sale to Ferranti's 17,000 employees and to place the rest with the institutions, including possibly the joint stock banks, who would retain some and sell some to the public. To avoid the objection noted in paragraph 2(ii) above, and to preserve the Scottish interests, it would be necessary to consider placing conditions on the sale of the shares to the institutions, though this would lead to a further discount on the price beyond the £10-20 million. I shall wish to consult the NEB on this point in particular.

In the meantime John Nott will consult informally with the Director-General of Fair Trading to establish whether he would indeed be likely to recommend reference to the MMC of a bid from a single major competitor. If he would, an indication to this effect might be helpful in discouraging such a company from attempting to acquire a significant holding by purchasing shares from the institutions and others - those present holders



who are neither the Ferranti family nor the NEB - at a premium.

Subject to your views my next step would be to discuss our proposals privately with the Chairman of the NEB. I would then consider with him what should be said publicly and when.

I am sending copies of this minute to Members of E(DL), to the Secretaries of State for Defence, and Scotland and Wales and to Sir Robert Armstrong.

KJ

25 K J  
June 1980

Department of Industry  
Ashdown House  
123 Victoria Street

25 JUL 1961



PRIME MINISTER

ms  
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FERRANTI

E(DL) Committee considered the Ferranti issue this afternoon, and concluded in favour of the Scottish Secretary's solution - i.e. that the NEB's shares should be placed with the institutions and not sold directly to the highest bidder. Sir Keith Joseph, two Treasury Ministers and Mr. Butler argued in favour of the highest bidder solution; but there was a clear majority against.

The Committee also took the view that as many shares as possible should go to Ferranti employees; but it is unlikely that more than five per cent could be taken up in this way (unless they are handed out at a discount). The Committee did not apparently consider in any detail on what conditions the shares should be placed with the institutions. Obviously, there will have to be conditions since otherwise, the institutions will pick up the shares at a relatively low price and immediately sell them to, say, GEC - and thereby make a killing.

Sir Keith Joseph will minute you on all this tomorrow. You can then decide whether or not to take the issue to E Committee; and also we will have an opportunity to comment on the conditions point which has not yet been clarified.

The Queen is visiting two Ferranti plants in Scotland next Wednesday: it seems unlikely that an announcement will be made before then since we not only have to take a final decision, but there will also need to be discussions with the NEB on the question of conditionality (assuming we do place the shares with the institutions).

24 June 1980

cc: Mr. Whitmore



Original - GJR



Ind P. MFJ  
c 25/1

10 DOWNING STREET

THE PRIME MINISTER

24 June 1980

*Basil de Ferranti*

Thank you for your letter of 10 June about Ferranti Limited.

As you will know from the meeting which you and other members of the company's Board had with Adam Butler on 10 June, the Government is giving a good deal of thought to the question of what should be done about the future of the NEB's shareholding in the company. I am sure, too, that you will have read reports of Keith Joseph's speech in the House on 18 June. As Keith said in identifying the options and the difficulties to which they would lead, the range of choice in practice may be limited. I can assure you, however, that we are fully aware of the need for an early decision, and that it will be taken only after the most careful consideration.

*Yours sincerely*  
*Raymond Stelton*

Basil de Ferranti, Esq.

\_\_\_\_\_

J



Ind P57

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

24 June 1980

*Don back*

*P. ...  
m*

FERRANTI LIMITED

I understand that under your chairmanship E(DL) will be discussing the future of Ferranti Ltd this afternoon.

I thought I should write briefly to you before the meeting to let you know that I do have some views on this question of both a political and industrial character which I should like colleagues to consider before a final decision is taken.

It is probably your intention that the conclusions of E(DL) should be brought before Cabinet or 'E' Committee; I would certainly hope that on a matter of this importance colleagues generally will have an opportunity to comment.

I am copying this letter to the Prime Minister, other members of 'E' Committee and Sir Robert Armstrong.

*Lee  
T*



DEPARTMENT OF INDUSTRY  
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123 VICTORIA STREET  
LONDON SW1E 6RB

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Secretary of State for Industry

The Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Dover House  
Whitehall  
London SW1A 2AU

23 June 1980

*Dear George*

*R 24/1*

FERRANTI

Thank you for your letter of 12 June about the future of the NEB's shareholding in Ferranti.

As you will be aware, E(DL) Committee will have a full discussion of the subject at the meeting which has been arranged for 24 June, and I expect that by now you may have had an opportunity of considering the paper which Adam Butler has prepared for the purpose: E(DL)(80)8. As you know, Adam and I made clear to the House in the debate on 18 June that the Government had not yet reached a conclusion, and that we were considering all the relevant factors most carefully.

I am sending copies of this letter to the recipients of yours.

*Yours  
Lair*

Copies to:

PS/Mr Butler  
PS/Mr Marshall  
PS/Secretary  
Mr Manzie  
MR Battersby Conf file

24 JUN 1960





From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Keith Joseph Bt MP  
 Secretary of State for Industry  
 Department of Industry  
 Ashdown House  
 125 Victoria Street  
 London, SW1E 6RB

MSM  
 2  
~~Perranti~~  
 He notes wants  
 the Ferranti shares  
 to be placed into  
 23. June 1980

Dear Keith.

R  
 2/26

FERRANTI

Since we briefly discussed the disposal of Ferranti in E Committee last week, I have been given further thought to the options and their various implications for monopolies and mergers policy. It may be helpful to colleagues to have my views before the meeting of E(DL) tomorrow.

In earlier correspondence on the disposal of Ferranti and Fairey I made clear that the decision on competition aspects would turn on the advice given to me by the Director General of Fair Trading, and I pointed to the difficulties of vetoing any recommendation for a reference to the Monopolies and Mergers Commission (my letter of 17 April to Nigel Lawson).

The likelihood of a bid by GEC for the NEB holding in Ferranti reinforces my thinking on this point. My own information, contrary to what Adam Butler implies in his Memorandum (E(DL)(80)8), is that the Director General could well recommend reference to the MMC. To overturn his recommendation so as to prevent the MMC from considering the implications for the public interest of such an acquisition would destroy the credibility of our competition policy. Moreover, I



*From the Secretary of State*

CONFIDENTIAL

believe that it would not be acceptable to the House of Commons.

Reference to the MMC would have two disadvantages. First, the consequent delay would be contrary to our disposals policy on early realisation of these assets and consequent benefits to the PSBR. Secondly, an adverse finding by the Commission could in any event prevent the shares passing to GEC.

In these circumstances I consider that, despite the financial penalty to which Adam Butler refers, the only option which we ought to contemplate is a placing with the institutions. If GEC then decide to overbid for the holding, the acquisition could be referred to the MMC and any adverse conclusion would not damage our objectives.

I am copying this letter to the Prime Minister, to all Members of E(DL) and to Sir Robert Armstrong.

*Yours ever  
John*

JOHN NOTT

25 JUN 1963



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hd PL

TEXT OF THE REASONED AMENDMENT TO THE MOTION FOR THE FERRANTI  
DEBATE ON WEDNESDAY 18 JUNE

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That this House, recognising the signal achievements of the workforce, technicians and management of Ferranti Limited in restoring the company to prosperity, welcomes the Government's intention that the NEB's shareholding should be sold as soon as practicable, having regard to the interests of the company, the tax-payer, and such other considerations as the Government may draw to the NEB's attention.

Approved by PM - PA

MS

17/6



CONFIDENTIAL

PCC(80)10

The Disposal of Ferranti

It is hoped that the attached brief will be of use to Members for the debate on an Opposition motion on Wednesday, 18th June 1980 on the disposal of the National Enterprise Board's holding in Ferranti.

Conservative Research Department,  
32 Smith Square, London S.W.1

RH/JMH  
17. .80

## 1. Background: the Company

The company originally incorporated in 1905, was formed by Sebastian Z. de Ferranti in 1882 to manufacture the alternators invented by himself and by Sir William Thomson. Ferranti designed and built the world's first high voltage alternating current power station at Deptford. From this interest in electrical generation stemmed the later manufacture of alternators, meters, transformers, fuses and switchgear.

In spite of continuing successes in higher technology, Ferranti came near to collapse in 1974. The company was caught between a contracting UK market for transformers on the one hand and the need to fund costly research and development in the high technology field. The refusal of the National Westminster Bank in that year further to extend overdraft facilities finally precipitated a crisis.

This crisis played into the hands of the Labour Government and of Mr. Anthony Wedgwood Benn, then Secretary of State for Industry. On 14th May 1975 Mr. Benn announced that the Government, which had earlier given a guarantee to Ferranti's bankers, would take a controlling interest in the company.

On behalf of the Government Sir Don (now Lord) Ryder was entrusted with the negotiation of the terms under which the government would ensure control in the face of strong resistance by the Ferranti brothers who sought to retain a share of the company. In fact, £15 million was injected into the company, consisting of £6.3 million in the form of loans and the rest in equity. This gave the Government a 62.5% share of total equity. The Ferranti brothers managed, however, to have a clause inserted in the agreement with the government to the effect that the Department of Industry would reduce its shareholding to 50% through an offer to the existing shareholders if and when Ferranti's obtained a listing for its stock before 1st October 1978.

The extent to which private sector capital might have been forthcoming to "rescue" the stricken company in 1974-5 will no doubt continue to be debated. However, in practice the injection of Government money appears to have overcome what was essentially a cash-flow problem and to have allowed Ferranti's subsequently to go from strength to strength.

The appointment of Mr. Eerek Alun-Jones as managing Director of Ferranti's in 1975 marked a major step towards recovery. Mr. Alun-Jones who had previously served with Burmah oil, embarked upon a process of rationalisation. When he arrived the company's operators were fragmented into 15 separate businesses, each of them reporting directly to the Chairman. These were consolidated into five groups: computer systems, Instrumentation, Electronics, Engineering and the Scottish Group, covering a wide product range including military and civil computers; instrumentation systems; aviation electronics (including radar), lasers and gyroscopic systems; micro-electronics and semi-conductors; power transformers; mechanical handling and agricultural equipment.

Rationalisation has also meant the sale of a number of peripheral activities and in one case amalgamation. For instance, Ferranti-Packard Ltd., Ferranti's long-established subsidiary in Canada has been sold to Northern Engineering Industries Ltd - an international power engineering group intending to make Ferranti-Packard a base for expansion in North America. Similarly, the Special Components Department, which manufactures cathode ray tubes and components has been sold to Thorn Electrical Industries and Ferranti Helicopters Ltd to Caledonian Airways. In 1978 a joint company was formed with Siemens (the German electronics giant) in order to strengthen Ferranti's position in the market for electricity meters. In the same year an agreement was signed with Honeywell Inc. for the joint marketing of a range of military lasers in the USA.

As a result of the alleviation of the crisis in cash flow and of sound financial management the turn-round in Ferranti's performance has been dramatic. The 1978-1979 profit of £9.9 million before tax was 9% up on that for 1977-1978. Return on capital employed improved from 14.5% to 16.6%. Figures for 1979-1980 are expected shortly and are likely to show a similar return - which after due allowance is made for strikes, high interest rates and a strong pound is encouraging

As a result of this turn-round in performance, the National Enterprise Board (to which Ferranti has been transferred by the Government in 1976) in 1978 disposed of some of its shareholding to retain 50% and the company secured a stock exchange listing. As agreed with the Ferranti brothers 12½% of the non-voting shares held by the NEB were sold to existing shareholders and enfranchised.

## 2. The Company Today

Ferranti's is of key importance to the UK, not only because of the NEB's (and this tax payer's) holding, but also:

### i) As an Employer

More than 17,000 people are employed in Ferranti's thirty-four factories and engineering establishments in the UK - not to mention subsidiaries in the USA, West Germany, Belgium, Australia and Eire. The location of Ferranti's factories gives them added importance as a source of jobs in regions with structural economic difficulties.

The largest factories are at:

- Bracknell. Employs 1,660. The laboratories at Bracknell house most of the research development and pre-production facilities of Ferranti Computer Systems Ltd.
- Wythenshawe. Employs about 1,600. Factories and laboratories house the design and production facilities for the Argus range of computers and systems.
- Cheadle Heath. Employs 700. A Ferranti Computer systems factory producing computer systems for military and public service use.
- Cairo Mill. Employs 1,100. Main manufacturing facilities of Bracknell Division of Ferranti Computer Systems Ltd. Main products are systems for naval, airborne and air traffic control applications.
- Gem Mill. Employs 1,030. The main semiconductor manufacturing plant of Ferranti Electronics is here.
- Moston. Employs about 1,600. Deals with production of mechanical and electronic fuzing systems and measuring and industrial instrumentation equipment.

And in Scotland:

- Edinburgh, Crewe Toll. Almost 2,000 employees. Military electronic systems are most important here.
- Edinburgh, Silver Knowes. Employs 1,270. Above all deals in inertial systems and cockpit displays.
- Edinburgh, Robertson Avenue. Employs 1,780. Electro-optic systems production.
- Dundee. Employs 637. Professional components Department.

ii) As a major Defence Contractor

Ferranti have concentrated heavily on the military market which is, of course, benefiting from heavier defence spending. The boom in this market is said to have lifted Ferranti's orders by 40% in some areas in the last year. Moreover, the "spin-off" of defence procurement is to be seen in advances in technology such as in gyro-technology, the development of Europe's first micro-processor and of an un-committed logic array (ULA) chip which can be adapted to custom applications. The last of these recently won the Queen's Award for Industry. Clearly involvement in the production of Tornado, submarine control systems, lasers and avionics means that the future of Ferranti is of strategic importance to the UK.

iii) As an Exporter

The operation responsible for micro-circuits has grown to sales of about £28 million - half of which goes overseas. 40% of total sales by Ferranti go overseas.

3. The Question of Disposal

Two factors govern the NEB's attitude towards the disposal of its 50% holding in Ferranti. First, the Secretary of State for Industry has made it clear that he expects the NEB to sell about £100 million of its investments in order to meet the government's target reduction of the PSBR. However, this target was slightly modified by Lord Trenchard, Minister of State for Industry, on 18th February when he said that there was "no longer the same pressing need for the NEB to realise £100m. from disposals in the current financial year".

Secondly, the draft guide-lines issued for implementation under the Government's new Industry Bill (which will probably not have received royal assent by the time of disposal) prescribe that the NEB should have regard to the best interests of the taxpayer and the company. Ferranti's are currently urging with vigour that in this case the interests of the company (its management and employees) would be jeopardised if the NEB were to sell its holdings to one buyer rather than perhaps 'phase' a sale of shares on the stock market or sell to institutional investors. Above all, neither management nor unions want Ferranti to lose its independence and be swallowed up by a larger company.

It is said (Times, 10th June) that at least 10 potential bidders have shown interest in acquiring the NEB holding. The strong Scottish base of the company (it has 10 factories there and 7,300 employees) is reported (Financial Times, 9th June) to have led to the consideration of a bid by a consortium of Scottish financial institutions. However, it may be that a higher price would be offered by companies like GEC or STC and that, as in the case of the earlier disposal of Fairey to S. Pearson, the wishes of those involved may in practice be deemed less important than the interests of the taxpayer - who provided the funds to save to save the company in the first place. Disposal of the NEB's holding would probably raise over £50 million.

The Government's position will be further clarified in the course of the debate.

C.F.



10 DOWNING STREET

Ind AD Pelt  
C 001  
Press  
Duguid

THE PRIME MINISTER

16 June 1980

Dear Mr. Mayor

Thank you for your letter of 6 June about the future of Ferranti.

I am very conscious of the public concern in this matter and there will be a debate about it in the House of Commons on Wednesday next. The Government's policy is set out in the draft NEB Guidelines. These require the NEB to dispose of all of their shareholdings as soon as practicable, having regard to the interests of the company and the taxpayer, and to such other considerations as the Secretary of State may draw to the NEB's attention. Any disposal of shares by the NEB requires the Secretary of State's consent and Sir Keith Joseph has made it clear on a number of occasions that, in giving his consent, he would have most careful regard to any points that had been made about what should be done. However, no proposals have yet been made by the NEB.

In these circumstances, I do not think that it would be fruitful for us to have a discussion.

Yours sincerely  
(sgd) Margaret Thatcher

The Mayor of Oldham

VS

Ref A02358

PRIME MINISTERFerranti - Supply Day Debate

(To be raised orally; minute from Secretary of State for Industry dated 16 June, minute from Secretary of State for Scotland to Secretary of State for Industry, dated 12 June, and E(DL)(80) 8 are relevant).

## BACKGROUND

1. This item has been placed on the agenda to allow a short discussion on the way that the Secretary of State for Industry should respond in the Supply Day debate on Wednesday 18 June, about the proposals for the disposal of NEB shares in Ferranti. The substantive issues about how the sale should be handled are due to be considered, on the basis of paper E(DL)(80) 8, in the E(DL) Sub-Committee on 24 June.
2. You have recently answered two questions in the House (copy attached) suggesting that shares should be disposed of to the highest bidder. The bids would probably be at a premium of up to 20 per cent above the current market value of £60 million. The Secretary of State for Scotland, and many MPs, following a substantial campaign by the existing Ferranti Board, are afraid that this criterion might result in a purchase by GEC, who would "rationalise" their activities, and run down the Scottish end of the enterprise. The Secretary of State for Industry believes that, if disposal takes place at all, there is no defensible way of preventing a take-over by GEC, if that is what they want. The sale of shares to institutions would produce a much lower return to the taxpayer - they would probably be at a discount of 10 per cent - but would still not be proof against a take-over offer.
3. The paper E(DL)(80) 8 mentions the need for approval for the NEB to take up a Ferranti rights issue this week. It would be necessary to do this to maintain the NEB's present position as majority shareholder, and the NEB can do it within their PES 1980/81 provision. We expect that this will have been approved in correspondence, by the time the E meeting takes place.



## HANDLING

4. You will wish to emphasise that at this short notice the Committee is concerned only with the question of presentation in the debate, and not with the substantive issues of the case. You will then wish to call the Chief Whip, to hear about the strength of Party feeling, and then hear from the Secretary of State for Industry about his proposed tactics. The Secretaries of State for Scotland and for Defence both have a strong interest and other colleagues may wish to offer suggestions. They will probably wish to argue that the Secretary of State for Industry should not close off any of the options for sale in the debate and in advance of the substantive discussion in EDL.

## CONCLUSIONS

5. You will wish to record that
- i. The Committee note that the substantive issue of the disposal of NEB shares will be considered in E(DL) Sub-Committee on 24 June.
  - ii. Invite the Secretary of State for Industry to be guided, in responding to the Opposition Supply Day debate on Ferranti, by the points raised in discussion.

ROBERT ARMSTRONG

*Approved by Sir R. Armstrong  
and signed on his behalf.*

16 June 1980



5 JUNE 1980

Oral Answers

**Mr. Cook:** Before the Prime Minister's reception this evening, will she find time to telephone the NEB and ask it to stop playing football with the future of Ferranti? Is she aware that the proposal to dispose of the NEB's interest in Ferranti in one go has been rejected by the united work force, and condemned even by management as being against the best interests of the company? Will she explain why, for the sake of a fast buck, she is taking such a gamble with the future of high technology industry in Britain, which we need if we are to survive as a manufacturing nation?

**The Prime Minister:** The NEB helped Ferranti when it was in need. Ferranti no longer needs help through the NEB. It is for that board to dispose of the shares in the best way possible.

Oral Answers

10 JUNE 1980

**Mr. Strang:** Will the Prime Minister take time today to reconsider her attitude to the sale by the NEB of its 50 per cent. stake in Ferranti? Is the right hon. Lady aware that the whole work force is united in its opposition to the sale? Is she further aware that the managing director has written to all Members of Parliament affected and that he has mentioned the threat to jobs? Does the right hon. Lady want this company to be acquired by GEC? Does she want to see its expansion plans for Scotland replaced by a programme of rationalisation and redundancy?

**The Prime Minister:** The last time I answered questions in the House I believe that I dealt with a similar question. I shall give the same answer. The NEB and the previous Labour Government assisted Ferranti during a very difficult period. Ferranti no longer needs that assistance. The NEB wishes to sell the shares and to obtain the best possible price. It must be free to do that.





PRIME MINISTER

FERRANTI

As you know, an Opposition Supply Day debate will be held on Wednesday afternoon, 18 June, on a motion relating to the disposal of the NEB's shareholding in Ferranti. A paper has been circulated - E(DL)(80)8 - by the Minister of State for Industry, intended for discussion at an E(DL) meeting which I believe is likely to be held on 24 June. This provides an analysis of the problems and leads to the firm conclusion that the NEB should be advised to sell their holdings to the highest UK bidder, subject to assurances about safeguarding the Scottish interests.

But in view of the wide concern that has been expressed about the possibility that the NEB might follow this course I think it would be most helpful if, in anticipation of the debate the following day, E Committee could consider it for a few minutes at its meeting on Tuesday next, 18 June.

It is not difficult to have sympathy with the Ferranti Board, and with Ferranti's employees, in their anxiety about the future of their company. I do not wish to prejudice it in any way. I believe that whatever happens it will be difficult for the Government to avoid criticism, but our actions must certainly be seen to be defensible in terms of the interests of the taxpayer and in relation to the generally-accepted tenets of good practice in City matters. The essential point, as I see it, is that the



2.

NEB believe that shortly after the publication of Ferranti's Report and Accounts on 24 June bids are likely to be made from GEC, Racal and Hawker Siddeley. The NEB would expect these bids to be pitched at a premium at perhaps 20% above the current market price. The NEB have been advised by Rothschilds, on the other hand, that institutions would expect to buy the shares at a discount of perhaps 10%. All the parties concerned are likely to have arrived at much the same view. On that basis the possibility is that one or other of the principal bidders will succeed (subject, of course, to any reference that might be made to the Monopolies and Mergers Commission). Against that background I do not think that any useful purpose would be served in our advising the NEB to place their shares with institutions. We would appear to be following a course which led to the taxpayer receiving substantially less than he would otherwise have done; disregarding our own principles of letting market forces determine the outcome; acting in a deliberately discriminatory way in relation to one or other of the country's largest and most successful companies; and, with all that, not affecting the outcome in any way. Moreover, nothing is lost by our advising the NEB to go for the highest bidder. If, against expectation, the three firms that I have mentioned did not come forward then the institutions would still be in the running.

If, despite these considerations, colleagues still consider that



Ferranti's future should be completely safeguarded, then the only way of achieving this would be for the NEB to retain its shareholding, and this would be a negation of our policies. I believe - and the NEB share this view - it would be quite unrealistic to suppose that institutions would be prepared to hold the shares indefinitely - unless, perhaps, they were offered them at a discount so large as to be indefensible in terms of the taxpayers' interest.

I am sending copies of this minute to members of E Committee, the Secretary of State for Defence, the Secretaries of State for Scotland and Wales and the Chief Whip.

*Catherine Bell*

K J

(approved by the Secretary of State and signed in his absence)

16 June 1980

Department of Industry  
Ashdown House  
123 Victoria Street

B.R.

LIST (PROVIDED BY THE CHIEF WHIP) OF  
"DOUBTFUL" CONSERVATIVE MPs ON FERRANTI

---

Federick Silvester  
John Lee  
William Montgomery  
Winston S. Churchill  
Alastair Goodlad?  
John Bruce-Gardyne  
Nicholas Winterton  
Robert Atkins  
Peter Fraser  
John Mackay  
Bill Walker?  
Ian Lang?  
Alex Pollock?



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Private* 13 June 1980

This issue is now to  
go to E on Tuesday.

~~But~~ the draft attached  
can still go.

Dear Mike,

Thank you for your letter of 9 June enclosing a letter which <sup>TL</sup> 13/6  
the Prime Minister has received from the Mayor of Oldham  
inviting her to receive a delegation from his Council about the  
future control of Ferranti.

As you will see, the company has embarked upon a vigorous public  
campaign, urging that its independence should be maintained.  
The company fear that if the NEB's 50% shareholding is sold to  
the highest bidder this will lead to a takeover, probably by  
GEC, and this could have adverse effects on the company,  
particularly on its Scottish interests. Ministers will be  
considering what advice the Government should offer the NEB in  
the matter in E(DL) Committee shortly. The Opposition,  
too, have asked for a Supply Day debate next Wednesday, 18 June.

... The line that we are taking in public is set out in the attached  
draft which I suggest you might invite the Prime Minister to use.  
The issues, however, present a number of difficulties for Ministers  
and my Secretary of State has not yet had an opportunity of deciding  
on the course that he would wish to recommend to colleagues.

*Yours ever,*  
*Pete*

PETER STEDDER  
Private Secretary

DRAFT LETTER TO THE MAYOR OF OLDHAM FOR THE PRIME MINISTER'S  
SIGNATURE

Thank you for your letter of 6 June about the future of Ferranti.

I am very conscious of the public concern in this matter and there will be a debate about it in the House of Commons on Wednesday next. The Government's policy is set out in the draft NEB Guidelines. These require the NEB to dispose of all of their shareholdings as soon as practicable, having regard to the interests of the company and the taxpayer, and to such other considerations as the Secretary of State may draw to the NEB's attention. Any disposal of shares by the NEB requires the Secretary of State's consent and Sir Keith Joseph has made it clear on a number of occasions that, in giving his consent, he would have most careful regard to any points that had been made about what should be done. However, no proposals have yet been made by the NEB.

In these circumstances, I do not think that it would be fruitful for us to have a discussion ~~at the present time.~~



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

COMMERCIAL - IN CONFIDENCE

The Rt Hon Sir Keith Joseph MP  
Secretary of State  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON  
SW1E 6RB

*1. Mike*  
*2. Ashdown*  
*for Mr*  
*12*  
*176*

12 June 1980

*Dear Keith,*

DISPOSAL OF THE NEB SHAREHOLDING IN FERRANTI LTD

In answer to a question from Gavin Strang on 10 June, the Prime Minister conveyed, perhaps on advice from your Department, the view that the NEB should be free to dispose of its shareholding in Ferranti Ltd for the best possible price obtainable.

2. I should like to reiterate my contention that this is too narrow a view of the matter and to ask that the Government should avoid taking a position until there has been opportunity for collective consideration. In particular I must ask that in replying to the debate which has, I understand, been arranged for next Wednesday, Department of Industry Ministers should not pre-empt Cabinet decision.
3. It is, in the first place, common ground between us that disposal to the highest bidder would not be acceptable, for reasons of defence and industrial policy, if it meant control of Ferranti Ltd passing to a foreign company. In the second place, I have represented strongly that the practical and rational policy considerations which point to safeguarding the independence of Ferranti or, at a minimum, of its Scottish Group, should be taken into account.
4. My fear, which is shared by the management and workforce of Ferranti, is that GEC, which has extensive defence operations and which has ample funds, will be the highest bidder for the NEB shareholding, leading to a total takeover in order to secure the benefits to GEC of a "rationalisation" of capacity. The risk then is that the management and research and development capacity of Ferranti in Scotland would be progressively withdrawn, leaving the Ferranti factories with the status of a reduced and peripheral manufacturing operation.
5. Adam Butler has asserted that there are arguments of industrial logic for an outcome of this nature. I disagree. I do not think that GEC's corporate interest is necessarily coincident with that of the UK economy or of the Scottish economy. I do not think that it can be demonstrated

that in industrial terms GEC's performance in recent years has been superior to that of Ferranti and I do not accept the argument that bigger means better. It is no part of our industrial policy to further the extinction of independent companies with proven records of technological success.

6. Nor do I accept the argument that maximisation of financial return to the Exchequer has got to be the overriding consideration. We are ready to qualify it in the interests of defence policy and also in the interests of industrial policy. We accept that we may have to qualify it if issues of competition policy arise, as seems very likely in a situation where a condition of monopoly may result in an area of high technology defence supply, with inevitable increases in cost to the taxpayer. I believe that we should be ready to qualify it in the interests of regional policy and I am sorry that you, with your responsibility for that policy, have not seen the matter in that light, particularly since the response to the alternative proposed by Ferranti's management of a dispersed placing of NEB's shares demonstrates the willingness of regional institutions to take positive steps to protect regional interests, a development which you have sought to foster.

7. I have, so far, focussed on general considerations; but, of course, those particular to my responsibilities weigh very heavily. Ferranti's importance to Scotland cannot be overstated. The Scottish Group had, at last assessment, some 30% of Ferranti Ltd's assets, some 40% of its employment and some 50% of its profit. It offers some 7,300 jobs of high quality (half of its employees are graduates or qualified technicians, strongly motivated by being part of an independent business), in plants spread the length and breadth of the country from Aberdeen to Strathclyde to Edinburgh; it is expanding fast at a rate of some 20% per annum in areas of the most advanced technology (500 new jobs this year in Scotland alone); and it maintains in Scotland an effective management presence and an important R and D capability. Its reputation and performance are amongst our strongest selling points in promoting Scotland as a location for investment, and people it has trained are to be found throughout our economy, in business on their own, in senior positions in foreign owned firms, and in research and educational institutions. Its future is promising with important defence contracts stretching into the years ahead, and its security is the subject of anxious observation by Scottish opinion of all shades, including the very important financial and business community which we count amongst our supporters.

8. The course favoured by the Directors of Ferranti Ltd is that, for the time being, NEB should dispose of part only of its shareholding. I believe that they and their workforce now appreciate that it is difficult to contemplate the substantial deferral of relief to the PSBR which this would represent. The alternative which they have proposed is a dispersed placing of shares in a manner which would afford them opportunity to defend the independence of the company to which they, their workforce, and Scottish opinion attach so much importance. I know that the Scottish institutions have already indicated to the NEB that they will leap at the opportunity to participate in such a flotation and, if necessary, means might be devised to defend the company from a subsequent predatory takeover at less expense to the public purse than would be represented by



COMMERCIAL - IN CONFIDENCE

continuing a substantial NEB shareholding. But those who seek to be constructive in this matter cannot be expected to pay the premium that a buyer interested in takeover would be prepared to pay for the total business benefits of acquisition, rationalisation and reduction of competition.

9. I believe, in short, that to dispose of the NEB shareholding to the highest bidder could in practice run counter not only to our industrial, defence, competition and regional policies, but to the whole thrust of our political philosophy. I believe also that it will provoke unnecessary and unproductive conflict, not only in the country and in Parliament, but specifically with the management and workforce of the company. I therefore propose that NEB should be invited to take account of these considerations and advised to look for the best price available on a widely dispersed placing of its shareholding, on a basis which takes proper account of the Scottish interest in a company so important to the economy of Scotland.

10. I am copying this letter to the Prime Minister, to other members of the Cabinet and to Sir Robert Armstrong.

Yours ever,  
George.

12 JUN 1980





cc: Press office  
Ms. Duguid

DSG

10 DOWNING STREET

Mayor of OLDHAM

From the Private Secretary

9 June 1980

The Mayor of Oldham has written to the Prime Minister (copy enclosed) asking her to receive a delegation from Oldham Council about future control of Ferrantis. A copy of the letter has also been sent direct to your Secretary of State.

Could I please have advice as to how the Prime Minister might respond, together with a draft reply, by close of play on Friday 13 June.

M. A. PATTISON

Peter Stredder, Esq.,  
Department of Industry.

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9 June 1980

I am writing on behalf of the Prime Minister to acknowledge your letter of 6 June. This is receiving attention and a reply will be sent to you as soon as possible.

M A PATTISON

The Mayor of Oldham

26

PS  
Oldham Metropolitan Borough

R7/16.  
Mayor's Parlour



P.O. Box 39, Civic Centre, West Street, Oldham, OL1 1UJ. Telephone: 061 624 0505

6th June, 1980.

Councillor J.C.Campbell,  
MAYOR.

The Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10, Downing Street,  
LONDON.

Dear Prime Minister,

The Oldham Council are deeply concerned as to future control of Ferrantis and the implications this has for employment in the area, where Ferrantis are one of the largest employers. The Council believe that future employment can be best safeguarded by the disposal of the NEB holding on a staged basis on the Stock Market and ask for the Government's assurance that this procedure will be followed and the NEB holding will not be disposed of to one buyer.

The Company are steadily expanding and the interests of the Oldham area and the Company's employees and shareholders are best served by the continuation of the Company as an independent quoted public company. Within the Oldham area the Company has one of the United Kingdom's most thriving micro-electronics industries.

At a time when there is increasing unemployment in the area arising from the continued decline of other north-west based industries, the Council consider the maintenance of existing employment in its area to be of the very greatest importance.

The Council ask for you urgently to receive a delegation from the Council on this matter. I have sent a copy of this letter to the Secretary of State for Industry, Sir Keith Joseph, for his information.

Yours sincerely,

MAYOR.



## 10 DOWNING STREET

30 May 1980

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

72  
375

FERRANTI

I had a telephone call from Basil de Ferranti yesterday, following up my recent conversation with him.

His purpose was to lobby for support in resisting any moves by NEB to dispose of their Ferranti shareholding to, for example, GEC or Racal. Such a move would be hotly opposed by both the Board of Ferranti and the family.

Basil said that the company was in a position to make important moves in the not-too-distant future, which would require new finance. He could not disclose these moves to me without infringing Stock Exchange rules.

As before, I can only pass on what he tells me, as I am not in a position to make direct judgment. I do not know what the depth and quality of Ferranti management now is, or whether NEB feels that Ferranti will not be able to make it on their own without stronger financial backing. (Their turnover is, I think, now about £200m.)

From the point of view of general morale and confidence, however, it is not surprising that the Board and management would be anxious to preserve their independence and make their own way, particularly as they now seem to feel that they are winning in the market place.

Basil wanted to raise with me the general point of principle: whether it was better to sell the NEB stake to a single buyer, thus getting a premium on the shares for the taxpayer (a legitimate aim) regardless of the effect on morale, drive and spirit within the company; or whether it would make more sense - and accord better with Tory philosophy - that the shares were sold widely on the market so that a company which is in good health - in every sense of the word - could continue to make its own way. The Ferranti case is well set out in the letter from Messrs Pickin and Dodd to the Times yesterday (copy attached).

I am sending a copy of this letter to the Prime Minister.

JOHN HOSKYNS

LETTERS TO THE EDITOR

# NEB's holding in Ferranti: a question of disposal

From Mr J. Pickin and Mr A. Dodd

Sir, Recent statements by the NEB indicate that they will decide in the next month the manner in which they will dispose of their 50 per cent holding in Ferranti.

Following the crisis of 1974, the government invested £15m in the company by loan and equity; the loan has been repaid and the present book value of the investment in the company is less than £7m. Sold at market value in a manner which will retain the independence of the company, this will produce for the taxpayer some £50m. Sold as control to a single bidder so that the independence of the company is ended, the government might realize a premium on top of this figure.

The performance of the company, which has justified this increase in its worth, has not been easy to achieve. Management has succeeded in gaining the confidence and cooperation of the workforce to bring about the changes in working practice, disposals, product line and factory closures and the

other reorganizations, which were necessary.

Throughout this period, we have not had a single dispute associated with these changes because our employees understood the reasons and believed that their future and the independence of the company were at stake.

As a company, we are engaged in high technology. We share the views of the present government that we need both large and small companies to generate the new products necessary for the future economic survival of our country. Over the period of our recovery, for example, our microcircuit operation has grown to sales of £28m (50 per cent overseas), with a return on capital of better than 20 per cent. We have for the last two years marketed the only UK designed microprocessor. We with INMOS and the GEC microcircuit venture on the Wirral well, but they have both yet to make their first products for sale.

Establishing successful high technology products is not necessarily a question of throw-

ing enough money at the problem, and it is not clear that what Ferranti have achieved in this field would have taken place in a larger enterprise.

Our employees feel that they have justified the taxpayers' investment and have earned the right to an independent future. It is ironic that opposition to the necessary changes could have necessitated further taxpayers' money and would have ensured that the NEB's stake in Ferranti was as unmarketable as British Leyland.

It will be interesting to see whether the principle of rewarding and encouraging enterprise will be upheld in our case or whether our independence will be traded to pay for the equivalent of a few days' losses at British Steel.

JOHN PICKIN,  
Technical & Planning Director,  
ALBERT DODD,  
Personnel & Industrial

Relations Manager,  
Ferranti Limited,  
Milbank Tower,  
Milbank,  
London, SW1P 4QS.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

28th January, 1980

*D. L.*

INDUSTRY BILL

Your Secretary of State will by now have received a letter of today's date from the Chancellor of the Exchequer. Could you please delete from it the third sentence of the third paragraph, reading "I shall have to give a breakdown in the Public Expenditure White Paper and possibly earlier".

I am copying this letter to Tim Lankester, John Stevens, the Private Secretaries to member of E Committee, and to the Chief Whip, Lord Denham and Sir Robert Armstrong.

*Y. L.,*  
*MC*

(M.A. HALL)  
Private Secretary

I. Ellison, Esq.,





2



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

28 January 1980

R  
28/1

*Jim Kim*

INDUSTRY BILL

Thank you for your letter of 23 January. The Prime Minister has confirmed that, subject to my views, she is content for the Report Stage to be deferred by one week and, if the end of the steel strike is not imminent by Monday, for the new clause to set the financial limit at £3000m rather than £4000m.

I agree with this subject to one point. Although your letter does not say so, I understand that you have now decided that the new clause in the present Bill should specify £750m rather than £1000m as the sublimit which will effectively be earmarked for the NEB's activities other than BL and Rolls Royce. I strongly agree with this change. You will undoubtedly be questioned on this figure and I understand that £1000m could be justified only by implying either that NEB could have a more ambitious role than we envisage for it or that we are specifically providing for the consequences of rescuing companies in difficulty and putting them into NEB care.

You also ask whether I would be willing to make an early statement on progress towards our £1000m disposal target in 1979-80. I can see that this would help you by confirming that we were on target overall but that we no longer needed the full £1000m from the NEB. ~~I shall have to give a breakdown in the Public Expenditure White Paper and possibly earlier.~~ But I would strongly prefer not to volunteer anything now. Our earlier announcement that we were expecting up to £500m from the forward sale of oil attracted a good deal of criticism particularly from the Americans. I should prefer the dust to settle on this for as long as possible before revealing that we are now expecting even higher receipts from forward oil sales.

/To meet

The Rt. Hon. Sir Keith Joseph MP.

CONFIDENTIAL



To meet your point I suggest that if you are questioned in the Report Stage you should confine yourself to confirming that we are on target for the £1000m overall and that the NEB will be proceeding with their disposals programme as quickly as they reasonably can bearing in mind the need to arrange suitable sales and to get a good price. If you are pressed on the details of the disposals programme as a whole you can reasonably say that is a matter for me. I will then have to consider it further and to deal with it.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Duchy of Lancaster, members of E Committee, the Chief Whip, Lord Denham and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a large, sweeping initial 'G' and a horizontal line above it.

GEOFFREY HOWE

28 JUL 1960



FILE

MFJ

cc HO CWO  
FCO CO  
HMT Lord Denning  
LPO  
DM (nd P)ham  
MAFF  
DOT  
DN  
CS, HMT  
CDLO

24 January 1980

Industry Bill

The Prime Minister has read your Secretary of State's letter of 23 January about the Industry Bill. Subject to the Chancellor's views, she is content for Sir Keith to proceed on the basis that Report Stage should be deferred by one week, but that if the end of the steel strike is not imminent by next Monday, the new clause should be laid with the financial limit set at £3,000m. rather than £4,000m.

I am sending copies of this letter to Private Secretaries to members of E Committee, the Chancellor of the Duchy of Lancaster, the Chief Whip, Lord Denham and Sir Robert Armstrong.

E. E. LANKESTER

I.K.C. Ellison, Esq.,  
Department of Industry.

RH



DEPARTMENT OF INDUSTRY  
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TELEPHONE DIRECT LINE 01-213301  
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Secretary of State for Industry

23 January 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

*Prime Minister*

*Are you content to proceed in this way - in view of the arguments at X. Sir Keith does not want to postpone beyond next week?*

*Yes not*

*Jim Geoffrey*

INDUSTRY BILL

I wrote to you, and to colleagues, on 21 January to invite your views on the Clause that I believe to be necessary in the Industry Bill. Subsequently we had a word and the Prime Minister suggested that it would be undesirable to publish a provision seeking a substantial increase in the financial limit of a public corporation at a time when the steel strike is at the centre of public interest.

Having considered the alternatives that might be adopted, I suggest that the right course is for us to defer the Report Stage of the Bill for a further week. If, by Monday next, 28 January, the end of the steel strike is not imminent, then I propose to lay the Clause, as drafted, but with the one important change that the financial limit would be reduced from £4,000 million to its existing level of £3,000 million. The new Clause in this form would certainly attract a good deal of Opposition attention, but only because of its technical complexity: the figure £3,000 million would not, in my judgement, invite any criticism.

It is for the business managers to say what degree of embarrassment would be incurred to them by any particular period of delay. I think that to defer Report Stage by one week would be unlikely to attract Opposition attention, but any further deferral in my view would be bound to excite suspicion: we have never concealed our anxiety to secure the early passage of the Bill, and we reached an agreement with the Opposition Whips to facilitate this. Quite apart from this, I fear that to slip more than one week would adversely affect the Bill's position in the Lords. It is true that disposals policy no longer demands enactment of the Bill before the end of the financial year, but I would not wish the transfer of Rolls Royce from the NEB (which depends upon powers contained in the Bill) to be delayed.

/You ...



You will appreciate that an inescapable concomitant of pitching the limit at £3,000 million is that we would have to contemplate the introduction of a single-clause Bill at the outset of the next Parliamentary Session, in order to increase the limit to the proposed £4,000 million level. On the best estimates that we can make at present, the £3,000 million figure would suffice until shortly after the turn of the year, so it would be a matter of considerable importance to secure the passage of this new Bill before the next Christmas recess. As I suggested in my letter of 21 January, the introduction of a Bill of this sort will certainly look odd, but we must deal with that as best we may: the principal presentational argument that we will have is that by then we will have given very full consideration to the requirements of Rolls Royce and - I feel confident - made a public statement of the very substantial increase in their requirements since they were last the subject of scrutiny by the House.

I would be grateful for your agreement to my proceeding on this basis. As a corollary, however, I think that we must quickly agree on the terms of a Statement about the Government's policy towards the disposal of public assets in the current financial year. As I see it, the Report Stage of the Industry Bill, if taken next week, would almost certainly have seen questions raised on this subject, but any delay in the Report Stage is bound to heighten the awareness that the end of the financial year is drawing closer, with the enabling powers contained in the Industry Bill still not secured. That, as we know, is no longer any embarrassment to us in terms of disposal policy, but it is clearly necessary for us to be able to say something about it if taxed. Since the issues that are involved stretch much wider than my own responsibilities, I think that it would be preferable for you to make a statement - although of course, I would be well content to do so with your approval in the course of the Bill's Report Stage if that were the more convenient way of dealing with the matter.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Duchy of Lancaster, members of E Committee, the Chief Whip, Lord Denham and Sir Robert Armstrong.

Yours,

Kear

23 JAN 1980





fold Murdo  
2311  
PRIME MINISTER

*Prime Minister*  
Rather than bother you, I put the options set out  
in this minute to Sir Keith's Office. After consulting  
the whips, he has decided to postpone report stage  
for a week (option ii); if the steel strike has not been  
settled by then, he will proceed with the £3,000 m. limit  
Industry Bill and bring in further legislation next  
year if it turns out to be necessary.  
(option i).

Sir Keith Joseph is proposing to introduce a new clause in the Industry Bill covering the NEB's financial limit and the limit on financing of companies, such as Rolls Royce, which will be taken out of the NEB. The present clause in the Bill provides for a total limit of £3,000m. But this was based on earlier advice that the funding of Rolls Royce would not need to be covered - because the Treasury Solicitor believed that the Rolls Royce Purchase Act would provide the necessary cover. The legal advice has now changed and consequently the financial limit in the Bill needs to be increased by £1,000m to £4,000m. (The £1,000m for Rolls Royce seems enormous and considerably larger than the public expenditure figures which we have been shown. The explanation is that about half of Rolls Royce's funding is to come from the private sector and the financial limit has to cover this. Also, the limit is a cash figure, whereas the expenditure figures are at 1978 prices).

The £4,000m is intended to last for five years as is the convention. Sir Keith says that if we stick to £3,000m, it will be necessary to announce further primary legislation in the next Queen's Speech.

The Chancellor is willing in principle to go along with the figure of £4,000m but he is very unhappy - as I believe you are - about announcing this while the steel strike is continuing.

There would seem to be three possible options:

i) Stick to the figure of £3,000m and introduce further legislation next year as necessary. It would be somewhat embarrassing to have to do this so soon, and Sir Keith implies that it would be improper not to take full provision now. On the other hand, there would be advantage in this course insofar as we would postpone criticism that the financial limits are being increased unnecessarily. (Last year in Opposition, Sir Keith

/strongly

strongly attacked the then Government for increasing the financial limit to £4,500m).

ii) Postpone the passage of the Bill. Earlier, Cabinet had decided that the Bill should be given utmost priority with a view to Royal Assent by 31 March: this was so that the Treasury could achieve its programme of NEB disposals for this year. However, the Treasury say that this is no longer necessary since they have already achieved their disposals objective. Contrary to what I told you earlier this afternoon, DOI see no problem from their point of view in postponing the passage of the Bill. The only real problem concerns the parliamentary timetable. The Bill is down for Report Stage next Tuesday and Wednesday (which means that a new clause would have to be tabled tonight), and there is nothing very substantial to fill the gap next week if the Bill is taken out. Postponement of Report Stage will also of course congest the timetable later in the Session.

iii) Stick to the £3,000m limit for the moment, and introduce the higher figure in the Lords. However, this would of course require a new Money Resolution in the Commons; more importantly, there would almost certainly be criticism that such an important provision was being introduced in the Lords.

On the whole, we think that option 3 should be ruled out. The choice is between options 1 and 2. Despite the problem of the parliamentary timetable, option 2 is probably the better. But you might like to discuss this with Sir Keith and the Chancellor. In any case, a decision is needed today.

22 January 1980

*1 should prefer  
option 2 but we may  
have to assess how long we  
think the steel strike  
will last out.*

*TL*

cc PS/CST  
 PS/FST  
 PS/MST (C)  
 PS/MST (L)  
 Mr Ridley  
 Sir D Wass

C - diff letter for  
 appd.  
 Mr Ryrie  
 Mr F Jones  
 Mr Lavelle  
 Mr Kerr  
 Miss Feirson  
 Mr Winnard  
 Mr Welsh

2  
 22/1  
 CHANCELLOR OF THE EXCHEQUER

Industry Bill

In his letter of today Sir Keith Joseph explains that he wants to table some amendments to the Industry Bill tomorrow. He asks for your agreement today. We have been consulted on this and we recommend you to agree to his proposals, subject to one point on the statutory financial limits which is explained below. The amendments incorporate three main changes.

Financing of transferred companies

2. The Bill provides already for the transfer by Order of companies, such as Rolls Royce, from the NEB to the Secretary of State. But the Department of Industry and their lawyers have now decided that, contrary to their previous advice, existing legislation does not provide adequate authority for the financing of such companies. The amendments deal with that.

The Statutory Financial Limit

3. The Bill currently provides for the overall limit - covering BL, Rolls Royce and NEB's other activities - to be £3000m rather than Labour's £4500m. In the light of the more recent and detailed work on BL and RR Sir Keith wants to take the opportunity of the amendments to make the overall limit £4000m, which should last for the rest of this Parliament.

4. We agree that £3<sup>000m</sup> is inadequate and, since it would last for only about two years, would cost unnecessary difficulties with the Parliamentary timetable. We also agree with the proposed overall limit of £4000m, which will be subdivided by Order between the transferred companies and the NEB. But the attached draft letter makes the point that it is important for Sir Keith to make clear that this increase does not of itself imply any increase in public expenditure plans. Indeed most of <sup>it</sup> represents existing charges on the limit and the provision for private sector borrowing.

5. But within the £4000m Sir Keith proposes to earmark £1000m for NEB's activities other than BL and RR. He is bound to be questioned on this and we do not see how he could justify it without saying either that it provides

for the possibility of a more ambitious NEB role than presently planned or that it caters for the possibility of major rescues. In our view the most that he could defend is £750m which is the figure DOI's own analysis points to. The draft letter advises in favour of this and I understand that DOI officials will recommend Sir Keith to accept it.

6. But even with this change in the subtotal we would be content to let the overall total stay at £4000m. This recognises the uncertainties over the combined financing requirements of EL, RR and the NEB during the next five years.

Small Firms Counselling Service

7. The opportunity will be taken to provide statutory authority for this small service. There is already public expenditure provision for it.

*AM.*  
D J L MOORE

21 January 1980

DRAFT LETTER

Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1E 6RB

INDUSTRY BILL

Thank you for your letter of today in which you summarised your proposed additions to this Bill. I agree with your proposals with one reservation.

2. I think that the limit which will effectively apply to NEB's activities other than EL and Rolls Royce should be £750m rather than £1000m. You are bound to be questioned on this figure and I am advised that you could only justify a limit as high as £1000m by implying that the NEB might be given a more ambitious role than we currently plan to permit or that you are specifically providing for their taking <sup>on</sup> some major rescue cases. To avoid this I think you should use the £750m which, as you recognise in your letter, is the very most which could be justified by the appraisal made by officials. I realise that if there were to be any change of policy on the NEB or if any major rescue cases were to put into their care it would be necessary to introduce a new limit sooner than otherwise. But I would prefer that possibility to the risk of casting doubt on our own policies now.

3. Bearing in mind the inevitable uncertainties over the totals applicable to EL, Rolls Royce and the NEB over the next five years I would, however, be content to stay with £4000m as the overall limit. When you explain this increase to the House I am sure that you will be at pains to point out that it does not imply any increase in our

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public expenditure plans. Indeed much of it covers existing charges on the statutory limit and much of it private sector financing which does not score as public expenditure.

4. I am sending copies of this letter to the Prime Minister and to the other recipients of your letter.

GEOFFREY HOWE

12 JAN 1960



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Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
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 SWITCHBOARD 01-212 7676

21. January 1980

The Rt Hon Sir Geoffrey Howe MP QC  
 Chancellor of the Exchequer  
 HM Treasury  
 Parliament Street  
 SW1P 3HE

*By,*

*John Gifford*

## INDUSTRY BILL

As you know, Clause 2 of the Industry Bill provides for the transfer of securities and other property from the NEB to me. Rolls Royce will be dealt with under this power and we cannot rule out the possibility that BL may have to be dealt with in the same way.

When we were drafting the Bill we did not overlook the need for transferred companies to be financed from public funds: but we thought we could look to the Civil Aviation Act 1949 (for continuing launch aid), and the Rolls Royce Purchase Act 1971 (for equity and loan finance for that company) and Section 8 of the Industry Act 1972 (for any wider purposes).

However, on further consideration, I decided for a number of reasons that additional powers would be needed. In particular I was advised that the Rolls Royce Purchase Act must be deemed to have lapsed when the Government's shareholding in Rolls Royce (1971) Ltd was transferred to the NEB in 1976.

Faced with this position, I thought the right course was to introduce a new Clause to provide adequate financing power, but subject to the constraint which Parliament would think appropriate.

By the time this had become evident, the Bill was already well advanced in Committee, and I gave warning to the Committee shortly before Christmas that an appropriate provision would have to be introduced at Report Stage. I am now writing to seek your approval, and that of colleagues, to the particular course I propose.

/The ...





The present statutory financial limit of the NEB is £3,000m and, under the Industry Act 1979, there is provision for the limit to be increased by affirmative order up to £4,500m. The Industry Bill, as at present drafted, provides that this power of further increase will be removed, leaving the limit at £3,000m. We had two reasons for adopting this approach. We had, only a few months before, when the Industry Bill 1979 was before the House, urged that even £3,000m was an excessive provision for the NEB. We recognised, too, the considerable difficulty that there would be in explaining how a new limit seemed appropriate: we thought that to retain the existing limit would minimise the scope for debate, whereas to identify a sum which met the usual requirement of looking five years forward would reveal how uncertain we were about future demands, especially in regard to BL and Rolls Royce, whose affairs at the time we had still to examine. However, time has moved on, and the possible charges against the limit have been defined more precisely. BL's Corporate Plan points to an aggregate of charges exceeding £1,800m over the next three years and probably in excess of £2,000m over the next five years. The requirements for Rolls Royce, on which we have yet to take decisions, point to the company needing something of the order of £1,100m to meet its requirements within the same period. It is more difficult to be precise about the NEB's needs - especially over a 5 year period. The Board have asked for not less than £700m for 3 years and would prefer £1,000m. On a rigorous appraisal it is not easy to justify the higher figure - something like £750m would be nearer the mark - but given all the uncertainties, and the Board's strong views, I suggest we accept £1,000m. None of these figures has been firmly agreed with your officials, but I understand that there is broad agreement about the aggregate of £4,000m. This at first sight is alarming but a major part of it represents expected borrowings from the private sector: there is no implication that there would be public expenditure of this amount. (The totals, however, rest on assumptions about future PES allocations which have not yet been endorsed by the Government, and will not be considered for some time to come. I do not think this invalidates the conclusion.)

I am satisfied that a limit of £4,000m would suffice for the full lifetime of the present Parliament (although it does not provide for the contingency of BL going into liquidation). A principal consideration which I have had in mind for adopting this figure is that, if we were to rely upon the present figure, I am advised that it would be necessary to bring new primary legislation forward at an early date: the £3,000m limit is likely to be reached in between 18 months and two years from now, so that it would be highly imprudent to delay the introduction of further legislation until the 1981/82 Parliamentary Session. That implies that it would be necessary, in the next Queen's Speech, only 7 months after the enactment of the present Bill, to advertise the need for supplementary legislation.



I recognise that to move to a higher limit will generate some criticism from our supporters and give the Opposition the chance of making a number of debating points. Nonetheless, I believe that this is the right, and indeed only proper, course for us to take.

I have asked my officials to work on the assumption that the drafting should be completed in time for us to take Report Stage, as planned, on Tuesday and Wednesday, 29 and 30 January. Your officials are being consulted. To maintain this timetable we shall need to lay the new Clause no later than the evening of Tuesday 22 January, and preferably earlier if possible. In these circumstances, I would be most grateful to have your comments in the course of Monday 21 January. I am sorry to have to be so pressing.

I also propose to table a new Clause the purpose of which is to provide statutory authority for the Small Firms Counselling Service. This service which began experimentally three years ago has now been established on a national and continuing basis. Specific statutory authority is needed in order to comply with an undertaking given by the Treasury to the Public Accounts Committee in 1952 that the authority of the Appropriation Act would not be relied upon for continuing services. A short clause authorising the provision of advisory services in connection with business activities should suffice. This would avoid the considerable difficulties involved in defining small firms. I would not expect it to be at all controversial.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Duchy of Lancaster, Members of E Committee, the Secretaries of State for Scotland and Wales, the Chief Whip and to Sir Robert Armstrong.

*Cum,*

*Kerr,*



21 JAN 1980

APPOINTMENTS IN CONFIDENCE



10 DOWNING STREET

*From the Private Secretary*

12 December, 1979.

The Prime Minister has seen your letter to me of 11 December, about a further appointment to the National Enterprise Board.

She is content that Mr. Ian Halliday should be appointed to the Board.

I am sending copies of this letter to Tony Battishill (HM Treasury), and David Laughrin (Civil Service Department).

M. A. PATTISON

I.K.C. Ellison, Esq.,  
Department of Industry.

Ind. Pol.

14



APPOINTMENTS IN  
CONFIDENCE

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PS/ Secretary of State for Industry

11 December 1979

Mike Pattison Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

PRIME MINISTER

*Agree that NEB's new Chief  
Executive, Ian Halliday, should  
be appointed to the Board?*

*Yes and*

*MAP 11/11*

*Dear Mike*

As you know, my Secretary of State secured the Prime Minister's approval to an initial batch of appointments to the National Enterprise Board. This brought us to within one place of the statutory minimum, ie the Chairman plus 8 other members. We were not at that stage able to seek the Prime Minister's approval for the final name, that of Mr Ian Halliday, because he was pursuing a legal action against his employers and it was essential not to prejudice his position. However, this obstacle has now been overcome, and as one consequence the NEB have announced today his appointment as Chief Executive. (Under the law this is a matter that is entirely within their competence, but it is an action that they have taken with my Secretary of State's knowledge and approval).

My Secretary of State now wishes to appoint Mr Halliday as a full-time member of the Board. He is 53, an accountant by profession, and has wide industrial experience. He spent three years in this Department with the Industrial Development Unit and won high opinions. Sir Arthur Knight and his colleagues at the NEB would warmly welcome him as a Board member.

I should be most grateful, therefore, if you would seek the Prime Minister's approval for this appointment to be made. I am copying this letter to Tony Battishill and should be similarly grateful if he would draw the proposed appointment to the Chancellor's attention.

*Yours ever*

*Ian Ellison*

I K C ELLISON  
Private Secretary



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PS/Secretary of State for Industry

21 November 1979

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW 1

*Alan Turing*

NEB AND ROLLS ROYCE

*the D-1  
in context.  
IL  
2/11*

...  
As promised, I enclose a copy of the statement which my Secretary of State intends to make to Parliament this afternoon. In addition, you will wish to be aware that my Secretary of State is speaking personally to each member of the resigning Board in order to maintain personal contacts. He also intends to write to Mr Murray at the TUC emphasising his hope that the repercussions on relations between the Government and the trade union movement will not be too adversely affected by today's decisions.

I am copying this letter and enclosures to the Private Secretaries of MISC 22, John Wilson (in view of his Secretary of State's First Order PQs this afternoon), Petra Laidlaw, Charles Cumming-Bruce and Martin Vile.

*Yours ever  
Peter*

PETER MASON  
Private Secretary



~~action~~: Ind P8  
 Original on:  
 Ind P8: Rolls Royce:  
 PT 2

TEXT OF A STATEMENT BY THE RT HON SIR KEITH JOSEPH BT MP,  
 SECRETARY OF STATE FOR INDUSTRY, WEDNESDAY 21 NOVEMBER 1979.

With permission Mr Speaker, I should like to make a statement on the relationship between the National Enterprise Board and Rolls Royce.

I have had in recent months to consider the relationship between the NEB and Rolls Royce in the light of evidence of some friction over a considerable period. I have concluded that the friction is not a passing problem of personalities or a difference of opinion on the management of the Company but is inherent in the relationship and would tend to survive a change of management.

Rolls Royce is a company of a scale and importance such that the supervision of its Board by another board, however eminent and accomplished, is bound to give rise to strain.

Moreover it is a company with which inescapably Government has exceptionally close connections and where important decisions lie directly with Government.

I therefore decided that in view of these two considerations, from which there is no escape, it would not be right to paper over the cracks but rather to plan to remove the source of the difficulty. Clause 2 of the Industry Bill now before the House will give me power to direct the NEB to transfer its shareholdings in Rolls Royce to the Secretary of State, and I told the NEB of my intention to make such an order as soon as the Bill becomes law. This decision was in no sense whatsoever a reflection on the members of the NEB or their staff. Rather, it is a judgement that the role they had been given in relation to this major company was in the last analysis not an appropriate one.

/When I expressed ...



When I expressed to the NEB my intention I was told categorically that were I to adhere to my proposal all the members of the Board would resign. I was asked to re-consider. This I did.

Yesterday I told the Board that I did adhere to my proposal. The House knows that the Chairman, Sir Leslie Murphy, and all the members of the NEB have resigned from their posts. I have accepted their resignations with regret. The Board was composed of distinguished people from business and trades unions who co-operated together to serve the country with dedication. I hope this form of co-operation will become possible in the new Board.

The NEB has as the House knows important disposals to arrange and other continuing tasks to perform. It will have a catalytic investment role especially in connection with advanced technology and increasingly in partnership with the private sector; as well as its regional and small firms roles.

I am glad to tell the House that Sir Arthur Knight, Chairman of Courtaulds Ltd, has accepted my invitation to take over the Chairmanship of the NEB with immediate effect. Sir John King, Chairman of Babcock International Ltd, has accepted my invitation to become Deputy Chairman and five other persons have similarly indicated their willingness to serve:

Mr Robert Clayton - Technical Director of GEC

Mr Alec Dibbs - Deputy Chairman of National Westminster Bank

Mr George Jefferson - Chairman and Chief Executive of British Aerospace, Dynamics Division

Mr Dennis Stevenson - Chairman of Peterlee and Newton Aycliffe New Towns

Mr John Caines - Secretary to the NEB

I am deliberately leaving some places vacant. I have today written to the TUC about this.





3.

The House will wish to know that following the recent announcement that Sir Kenneth Keith wishes to retire from the chairmanship of Rolls Royce after 7 years service Sir Frank McFadzean has indicated his willingness to accept appointment as chairman.

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~~copy on~~  
copy on: Ind PSI: Ind  
PSI: Rolls Royce: Pt 2

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Ian Ellison Esq  
Private Secretary to the  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

R  
20/7

21 November 1979

Dear Ian

NEB

Now that it has been decided to leave BL with NEB the draft announcement attached to your Secretary of State's minute to the Prime Minister of 19 November will need to be amended.

I expect you will agree that this is not simply a matter of taking out the words "and BL" wherever they occur, since some of what is said in the draft about how inappropriate it would be to leave Rolls Royce with the NEB might well be held by critics to apply with almost equal force to BL. We therefore suggest that Sir Keith Joseph may also wish to leave out the last 6 lines of paragraph 1, the last two sentences of paragraph 2 and paragraph 5. I attach a revised version of the draft incorporating these amendments, though we recognise you may also be redrafting to take account of other developments such as the meeting last night with the NEB.

I am copying this letter to Tim Lankester at no 10, to the Private Secretaries to the other members of MSC 22 and to Sir Robert Armstrong.

Yours sincerely,  
Ian Fair

I A W FAIR  
Private Secretary

DRAFT PARLIAMENTARY STATEMENT  
NEB, ROLLS ROYCE AND BL

I informed the House of 19 July of my intention that the National Enterprise Board should have a continuing role in relation to companies such as Rolls Royce Ltd so long as no solution based on the private sector is available. Since then I have considered further the relationship between the NEB and Rolls Royce in the light of the evidence that the relationship has been strained, not only in recent months, but over a number of years. I have concluded that these strains are not simply a passing problem of personalities or of differences of view on a particular topic.

I have therefore decided that it would not be right to paper over the cracks caused by the strains which this relationship causes but rather to plan to remove the source of the difficulty. Clause 2 of the Industry Bill now before the House will give the power to direct the NEB to transfer its shareholdings in Rolls Royce to the Secretary of State, and I intend to make such an order as soon as the Bill becomes law.

I must inform the House that as a consequence of my decision the Chairman, Sir Leslie Murphy, and all the members of the NEB have today resigned from their posts. I have accepted their resignations with regret. The Board has distinguished businessmen and trade unionists who have cooperated together and served the country with skill and dedication. I hope this form of cooperation will be possible in the new Board.

Sir Arthur Knight has accepted my invitation to take over the Chairmanship - on a part-time basis - of the NEB with immediate effect, and Sir John King, (list of others) have accepted my invitation to become members.

CONFIDENTIAL

Quite apart from its continuing responsibilities in respect of EL, the NEB has direct interests in about 70 companies. Some of the latter are ready now to depend wholly on the private sector and I expect the NEB will dispose of these holdings shortly, but for<sup>the</sup> others, longer will be needed before they are ready to depend fully on the market and in the meantime the NEB's role will be to encourage their development on sound commercial principles. In addition, as I announced on 19 July, the NEB will continue to have a catalytic investment role, in particular with the private sector, in advanced technologies, where the market has been reluctant to invest because of the adverse policies of our predecessors. Finally, they will maintain their regional and small firms roles particularly in areas of high unemployment.

For this purpose we shall need a strong NEB Board and I have every confidence in the ability of Sir Arthur Knight, his colleagues and the staff of the NEB to carry out these important functions.

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~~Ind Pd.~~ original on  
Ind Pd: Rolls Royce:  
p 2.

*3 app*

Ian Ellison Esq  
Private Secretary to the  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
LONDON SW1

20 November 1979

*Dear Sir*

As you know, my Secretary of State spoke to David Lea at the TUC (in Len Murray's absence) to tell him in confidence of the Government's intention to remove Rolls-Royce from the NEB. He suggested a meeting between your Secretary of State and Messrs Lea and Bassett tomorrow before there was any public announcement. Lea undertook to consult Bassett.

Mr Prior has now had a return call from Lea to say that when the story broke the TUC would be expressing its anger at the decision and saying that there could be "wider consequences." Particularly since David Bassett was going to Brussels tomorrow he did not think that a meeting tomorrow would be useful.

I am sending copies of this letter to Tim Lancaster at No 10, to the Private Secretaries to the other members of MISC 22 and to Sir Robert Armstrong and Sir Kenneth Berrill.

*Your sincerely*  
*Lancaster*

I A W FAIR

Ind P2

Copied to Ind P2: Pt 2:  
The future of Rolls Royce.

*In sum*

*R. M.*

PRIME MINISTER

NEB

Keith Joseph sent me a copy of his minute to you of 19 November. I see from this that he proposes to tell the NEB this evening that he intends to remove from it as soon as possible both Rolls Royce and BL.

You will recall that at MISC 22 on 15 November I expressed considerable misgivings about the proposal (as it then was) to announce that Rolls Royce would be removed from the NEB. The enhanced proposal including BL now before us strikes me as one with very far-reaching implications for the Government's relationship with the TUC. As Len Murray made clear to me last week (when we discussed RR alone) these would probably not be confined to the question of trade union representation on a reconstituted NEB. In view of this, I think it would be advisable for Keith to bring the matter to Cabinet before he goes any further, particularly at this critical stage in the BL saga.

If it were decided to go ahead this evening, I should need to speak at once to David Lea (in Len Murray's absence abroad), so that I can arrange for Keith to warn the TUC of what is afoot.

I am sending copies of this minute to members of MISC 22 and Sir Robert Armstrong and Sir Kenneth Berrill.

JP

20 November 1979

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20 NOV 1978

~~CONFIDENTIAL~~ CONFIDENTIAL

File 100



Copied to Ind AD: Pt 2:  
The future of Rolls Royce.

10 DOWNING STREET

From the Private Secretary

MR. CHURCHILL  
CIVIL SERVICE DEPARTMENT

I enclose a copy of a minute which Sir Keith Joseph has sent the Prime Minister about the Chairmanship of Rolls Royce and the future of the NEB.

I believe you are aware of the proposal, which the Prime Minister supports, to appoint Sir Frank McFadzean to the Chairmanship of Rolls Royce but you do not appear to have been consulted on the proposed appointments to the NEB. I would be grateful for any reactions by 1700 hours today.

I have arranged for a copy of the minutes of the latest Ministerial meeting on Rolls Royce to be sent to you by the Cabinet Office.

T. P. LANKESTER

20 November 1979

*[Handwritten signature]*

*Tue has kept a copy*



Blind of Mr Wilson  
Mr Mackay  
Mr. Ingham

Copy to Inld (R), Pt 2.  
Re future of RSHs Royce



10 DOWNING STREET

cc FCO  
HMT  
MOD  
D/ETW  
D/T  
D/N  
BEM  
CO

From the Private Secretary

19 November, 1979.

Dear Ian,

The Prime Minister has considered your Secretary of State's minute of 19 November about Rolls Royce and the future of the NEB. She has also seen the minute of today's date from the Secretary of State for Employment.

The Prime Minister is content for Sir Keith to inform the NEB this evening that Rolls Royce are to be taken out of their responsibility, and that this should be announced in the House tomorrow along with the naming of Sir Arthur Knight as the new Chairman of the NEB and other new board members if Sir Leslie Murphy and the present NEB Board members resign.

But she does not wish the NEB to be told that they are to lose British Leyland as well; nor should this be included in the statement in the House. She feels that it would be a mistake to remove British Leyland from the NEB's responsibility at the present time. This would, in her view, provoke a further row between British Leyland management and the trade unions, which British Leyland can ill afford at the moment; it would remove a "buffer" between Government and British Leyland which in present circumstances may be quite helpful; and it would make the NEB Board's position appear rather less unreasonable if they do decide to resign. But in any case, the Prime Minister considers that, before a decision is taken on the future relationship between British Leyland and the NEB, the matter will have to be discussed collectively.

I understand that Sir Keith proposes to announce the appointment of Sir Frank McFadzean in his statement. The Prime Minister has no objection to this, though she hopes that it may be possible to announce the appointment of Mr. Morgan as chief executive at the same time. While

she understands that it may not be possible to settle Mr. Morgan's appointment in time for the statement, she believes that the overall package would have greater credibility if the two appointments could be announced together.

I am sending copies of this letter to the Private Secretaries to the members of MISC 22, and to Martin Vile (Cabinet Office).

*Tom en.*

*Tin Lark.*

Ian Ellison, Esq.,  
Department of Industry.

*sl*

CONFIDENTIAL



PM said -  
no to BL  
yes to anything else.

copied to Ind PD: A2:  
The future of Rolls Royce.

TL  
vol.

PRIME MINISTER

This is to report on action I have taken since we discussed the NEB and Rolls Royce in the MISC 22 Committee on 15 November.

The Chairmanship of Rolls Royce

Sir Frank McFadzean is now firmly ready to take the Chairmanship of RR and is content that this should be announced as soon as we choose.

We have urged him now that this is firmly settled to arrange to see our suggested candidate for the post of Chief Executive, Mr Morgan of GEC. While I agree with David Wolfson that it would be ideal if we could announce a new Chairman and Chief Executive together, and I will see that all possible haste is made, there can be no guarantee that Morgan and McFadzean will wish to team up, and I believe it essential now to end the speculation by making an announcement on Wednesday or Thursday.

The Future of the NEB

Sir Frank McFadzean remains firmly opposed to any link between RR and the NEB, even cross-directorship. Our further efforts on Friday to identify possible compromise solutions did not persuade him.

His view is that there is an organisational nonsense in making the board of a company as important as RR subordinate

/to ...



to another board of businessmen, especially when the issues are so large that inescapably they have to be settled by Government. (I see that David Wolfson shares this view.) He attaches great weight to this board organisational issue. Thus there is no compromise I can offer the NEB which will prevent them resigning en masse.

The Board of BL, at a meeting I had with them last week, made much the same arguments for taking them out of the NEB. The Board would, though grudgingly, be willing to stay under the NEB, but only if the NEB's role was limited to that of shareholder rather than holding company.

Our interest is to have an undistracted BL Board plus access to all the information we require. To announce that, once we have the power, we shall take Rolls Royce out but leave BL in an NEB with a reduced role would distract the BL Board, be no service to us and stir up more trouble later. The only case for such an announcement or for undertaking to seek to persuade the BL Board to accept some such relationship would be to help Mr Murray with any TUC reaction to the Rolls Royce decision. *I think the right course is to be decisive and do what is both organisationally and conceptually right.*

A New NEB Board

I am glad to say that Sir Arthur Knight, who will retire as the Chairman of Courtaulds on 1 January, is ready to become the part-time Chairman of an NEB that excludes RR and



BL. He supports my view that the NEB should not have RR or BL under its control, and he can speak from the experience at an earlier stage of having been a part-time member of the RR Board. He would be prepared to accept immediate appointment. Sir John King, the Chairman of Babcock & Wilcox, is willing to serve immediately as part-time Deputy Chairman.

I would underpin the Chairman with a Chief Executive and for this post I have identified Mr Ian Halliday who could secure his release from his present employers - Leslie & Godwin (Holdings) Ltd - by mid-January. But of course before a final decision were taken on this he would need to be seen by the new Chairman. Pending the arrival of the Chief Executive the necessary full-time assistance to the Chairman could be provided by the present Secretary of the NEB, an Under-Secretary from the Department of Trade, who has now been with the NEB for 28 months and who would be appointed Deputy Chief Executive.

#### Trades Union Reactions

Our decision to accept the resignations of the present NEB Board will be unwelcome to the trades union movement. I do not anticipate problems with Lord Scanlon or John Lyons, who are the only unionists actually on the board, but David Basnett, whose term of office expires at midnight tonight, can be expected to cause difficulties. I am in touch separately with Jim Prior to determine the best way to limit adverse trades

/union ...



union reactions. I shall of course hold open the prospect of appointing trades unionists to the reconstituted Board.

The Next Steps

The Department of Industry is in the process of identifying new NEB members and I see no difficulty in securing a strong Board with several names being announced at the same time as the new Chairman. I take it that in these special circumstances colleagues will agree that the normal consultative arrangements can be cut short.

I shall be seeing the NEB to tell them my decision on Rolls Royce on Tuesday evening at 6 pm, and if my colleagues agree, I will also tell them my views on British Leyland.

... I enclose curriculum vitae on Mr Halliday and brief notes on Sir Arthur Knight and Sir John King who are, of course, well known industrialists.

... I also enclose a draft Parliamentary Statement.

I am sending copies of this minute to members of MISC 22 and to Sir Robert Armstrong.

PEM  
pp K J  
19 November 1979

CURRICULUM VITAE

IAN FRANCIS HALLIDAY, MA, FCA

Address: (home) Little Thorpe  
Finthorpe Lane  
Huddersfield HD5 8TU Tel: (0484) 30311

(London) Flat 7  
63 Haverstock Hill  
London SW3 Tel: 01-722 3842

Date of birth: 16 November, 1927

Family: Married (1952)  
two daughters (1955 and 1956)  
one son (1963)

- - - - -

1946-49: Lincoln College, Oxford (Mathematics)

1949-51: National Service; Captain, REME;  
Territorial Army from 1951 to 1956

1951-69: ARMITAGE & NORTON, Chartered Accountants  
1954 - Qualified as Chartered Accountant  
1957 - Became Partner. Major direct  
responsibilities including Massey-  
Ferguson UK Companies, Carrington  
& Dewhurst Group (now Carrington  
Viyella) and Allied Textile Co Ltd.

1970-74: ALLIED TEXTILE CO LTD  
Finance Director on main Board.

1974-77: DEPARTMENT OF INDUSTRY  
On secondment as Deputy Director of Industrial  
Development Unit, responsible for the appraisal  
of applications under the Industry Acts 1972  
and 1975. This involved the assessment of  
expenditure and investment projects over a  
wide range of industries.

1977 to date: LESLIE & GODWIN (HOLDINGS) LTD  
Finance Director on main Board of this public  
Group of international insurance and reinsurance  
Lloyd's brokers.

Sir Arthur Knight 62

Chairman, Courtaulds, since 1975 (retires 31.11.79)

Joined Courtaulds 1939 and entire career with them.

Sir John King 61

Chairman, Babcock and Wilcox .

Director, American Chain

Chairman, British Nuclear Associates

Chairman, Dick Corporation

Director, S G Warburg International Holdings

Director, SKF(UK)





## DRAFT PARLIAMENTARY STATEMENT

NEB, ROLLS ROYCE AND BL

I informed the House of 19 July of my intention that the National Enterprise Board should have a continuing role in relation to companies such as Rolls Royce Ltd so long as no solution based on the private sector is available. Since then I have considered further the relationship between the NEB and Rolls Royce in the light of the evidence that the relationship has been strained, not only in recent months, but over a number of years. I have concluded that these strains are not a passing problem of personalities or of differences of view on a particular topic, but are inherent in the relationship. Rolls Royce is a company of a scale and importance such that the supervision of its Board by another board of businessmen, however eminent and accomplished, is bound to give rise to strain. I am impressed by the fact that very similar problems arise over BL for exactly the same reason.

I have therefore decided that it would not be right to paper over the cracks caused by the strains which this relationship causes but rather to plan to remove the source of the difficulty. Clause 2 of the Industry Bill now before the House will give the power to direct the NEB to transfer its shareholdings in Rolls Royce and BL to the Secretary of State, and I intend to make such an order as soon as the Bill becomes law. This decision is in no



sense a reflection on the members of the NEB or their staff. Rather, it is a judgement that the role they had been given in relation to these two giant companies was in the last analysis not an appropriate one.

I must inform the House that as a consequence of my decision the Chairman, Sir Leslie Murphy, and all the members of the NEB have [today] resigned from their posts. I have accepted their resignations with regret. The Board has distinguished businessmen and trade unionists who have cooperated together and serve the country with skill and dedication. I hope this form of cooperation will be possible in the new Board.

Sir Arthur Knight has accepted my invitation to take over the Chairmanship - on a part-time basis - of the NEB with immediate effect, and [Sir John King, (list of others)] have accepted my invitation to become members.

It is my belief that the ending of the NEB's responsibility for these two giant companies will enable it to focus decisively on the new role which this Government sees for it.

The NEB has direct interests in about 70 companies. Some companies in the portfolio are ready now to depend wholly on the private sector and I expect the NEB will dispose of these holdings shortly, but for other, longer will be needed before they are ready to depend fully on the market and in the meantime



the NEB's role will be to encourage their development on sound commercial principles. In addition, as I announced on 19 July, the NEB will continue to have a catalytic investment role in particular with the private sector, in advanced technologies, where the market has been reluctant to invest because of the adverse policies of our predecessors. Finally, they will maintain their regional and small firms roles particularly in areas of high unemployment.

For this purpose we shall need a strong NEB Board and I have every confidence in the ability of Sir Arthur Knight, his colleagues and the staff of the NEB to carry out these important functions.



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CONFIDENTIAL

1 ind P.D.  
Copied to Ind. R. P. 2  
The future of Rolls Royce.

Ref. A0660.

PRIME MINISTER

MISC 22: Future of the National Enterprise Board

The paper before the meeting is Sir Keith Joseph's minute to you of 13th November and its attachment. MISC 22 was of course originally set up to handle the problems of Rolls-Royce. Sir Keith's minute extends, and indeed shifts, the immediate issue to the future of the present members of the National Enterprise Board. (We have not on this occasion invited Mr. Pym because his interests are really confined to Rolls-Royce alone.)

2. You are familiar with the background and I need not rehearse it. The immediate dilemma is one of politics and personalities. The key elements are:-

- (a) Sir Kenneth Keith has agreed to leave the chairmanship of Rolls-Royce early in the New Year.
- (b) Sir Frank McFadzean has agreed to replace him in that role.
- (c) The Government has decided that Rolls-Royce should be removed from the tutelage of the NEB once the necessary powers are available, after the passage of the Industry Bill. Sir Frank McFadzean's acceptance of the Rolls-Royce chairmanship is dependent on this happening.
- (d) The NEB have said semi-publicly that they will resign if Rolls-Royce is taken away from them.
- (e) British Leyland want to jump on the Rolls-Royce bandwagon and also escape the tutelage of the NEB. Since Sir Keith Joseph's minute was written he has discussed the relationship of BL and the NEB with the BL Board. You will want a report on this meeting. Our understanding is that they confirmed their belief that, irrespective of personalities, it is an organisational mistake to subject one high-powered group of businessmen to the tutelage of another (it also adds an unnecessary link to the chain of responsibility: as present events demonstrate, the major political decisions about appointments and finance have to be taken by the Government, and the interposition of the NEB cannot relieve them of

cc Rolls Royce - July 79  
ind P.D.

that responsibility). They did not threaten to resign but it is relevant that, unlike the Rolls-Royce Board, that of BL is good and their views should carry weight.

- (f) Sir Keith Joseph's minute implies that the retention of NEB control over Rolls-Royce is being elevated by the TUC into an issue of principle with threats of a withdrawal from the National Economic Development Council and its machinery if their attitude does not prevail. Since Sir Keith Joseph's minute was written the Economic Committee of the TUC has met - this morning - and a report of their attitude will be available either tonight or at tomorrow's meeting.

3. Although the immediate issues are those of personality (with Sir Leslie Murphy cast in the role of "chief villain") there are underlying and very important issues of public administration. It is agreed that Rolls-Royce should depend directly on the Department of Industry. Given the prospects of that company, especially under a new Chairman, this may not be too onerous a cross for Government to bear. But BL's problems are more horrendous and immediate. If the Government is to lose the buffer of NEB and take direct responsibility for that company, it needs to do so with its eyes wide open.

4. Equally, it will be important not to lose sight of the implications of the Government's decisions on the future of the NEB itself. Without both Rolls-Royce and BL it will be a very different animal - much diminished - from that envisaged by the Government in the summer. The Committee may decide that this does not matter. But it should do so as a conscious decision about good administration and not simply as a by-blow of the resolution of personality clashes.

5. This being said, the fact remains that the immediate problems are of personality. Matters have got to the point where important (or self-important) groups of powerful men are striking attitudes in public and are too freely seeking to get their way by threats of resignation. Such threats are as dangerous to Government as any other form of blackmail because, if acceded to, they diminish the Government's authority to run its own show in its own way through individuals of its own choice.

6. The questions the Group will have to resolve, therefore, are:-
- (a) Is it prepared to stick to its earlier decision that Rolls-Royce should be extracted from the NEB? Sir Frank McFadzean was reported at an earlier meeting as saying that either this or the removal of Sir Leslie Murphy were the conditions of his acceptance of the chairmanship. Have matters gone too far for the latter to be still a viable option?
  - (b) If the answer to (a) is that the earlier decision stands, does the Group agree that it has no option but to accept the resignation of the NEB if offered - and indeed, given their semi-public posturing, has the NEB any choice but to resign? The question of "good order and discipline" is probably paramount here.
  - (c) Is the Group prepared to call the TUC's bluff on the NEDC? It would obviously be hard for the TUC to defend the withdrawal of co-operation on the grounds that it did not like the Government's, and Parliament's, decisions about the management structure of public assets. It would be equally hard for the Government to appear to give in to TUC pressure on a matter wholly within the Government's competence.
  - (d) Are the Government prepared to accept direct responsibility for BL? Or would they prefer, if it could be arranged, that the present BL/NEB relationship should be maintained under a revamped NEB despite the wishes of the BL Board?
  - (e) If the NEB does go, how quickly can it be replaced, and if so, by whom? (This is a secondary issue but worthy of urgent attention if an awkward hiatus with BL is to be avoided in the interval before the Industry Bill becomes law.)
  - (f) If the remorseless logic of (a), (b) and (c) above is unacceptable, is there any way the Government can extricate itself with honour?

HANDLING

7. You will want to ask the Secretary of State for Industry to explain the present position, including a report on his talks with the BL Board and for him and/or the Secretary of State for Employment to report on the attitude of the TUC. Thereafter you may want to concentrate discussion on the points I have identified in the preceding paragraph.

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CONCLUSION

8. Subject to discussion, the most likely outcome is that the Secretary of State for Industry will be invited to confirm to the NEB the decision that Rolls-Royce is to be removed from their responsibility and tell them that if they feel obliged to resign on this account, so be it. The Group may also wish to invite the Secretaries of State for Industry and for Employment to contact the TUC, explain the Government's position and invite them to weigh carefully the consequences of over-reacting to a situation where they have no locus.



ROBERT ARMSTRONG

14th November, 1979



PRIME MINISTER

## FUTURE OF THE NATIONAL ENTERPRISE BOARD

Keith Joseph sent me a copy of his minute to you of 13 November. I should like to set down, before we meet in MISC 22, what seem to me to be the main considerations we should have in mind in considering this problem.

First, the immediate flash-point (today's meeting of the TUC Economic Committee) has been safely passed. Len Murray's attitude, and his influence on David Basnett, seem to have been wholly helpful.

Secondly, Rolls Royce (and BL for that matter) cannot legally be subtracted from NEB until the Industry Bill has been passed into law, and this is unlikely to be before next April at the earliest.

Thirdly, we do not want to have to find a replacement for McFadzean as Chairman of Rolls Royce if we can help it, even though the present problem seems to be aggravated by his unreadiness to compromise: nor do we want to be faced with a TUC walk-out from the NEDC and the Sector Working Parties, still less a complete breach between it and the Government. (You yourself made this point to Geoffrey Howe, Keith Joseph and me on 8 November). I should add that, when I spoke to Len Murray again this afternoon he made it clear that he remained of the view that the removal of Rolls Royce from the NEB would have repercussions beyond the resignation of the NEB Board, - ie no TUC nominees for a reconstituted Board and very probably a TUC withdrawal from other bodies such as NEDC.

In the light of all this, I do not see that we are under any obligation to take speedy decisions, or that any point of principle would be threatened if we managed to achieve a compromise whereby the Rolls Royce Board and the NEB stopped snarling at each other and allowed considerations of the national interest to take precedence over their

personal feelings. What has passed over the last week must have been  
grist to the mill of Rolls's two US rivals. When McFadzean and Murphy  
and their colleagues come to realise this in their calmer moments it  
ought to be possible to get them all to arrive at some sort of  
armistice - whether by an exchange of directors between the two Boards  
or some right of direct access to Keith Joseph for McFadzean or  
whatever. But the immediate need is to get both Boards to stop  
sounding off and to start thinking constructively for a change.

I am sending copies of this minute to our colleagues in MISC 22,  
and to Sir Robert Armstrong and Sir Kenneth Berrill.

*lanfair*

JP

Approved by the Secretary  
of State and signed in  
his absence

14 November 1979



✓  
Mr. Hoffman  
Mr. Hollings

CONFIDENTIAL

Prime Minister  
Paper for Misc 22  
on Thursday morning.  
IL  
13/11

Copied as Ind ASD: PT 2  
The future of Rolls Royce.

PRIME MINISTER

FUTURE OF THE NATIONAL ENTERPRISE BOARD

...

1 We are discussing the future of the National Enterprise Board in MISC 22 on 15 November. I attach the paper summarizing the position but this is necessarily incomplete because we do not yet know what will happen at the meeting of the TUC Economic Committee on Wednesday morning. Jim Prior and I met David Bassett earlier today and he is unlikely to act precipitately tomorrow.

2 The present position is that we have secured the agreement of Sir Kenneth Keith to leave the Chairmanship of Rolls Royce early in the New Year and we have secured the agreement of Sir Frank McFadzean to replace him. We have not found a way of achieving our preferred solution for GEC to assist in sorting out Rolls Royce's production and finance problems. I have told the NEB Board that we intend to remove Rolls Royce from their jurisdiction as soon as we obtain the powers to arrange this. Our intention in this respect has now become public knowledge as has the intention of the NEB to resign en masse if we go ahead with our plan.

3 What is at issue in the present situation is, on the one hand, the possible repercussion on the NEDC of our going ahead with our proposals and, on the other, the certainty that we shall do considerable damage to our credibility over a range of issues if we are seen to back down in the face of the threat of the NEB to resign.

I am copying this minute to the other members of MISC 22, to Sir Robert Armstrong and to Sir Kenneth Berrill.

PEM  
PP<sup>KJ</sup>  
13 November 1979

Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1

(approved by the Secretary of State and signed in his absence)

CONFIDENTIAL



## THE FUTURE OF THE NATIONAL ENTERPRISE BOARD (NEB)

## NOTE BY THE SECRETARY OF STATE FOR INDUSTRY

1 I referred in my paper (MISC(79)1) to the risk of resignations from the Board of the NEB in dealing with the Rolls Royce (RR) issue. The Board of the NEB have now made clear their intention to resign if the Government proceed with their proposal to remove RR from NEB ownership.

2 The Chairman of the NEB has been active in seeking support for his position and the General Secretary of the TUC has advised us that there is pressure from present and past trade union members of the NEB for the TUC to withdraw from cooperation in the National Economic Development Council and the various Economic Development Committees.

Evaluation of the NEB Position

3 The NEB recognise that, if RR is withdrawn from its ownership, the Board of the British Leyland (BL) will press very hard for the same treatment. They may also recognise that, if a choice has to be made between the loss of the BL Board and that of the NEB on this issue, I would have to choose in favour of the BL Board.

4 While some of the industrial members of the NEB Board appear ready to exert a restraining influence on Sir Leslie Murphy in his public criticisms of RR and complaints about lack of Government support over the last year, they will feel an obligation to resign with him.

The Position of British Leyland

5 In logic BL should not be part of the NEB; a company of its size needs a board of the highest calibre and such a board will not accept the supervision of another external board of businessmen. We are fortunate in the case of BL in having a board of the necessary calibre and I am advised that there had been strong pressure from within its membership for a direct relationship with the Department

/well before...



well before we took our decision on RR.

6 I shall nevertheless seek, in the interests of compromise, to persuade the board of BL when I meet them later today to accept continuation of the NEB shareholding on the grounds that the special considerations for a direct Government shareholding in RR do not apply in their case. It must be expected, however, that they will press their case hard and I consider it essential to retain the services of this board.

#### A New Chairman for Rolls Royce

7 Sir Frank McFadzean remains willing to accept the Chairmanship of Rolls Royce but is strongly resistant to any compromise with the NEB. He had independently, as a member of the board of RR during recent weeks, reached the conclusion that the relationship with the NEB was wrong, and he shares Sir Kenneth Keith's appraisal of the Chairmanship of the NEB.

#### Possible Compromises

8 I have reviewed several possible compromises:-

- a. arrangements for the NEB to retain a shareholding in RR carrying special rights;
- b. leaving RR in the NEB but with Sir Frank McFadzean taking the chairmanship of the NEB when Sir Leslie Murphy retires as well as the chairmanship of RR;
- c. a range of possible devices for deferring a decision pending a review and in the meantime insulating the present Chairman of the NEB as far as possible from the affairs of RR and BL.

9 It is hard to see how the first of these could be formulated in a way that would be acceptable both to the NEB and to Sir Frank McFadzean. The second would overload Sir Frank McFadzean; the problems of RR are so great they need his undivided attention. While at an earlier stage he himself raised the possibility of the dual role, this was on the assumption that Sir Leslie Murphy would

/leave the...



leave the NEB quickly, a possibility we must discount. The third range of possibilities all suffer from the disadvantages of continuing a running sore and of distracting the top managements of RR and BL from their central task of improving the performance of their companies.

10 Moreover, face-saving compromises of this kind would be seen as a surrender by the Government to the pressures that the NEB had been able to bring to bear on them and there would be no offsetting benefit to public funds through improved management of RR or BL.

The Costs of Proceeding as Proposed

11 If we proceed and in consequence the NEB board resign, the risks we run are:

- a attacks by the ex-Chairman of the NEB on RR management and on the previous and present holders of my office for not dismissing Sir Kenneth Keith;
- b the possible loss of TUC involvement in the NEDC and its Committees;
- c conceivably, some worker reaction in RR or BL.

12 The first could be damaging to the business of RR and could be pursued with bitterness. The personality element in the criticisms would make the issues of particular interest to the press and the PAC (or some other Parliamentary Committee) might mount a detailed investigation extending over a considerable period. But part of the damage has already been done. Moreover Sir Leslie Murphy will bring upon himself much criticism too.

13 We can help the General Secretary of the TUC by deferring a decision until after the meeting of the TUC Economic Committee on 14 November, by making clear that any arrangements for the management of RR and BL shareholding have no relevance to the issue of returning the companies to the private sector, and by making clear that our

/decision....



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4.

decision is not based upon judgements on the competence of the NEB. Withdrawal of the TUC from NEDC activity would be seen as disproportionate to the magnitude of the issue.

14 While the NEB has made warning noises about worker ~~reaction~~ action in RR and BL, the managements of both companies discount the likelihood of any significant worker opposition to the removal of their companies from the NEB. If the trades union movement were, however, to make this a major issue, the risk of strong worker opposition is obviously increased. Even so RR do not foresee significant strike action and I shall be taking further soundings of BL.

Conclusion

15 I am myself strongly opposed to conceding to the pressures being placed upon us by the NEB Board but I suggest we take a final decision at our meeting following a final assessment of the TUC implications of a decision to proceed.

KJ

13 NOV 1979

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hd PSL  
DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-2123301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

19 July 1979

Tim Lankester Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

Dear Tim,

NEB STATEMENT

... I attach the final version of my Secretary of State's Statement on the National Enterprise Board. He will be making this Statement at approximately 3.50 pm this afternoon, following the Business Statement.

I am copying this letter to the private secretaries to all members of the Cabinet and the Chief Whip.

Your mining  
Andrew Duguid

ANDREW DUGUID  
Private Secretary

FEDERAL BUREAU OF INVESTIGATION  
WASHINGTON, D. C. 20535  
MAY 19 1964



MAY 19 1964

1 Mr Speaker, I am now able to make a statement about the Government's policy towards the National Enterprise Board.

2 Over the last few weeks I have carefully reviewed the full range of the NEB's activities. My colleagues and I have had several discussions with the Chairman and the NEB Board. I have, too, met the Board's regional directors when I visited Liverpool and Newcastle. I pay tribute - as I have before - to the sense of public service and the energy of all concerned with the NEB.

3 But the House knows that we opposed the Industry Acts of 1975 and 1979, and in our Manifesto we promised to reduce the NEB's powers. We favour the encouragement of private initiative and enterprise, not the promotion of public ownership.

4 But it will take time to restore the full vitality of the private sector. In the meantime the NEB will have a continuing role for those companies which have been in difficulties and for which it now has a responsibility, so long as the business concerned has a prospect of viability and no solution based on the private sector is available. If other cases arise where the private sector is unable to provide a solution to a company's difficulties, receivership will normally be the right course. In a wholly exceptional case, circumstances could arise in which the NEB might - but only on the Government's initiative - provide temporary and tapering support, with the aim of restoring the company to commercial health as quickly as possible.

5 Given that the NEB has this role, I have looked at whether

there is any other activity it could undertake consistent with our policies. I see no public benefit in enabling the NEB to act as a general merchant bank; and its powers to promote businesses, or buy shares in them will be restricted within very clearly defined limits. Our policy (as the Manifesto envisaged) is that the greater part of the NEB portfolio should be sold as circumstances permit having regard to the interests of the taxpayer and the companies. I look to the NEB to make disposals to the value of £100m in the current financial year, as foreshadowed in my Rt Hon Friend's Budget statement. However I do not think it is in the public interest, or in the interest of the companies concerned, to identify them now or specify the timing of their disposal by the NEB. I shall also be requiring the NEB to make a substantial reduction in its expenditure in the current year and in the following years.

6 I exclude, however, the investments which the NEB has made in a dozen or so newly established high technology companies, chiefly concerned with computer software, micro-electronics and their applications and which I believe justify special attention. The market has been discouraged in recent years from supporting such ventures. Time will anyway be needed for these companies to evolve before the NEB can sell them.

7 In the light of this it seems sensible to use the NEB as one means of familiarising the market with new technologies. For my part I see this role as being necessary only until the market is clearly strengthened and I would not wish to put a term to the role now. The budget for it will be limited - but clearly defined.

The objective will be to secure in each case the maximum amount of private investment, with a view to full private ownership in each case as soon as practicable. The NEB will be able to re-invest some of their receipts from disposals of these companies in new high technology ventures, but only in partnership with private capital. A market that has met the huge risks of North Sea exploration should find no insuperable difficulty here.

8 The Government is also much concerned with the problems of the areas of high unemployment. An element of that regional policy is that the NEB should continue to exercise an industrial investment role in the North and North-West and with small firms, seeking always to maximise private investment and with the objective of transfer of full ownership to the private sector as soon as possible. The NEB's regional role will be very similar to the industrial investment activities of the Scottish, Welsh and Northern Ireland Development Agencies in Scotland, Wales and Northern Ireland respectively.

9 We will introduce a Bill as soon as possible to give effect to these policies. We will sharply reduce the financial limits laid down by the 1979 Industry Act and amend the powers of the NEB set out in the 1975 Act, in accordance with the policies I have just announced. New Guidelines will follow which will set clear objectives for the NEB to achieve. Within that framework the NEB will have my full support.

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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

Tim Lankester Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
London SW1

17 July 1979

*Dear Tim,*

My letter to you of 13 July attached the earlier background papers on future policy towards the NEB. You wrote on 16 July indicating the Prime Minister's endorsement of the conclusions of E(EA).

... As promised in my letter of 13 July, I am now attaching a draft of my Secretary of State's proposed statement on the future of the NEB. I have tentatively agreed with the Chancellor of the Duchy of Lancaster's office that this statement should be made on Thursday 19 July. I should be grateful for any comments as soon as possible and in any event, not later than 10.00 am on Thursday 19 July.

I am copying this letter to the Private Secretaries to all members of Cabinet and to Martin Vile.

*Yours sincerely,*

*Andrew Duguid*

ANDREW DUGUID  
Private Secretary

DRAFT ORAL STATEMENT

1 Mr Speaker, I am now able to make a statement about the Government's policy towards the National Enterprise Board.

2 Over the last few weeks I have carefully reviewed the full range of the NEB's activities. My colleagues and I have had several discussions with the Chairman and the NEB Board. I have, too, met the Board's regional directors when I visited Liverpool and Newcastle. I pay tribute - as I have before - to the good intentions and the energy of all concerned with the NEB.

3 But the House knows that we opposed the Industry Acts of 1975 and 1979, and in our Manifesto we promised to reduce the NEB's powers. We favour the encouragement of private initiative and enterprise, not the promotion of public ownership.

4 But we are realists: we do not expect the economic climate to be transformed overnight. Private enterprise has been constrained too long for that. We know it will take time to achieve full vitality. In the meantime the NEB will have a continuing role for those companies which have been in difficulties and for which it now has a responsibility, so long as the business concerned has a prospect of viability and no solution based on the private sector is available. If other cases arise where the private sector is unable to provide a solution to a company's difficulties, receivership will normally be the right course. In a wholly exceptional case circumstances could arise in which the NEB might - but only on the Government's initiative - provide temporary and tapering support, with the aim of restoring the company to commercial health as quickly as possible.

5 Given that the NEB has this role I have looked at whether

/there....

there is any other activity it could undertake consistent with our policies. I see no public benefit in enabling the NEB to act as a general merchant bank, and its powers to promote businesses, or buy shares in them will be restricted within very clearly defined limits. Our policy (as the Manifesto envisaged) is that the greater part of the NEB portfolio should be sold as circumstances permit having regard to the interests of the taxpayer and the companies. I look to the NEB to make disposals to the value of £100m in the current financial year, as foreshadowed in my Rt Hon Friend's budget statement. However, I do not think it is in the public interest, or in the interest of the companies concerned to identify them now or specify the timing of their disposal by the NEB. I shall also be requiring the NEB to make a substantial reduction in its expenditure in the current year and rather more in the following year.

6 I exclude, however, the investments which the NEB has made in a dozen or so newly established high technology companies, chiefly concerned with computer software, micro-electronics and their applications, and which I believe justify special attention - although I am reviewing INMOS separately. [These companies have growth prospects and are of potential significance. But they entail high risks which private investors have been unable to accept in recent years because of discouraging conditions, and these companies will need to evolve before it will be practicable for the NEB to sell them.]

7 In the light of this it seems sensible to use the NEB as one means of familiarising the market with ~~these~~ new technologies. For my part I see this role as being necessary only until the market is clearly strengthened and I would not wish to put a term to the role now. The budget for it will be limited - but clearly defined.

/The....

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The objective will be to secure in each case the maximum amount of private investment, with a view to full private ownership in each case as soon as practicable. The NEB will be able to recycle some of their receipts from disposals of these companies to new high technology ventures, but only in partnership with private capital. A market that has met the huge risks of North Sea exploration should find no insuperable difficulty here.

8 The Government, too, as the House knows from our recent debate, is much concerned with the problems of the areas of high unemployment. An element of that regional policy is that the NEB should continue to exercise an industrial investment role in the North and North-West and with small firms, seeking always to maximise private investment and with the objective of transfer of full ownership to the private sector as soon as possible. The NEB's regional role will be very similar to the industrial investment activities of the Scottish and Welsh Development Agencies in Scotland and Wales respectively.

9 We will introduce a Bill early in the Autumn to give effect to these policies. We will sharply reduce the financial limits laid down by the 1979 Industry Act and amend the powers of the NEB set out in the 1975 Act, in accordance with the policies I have just announced. New Guidelines will follow which will set clear objectives for the NEB to achieve. Within that framework the NEB will have my full support.

The following information is being furnished to you for your information and is not to be disseminated outside your organization. The information is being furnished to you in confidence and is not to be used for any other purpose. The information is being furnished to you in confidence and is not to be used for any other purpose.

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18 JUL 1979





PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

PA

18 July 1979

Andrew Duguid Esq  
Private Secretary to the  
Secretary of State for Industry  
Ashdown House  
Victoria Street  
London  
SW1

DRAFT STATEMENT ON THE NEB

I have seen your letter of 18 July to Tim Lankester about the proposed oral statement on the Government's policy towards the NEB. The Paymaster General has seen the statement and has made the following suggestions:

Paragraph 4: to read 'but it will take time to restore the full vitality of the private sector. In the meantime .... '

Paragraph 5: Delete the first sentence

Paragraph 8: to read 'the Government is also much concerned with the problems ...'

I am copying this letter to the Private Secretaries to all Members of the Cabinet, to Tim Lankester and to Martin Vile.

R E S PRESCOTT  
Private Secretary



19 JUN 1979

**CONFIDENTIAL**

cc

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CH SEC

HMT

CO

LPO

D/EMP

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WO

D/T

16 July 1979

National Enterprise Board

The Prime Minister has read your Secretary of State's minute of 13 July reporting on the E(EA) discussion about the future role and functions of the NEB. She is willing to endorse the Committee's conclusions; but she has asked me to say that she has serious doubts about the NEB's continued "high technology" role.

I am sending copies of this letter to the Private Secretaries to members of E and E(EA) Committees and to Martin Vile (Cabinet Office).

TPL

A.A. Duguid Esq.  
Department of Industry

**CONFIDENTIAL**

88



PRIME MINISTER

NATIONAL ENTERPRISE BOARD

*Yes. but. As K.S. knows I disagree especially with the high level role. The N.E.B. is a very limited body in its own right. (Since this is a matter of considerable importance, I have asked that these papers be copied to Cabinet). Are you content with E(EA)'s endorsement of Sir Keith's proposals?*

*Pam Hirst*

*CONFIDENTIAL*

*137*

Flag A

In my minute to you of 6 July, I made a number of proposals about the future role and functions of the NEB. Your Private Secretary, in his letter of 9 July, recorded that you were content with this general approach to the NEB, noting that I was bringing it forward for collective consideration.

E(EA) considered these proposals at their meeting on 11 July. There was general support for them. I did, however, undertake to report two points which were made during the discussion:

*i.e. £10m provision per year*

i) The regional scale of operations proposed for NEB appears very small when compared with the provisions for the Welsh and Scottish Development Agencies. These Agencies have wider functions than the NEB which absorb a large proportion of their resources. The sums involved may seem too small and would expose us to considerable criticism. However, the Sub-Committee felt on balance that these modest proposals provided a way of avoiding pressure for the creation of the Development Agencies in the English depressed areas, and for that reason supported the proposals.

ii) Although the continued existence of the NEB was foreshadowed in the Manifesto, Michael Heseltine stressed to

/us ...



us that the three main roles, albeit on a much smaller scale than envisaged by its architects, now foreseen for the NEB - the 'hospital' role | the 'regional' role | and the 'high Technology' function - will be seen to justify the original left-wing arguments for the creation of the NEB almost exactly. He argued that the Opposition will use this as justification for proposing, at the time of the next election, large increases in the resources allocated to the NEB, and that it will be logically difficult for us to resist.

Given the Sub-Committee's approval, I now propose to make an early announcement about these decisions, and to set in hand the preparation of legislation. I shall discuss separately with the Secretaries of State for Scotland and Wales, and with the Chief Secretary, Treasury, the precise reconciliation of these proposals with the envisaged role of the Development Agencies.

I am copying this minute to all Members of E and E(EA), and to Sir John Hunt.

KJ

K J  
13 July 1979

11-5 JUL 1958





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*Ind. Prod.*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

*Secretary of State for Industry*

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*13* July 1979

*R 47*

*Dear Tim,*

When we spoke on the telephone today you asked me to ensure that my Secretary of State's proposals for the future of the National Enterprise Board should be copied to all members of the Cabinet in order to provide an opportunity for comment. I am therefore attaching:

- a) my Secretary of State's minute to the Prime Minister of 6 July;
- b) your reply of 9 July;
- c) my Secretary of State's minute of 13 July reporting on the discussion at E(EA) on 11 July.

My Secretary of State is hoping to make an oral statement on the future of the NEB on Thursday 19 July. He will be circulating very shortly a draft of the text to all members of the Cabinet.

I am copying this letter to the private secretaries to all members of the Cabinet and to Martin Vile.

*Yours sincerely,*

*Andrew Duguid*

ANDREW DUGUID  
Private Secretary



CONFIDENTIAL

Mr. H. G. S. Secretary  
Mr. G. G. G.  
Mr. G. G. G.  
Mr. G. G. G.  
Mr. G. G. G.  
Mr. G. G. G.  
Mr. G. G. G.  
Mr. G. G. G.

PRIME MINISTER

NATIONAL ENTERPRISE BOARD


In my minute to you of 6 July, I made a number of proposals about the future role and functions of the NEB. Your Private Secretary, in his letter of 9 July, recorded that you were content with this general approach to the NEB, noting that I was bringing it forward for collective consideration.

L(PA) considered these proposals at their meeting on 11 July. There was general support for them. I did, however, undertake to report two points which were made during the discussion:

i) The regional scale of operations proposed for NEB appears very small when compared with the provisions for the Welsh and Scottish Development Agencies. These Agencies have wider functions than the NEB which absorb a large proportion of their resources. The sums involved may seem too small and would expose us to considerable criticism. However, the Sub-Committee felt on balance that these modest proposals provided a way of avoiding pressure for the creation of the Development Agencies in the English depressed areas, and for that reason supported the proposals.

ii) Although the continued existence of the NEB was foreshadowed in the Manifesto, Michael Heseltine stressed to

/us ...



us that the three main roles, albeit on a much smaller scale than envisaged by its architects, now foreseen for the NEB - the 'hospital' role, the 'regional' role and the 'high Technology' function - will be seen to justify the original left-wing arguments for the creation of the NEB almost exactly. He argued that the Opposition will use this as justification for proposing, at the time of the next election, large increases in the resources allocated to the NEB, and that it will be logically difficult for us to resist.

Given the Sub-Committee's approval, I now propose to make an early announcement about these decisions, and to set in hand the preparation of legislation. I shall discuss separately with the Secretaries of State for Scotland and Wales, and with the Chief Secretary, Treasury, the precise reconciliation of these proposals with the envisaged role of the Development Agencies.

I am copying this minute to all Members of E and E(EA), and to Sir John Hunt.

KJ

K J  
13 July 1979

Department of Industry  
/Adams House  
123 Victoria Street  
London SW1

- 9 JUL 1979

SECRETARY OF STATE  
FOR INDUSTRY'S OFFICE



10 DOWNING STREET

From the Private Secretary

Mr. Battersby  
All Miss  
Secretary  
Mr. Lyth  
Mr. Bonham-Carter  
Mr. Bullock  
Miss Mueller  
Mr. Keeney  
9 July, 1979.  
Mr. Atkinson  
Mr. Smolka

Dear Peter,

The Prime Minister has considered your Secretary of State's minute of 6 July about the future role and functions of the NEB. Although she understands that Sir Keith Joseph intends to bring this minute forward for collective discussion, she is content with his general approach to the NEB as set out in the minute.

I am sending copies of this letter to the Private Secretaries to members of E Committee, Kenneth MacKenzie (Scottish Office), George Craig (Welsh Office), Joe Pilling (Northern Ireland Office) and Martin Vile (Cabinet Office).

Yours etc.

T. H. Lawrence

Peter Mason, Esq.,  
Department of Industry.



PRIME MINISTER

NEB : FUTURE ROLE AND FUNCTIONS

All in  
 Secretary  
 Mr. [unclear]  
 Mr. [unclear]  
 Mr. [unclear]  
 Mrs. [unclear]  
 Mr. [unclear]  
 Mr. [unclear]  
 Mr. [unclear]  
 Mr. [unclear]

I am now able to put proposals to you and to my colleagues on the future role and functions of the NEB. However, I have not yet had an opportunity of consulting the Secretaries of State for Scotland, Wales and Northern Ireland on the implications of these proposals for the industrial investment activities of the Scottish, Welsh and Northern Ireland Development Agencies, nor have I consulted the Chief Secretary on the public expenditure aspects.

Our Manifesto commitment was to retain the NEB to administer the Government's temporary shareholdings, selling them off as circumstances permitted. But we also recognised it might be necessary to help firms in difficulties, although such help must be temporary and tapered. The relevant Manifesto references are contained in Annex A.

Taking it that the NEB is to continue I have been considering whether there are useful contributions it can make to the development of our policy during the period while our economic strategies are coming to fruition. We must first clear the decks and I have undertaken that the NEB will provide £400m this year to the Chancellor by selling off its main profitable holdings, notably ICL, Ferranti and 50% of Fairey and other smaller holdings. Beyond that we have the prospect of perhaps £50m from the sale in 1980/81 and 1981/82 of the other half of Fairey and other smaller holdings.

This would leave 17 NEB shareholdings falling into two categories.




In the first category there are four "hospital" cases: EL, Rolls Royce, Herberts and Cambridge Instruments. EL and Rolls Royce are big problems in their own right and I do not wish to deal with them here except to warn colleagues of a likely proposal I shall be making about Rolls Royce. In this company we have inherited the prospect of large losses on contracts taken under the previous Government exacerbated by the present value of sterling against the dollar. It is essential to get costs under control, and it may prove desirable to take Rolls Royce away from the NEB so as, under the general supervision of my Department, to introduce more commercial management into the company. There is no prospect of an early and full return to the private sector but the ultimate possibility should not be ruled out. But at present I envisage EL staying with the NEB, plus Herberts and Cambridge Instruments, though I am urgently reviewing the prospects for these two latter companies.

We must expect that a large number of companies will have grave financial problems in the difficult trading circumstances of the foreseeable future. In the great majority of cases we must look to the private sector to provide its own solution: normally take-over by a stronger company or receivership (leading generally to rejuvenation under new management). We must however provide for the contingency that there may be a small number of cases, largely in the Assisted Areas, for which a private sector solution is not wholly feasible, but most could be dealt with - as our Manifesto clearly implies - by assistance under Sections 7 or 8 of the Industry Act 1972. I envisage the NEB in this context only as a means of dealing with very rare cases that had to be considered



in national terms and it would be for the Government, not the NEB, to decide whether an NEB initiative was desirable in this "hospital" role.

In the second category of remaining NEB shareholdings there are a group of what I will call "technology" companies, mainly concerned with computer software, micro-electronics and their applications, which I believe justify special attention. (I leave INMOS, about which I have deep misgivings, for separate consideration. The rest are listed in Annex B). There are good growth prospects for such activities, but private sector capital, understandably under past conditions, has been shy of providing the necessary high-risk finance. The NEB will be able to sell this scatter of holdings only gradually over the next few years. In the meanwhile it seems sensible to use the NEB as a means of familiarising the market with the new technologies. This could be done by requiring the NEB to secure as much private sector investment in their holdings as possible, by stages if necessary, although with a view to complete withdrawal by the NEB in, say, 4 years at the latest. Companies which could not attract private capital by then would be at risk of being closed down. In order to stimulate this process, and to encourage the NEB to cooperate with our rigorous overall approach and accept the reduced role we see for them, I think it would be desirable for them to be allowed to retain a significant proportion of the proceeds of the later disposals, to be applied to new "technology" investments, but only with private sector partners (always with a view to the speediest possible NEB withdrawal, and subject to review in 5 years at the outside).



Until I have had further discussions with the NEB I cannot put firm figures to the public expenditure this policy would entail. We must recognise that the NEB has existing commitments to the "technology" companies amounting, without INMOS, to about £50m in the three years 1980/81-1982/83. I suggest that in addition to this they should be provided with a "dowry" of about £50/60m for the period. (After that I would hope and expect that there would no longer be any need for an NEB in this role). A sum of this order is consistent with the undertakings I have given about future reductions in expenditure.

The NEB Guidelines at present require it to direct particular attention to the problems of the North and North West of England. The outcome has not been of much substance in economic terms, but if the Scottish and Welsh Development Agencies are to continue their industrial investment roles in neighbouring areas, which suffer from the same problems on the same scale, I think that the pressure of local opinion (crossing party boundaries) is such that it would be impossible to justify different treatment for the North and North West. There should, too, be a defensible relationship between the expenditure of the Agencies and that of the NEB, on a like-with-like comparison (because of the wider range of the Agencies' functions). The NEB in these two regions could provide, as often as possible in alliance with the private sector, some help for new and small firms until we decide on any general structure for encouraging this important business section.

For both the regional and small firm activities (largely in the North West and North East), the essential elements would be the





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maximisation of the private sector financial input, and the speediest possible withdrawal of the NEB involvement that is consistent with the health of the business concerned and the safeguarding of public funds. I envisage that the two activities together would require less than £10m a year in public expenditure but this would have to be reconciled with whatever we decide for the Agencies.

The legal advice that I have had points to the need for new legislation before major disposals are made. I envisage that this Bill will substantially curtail the existing powers of the NEB, limiting its functions, sharply reducing its financial limit, and redefining its financial duties. Powers will be needed to transfer NEB shareholdings to other ownership and to give effect to the changes in relation to Rolls Royce management if my proposals mature. Extensive amendment of the NEB Guidelines, which have statutory force, will also be necessary. All of this detailed work will take some time and require close consultation with the NEB Board. I am not yet able to say whether the members will be prepared to acquiesce in the NEB's much diminished role but that can be dealt with as a separate issue if necessary.

I envisage making as full a statement as possible to Parliament before the Summer Recess on the broad terms of this policy. More detailed statements can await appropriate occasions in the course of the passage of the proposed legislation.

In summary, I seek your agreement to:-

XXXXXXXXXXXX

- 
- (i) the general line of policy (subject to further discussion of the public expenditure implications) and to the NEB undertaking:
- (a) a "hospital" role, covering BL, Herberts and Cambridge Instruments;
  - (b) the provision, though only in partnership with the private sector, of risk capital to "technology" companies, within a total of about £100m over the next three years or so, of which about £50m is already committed and against which we shall be receiving £50m from the sales in 1980/81 and 1981/82;
  - (c) a regional role in the North and North West which, with the support for small firms and subject to the level of the Agencies' comparable expenditure, would cost about £10m a year;
- (ii) the preparation of legislation, subject to discussion with the Secretaries of State for Scotland and Wales on the reconciliation of these proposals with the envisaged role of the Agencies.

I am sending copies of this minute to all members of E Committee, the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir John Hunt.

PCM

K J

ff 6 July 1973

(approved by the Secretary of State and signed in his absence).



Manifesto Reference

Page 9 "We shall reduce government intervention in industry and particularly that of the National Enterprise Board, whose borrowing powers are planned to reach £4.5 billion."

Pages 14-15 "Too much emphasis has been placed on attempts to preserve existing jobs. We need to concentrate more on the creation of conditions in which new, more modern, more secure, better paid jobs come into existence. This is the best way of helping the unemployed and those threatened with the loss of their jobs in the future."

Government strategies and plans cannot produce revival, nor can subsidies. Where it is in the national interest to help a firm in difficulties, such help must be temporary and tapered.

We all hope that those firms which are at present being helped by the taxpayer will soon be able to succeed by themselves: but success or failure lies in their own hands."

Page 15 "Even where Labour have not nationalised they interfere too much. We shall therefore amend the 1975 Industry Act and restrict the powers of the National Enterprise Board solely to the administration of the Government's temporary shareholdings, to be sold off as circumstances permit."



NEB "Technology" Shareholdings

Data Recording Instrument Co Ltd  
Insac Data Systems Ltd  
Nexos Office Systems Ltd  
Computer & System Engineering Ltd  
Computer Analysts and Programmers (Holdings) Ltd  
Logica Holdings Ltd  
Logica VTS Ltd  
Logica Securities Ltd  
Systems Designers International Ltd  
Systeme Ltd  
Systems Programming Holdings Ltd  
Legibus Twelve Ltd  
Muirhead Office Systems Ltd



16 JUL 1979



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ *Secretary of State for Industry*

9. July 1979

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW 1

*Please amend  
as instructed "*  
*π*

*Dear Tim*

NEB: FUTURE ROLE AND FUNCTIONS

I regret that in the haste to dispatch my Secretary of State's minute of 6 July to the Prime Minister on this subject, two typing errors crept in. These are:

- a / on the first page, an additional sentence should be added to the third paragraph as follows: "beyond that we have the prospect of perhaps £50 m from the sale in 1980/81 and 1981/82 of the other half of Fairey and other smaller holdings."
- b / On the final page, sub para (i)(b) the "£30m" on the fourth line should read "£50m".

Copies of this letter go to the Private Secretaries to all Members of E Committee, the Secretaries of State for Scotland, Wales and Northern Ireland, and to Martin Vile.

*Peter Mason*

PETER MASON  
Private Secretary

THE NATIONAL ARCHIVES  
COLLEGE PARK, MARYLAND  
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10 DOWNING STREET

9 July, 1979.

*From the Private Secretary*

The Prime Minister has considered your Secretary of State's minute of 6 July about the future role and functions of the NEB. Although she understands that Sir Keith Joseph intends to bring this minute forward for collective discussion, she is content with his general approach to the NEB as set out in the minute.

I am sending copies of this letter to the Private Secretaries to members of E Committee, Kenneth MacKenzie (Scottish Office), George Craig (Welsh Office), Joe Pilling (Northern Ireland Office) and Martin Vile (Cabinet Office).

J. P. LANKESTER

Peter Mason, Esq.,  
Department of Industry.

CONFIDENTIAL





CONFIDENTIAL

*As written  
to Mr Hodgson*

*Denis Minchin*

1

*Sir K. Joseph intends  
to discuss this in E(EA),  
but he wanted an  
initial steer from  
you.*

PRIME MINISTER

NEB : FUTURE ROLE AND FUNCTIONS

*Are you content with  
his general approach?*

*Agree general approach*

12

I am now able to put proposals to you and to my colleagues on the future role and functions of the NEB. However, I have not yet had an opportunity of consulting the Secretaries of State for Scotland, Wales and Northern Ireland on the implications of these proposals for the industrial investment activities of the Scottish, Welsh and Northern Ireland Development Agencies, nor have I consulted the Chief Secretary on the public expenditure aspects.

*6h*

Our Manifesto commitment was to retain the NEB to administer the Government's temporary shareholdings, selling them off as circumstances permitted. But we also recognised it might be necessary to help firms in difficulties, although such help must be temporary and tapered. The relevant Manifesto references are contained in Annex A.

Taking it that the NEB is to continue I have been considering whether there are useful contributions it can make to the development of our policy during the period while our economic strategies are coming to fruition. We must first clear the decks and I have undertaken that the NEB will provide £100m this year to the Chancellor by selling off its main profitable holdings, notably ICL, Ferranti and 50% of Fairey and other smaller holdings; beyond that we have the prospect of perhaps £50m from the sale in 1980/81 and 1981/82 of the other half of Fairey and other smaller holdings.

This would leave 17 NEB shareholdings, falling into two categories.

/in the....



In the first category there are four "hospital" cases: BL, Rolls Royce, Herberts and Cambridge Instruments. BL and Rolls Royce are big problems in their own right and I do not wish to deal with them here except to warn colleagues of a likely proposal I shall be making about Rolls Royce. In this company we have inherited the prospect of large losses on contracts taken under the previous Government exacerbated by the present value of sterling against the dollar. It is essential to get costs under control, and it may prove desirable to take Rolls Royce away from the NEB so as, under the general supervision of my Department, to introduce more commercial management into the company. There is no prospect of an early and full return to the private sector but the ultimate possibility should not be ruled out. But at present I envisage BL staying with the NEB, plus Herberts and Cambridge Instruments, though I am urgently reviewing the prospects for these two latter companies.

We must expect that a large number of companies will have grave financial problems in the difficult trading circumstances of the foreseeable future. In the great majority of cases we must look to the private sector to provide its own solution: normally take-over by a stronger company or receivership (leading generally to rejuvenation under new management). We must however provide for the contingency that there may be a small number of cases, largely in the Assisted Areas, for which a private sector solution is not wholly feasible, but most could be dealt with - as our Manifesto clearly implies - by assistance under Sections 47 or 8 of the Industry Act 1972. I envisage the NEB in this context only as a means of dealing with very rare cases that had to be considered



in national terms and it would be for the Government, not the NEB, to decide whether an NEB initiative was desirable in this "hospital" role.

In the second category of remaining NEB shareholdings there are a group of what I will call "technology" companies, mainly concerned with computer software, micro-electronics and their applications, which I believe justify special attention. (I leave INMOS, about which I have deep misgivings, for separate consideration. The rest are listed in Annex B). There are good growth prospects for such activities, but private sector capital, understandably under past conditions, has been shy of providing the necessary high-risk finance. The NEB will be able to sell this scatter of holdings only gradually over the next few years. In the meanwhile it seems sensible to use the NEB as a means of familiarising the market with the new technologies. This could be done by requiring the NEB to secure as much private sector investment in their holdings as possible, by stages if necessary, although with a view to complete withdrawal by the NEB in, say, 4 years at the latest. Companies which could not attract private capital by then would be at risk of being closed down. In order to stimulate this process, and to encourage the NEB to cooperate with our rigorous overall approach and accept the reduced role we seem for them, I think it would be desirable for them to be allowed to retain a significant proportion of the proceeds of the later disposals, to be applied to new "technology" investments, but only with private sector partners (always with a view to the speediest possible NEB withdrawal, and subject to review in 5 years at the outside).

/Until...



Until I have had further discussions with the NEB I cannot put firm figures to the public expenditure this policy would entail. We must recognise that the NEB has existing commitments to the "technology" companies amounting, without INMOS, to about £50m in the three years 1980/81-1982/83. I suggest that in addition to this they should be provided with a "dowry" of about £50/60m for the period. (After that I would hope and expect that there would no longer be any need for an NEB in this role). A sum of this order is consistent with the undertakings I have given about future reductions in expenditure.

The NEB Guidelines at present require it to direct particular attention to the problems of the North and North West of England. The outcome has not been of much substance in economic terms, but if the Scottish and Welsh Development Agencies are to continue their industrial investment roles in neighbouring areas, which suffer from the same problems on the same scale, I think that the pressure of local opinion (crossing party boundaries) is such that it would be impossible to justify different treatment for the North and North West. There should, too, be a defensible relationship between the expenditure of the Agencies and that of the NEB, on a like-with-like comparison (because of the wider range of the Agencies' functions). The NEB in these two regions could provide, as often as possible in alliance with the private sector, some help for new and small firms until we decide on any general structure for encouraging this important business section.

For both the regional and small firms activities (largely in the North West and North East), the essential elements would be the



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maximisation of the private sector financial input, and the  
speediest possible withdrawal of the NEB involvement that is  
consistent with the health of the business concerned and the  
safeguarding of public funds. I envisage that the two activities  
together would require less than £10m a year in public expenditure  
but this would have to be reconciled with whatever we decide for  
the Agencies.

The legal advice that I have had points to the need for new  
legislation before major disposals are made. I envisage that this  
Bill will substantially curtail the existing powers of the NEB,  
limiting its functions, sharply reducing its financial limit,  
and redefining its financial duties. Powers will be needed to  
transfer NEB shareholdings to other ownership and to give effect  
to the changes in relation to Rolls Royce management if my  
proposals mature. Extensive amendment of the NEB Guidelines, which  
have statutory force, will also be necessary. All of this detailed  
work will take some time and require close consultation with the  
NEB Board. I am not yet able to say whether the members will be  
prepared to acquiesce in the NEB's much diminished role but that  
can be dealt with as a separate issue if necessary.

I envisage making as full a statement as possible to Parliament  
before the Summer Recess on the broad terms of this policy. More  
detailed statements can await appropriate occasions in the course of  
the passage of the proposed legislation.

In summary, I seek your agreement to:-



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- (i) the general line of policy (subject to further discussion of the public expenditure implications) and to the NEB undertaking:
  - (a) a "hospital" role, covering BL, Herberts and Cambridge Instruments;
  - (b) the provision, though only in partnership with the private sector, of risk capital to "technology" companies, within a total of about £100m over the next three years or so, of which about £50m is already committed and against which we shall be receiving £50m from the sales in 1980/81 and 1981/82;
  - (c) a regional role in the North and North West which, with the support for small firms and subject to the level of the Agencies' comparable expenditure, would cost about £10m a year;
- (ii) the preparation of legislation, subject to discussion with the Secretaries of State for Scotland and Wales on the reconciliation of these proposals with the envisaged role of the Agencies.

I am sending copies of this minute to all members of E Committee, the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir John Hunt.

PEM

PP K J  
6 July 1979  
(approved by the Secretary of State  
and signed in his absence).



Manifesto Reference

Page 9 "We shall reduce government intervention in industry and particularly that of the National Enterprise Board, whose borrowing powers are planned to reach £4.5 billion."

Pages 14-15 "Too much emphasis has been placed on attempts to preserve existing jobs. We need to concentrate more on the creation of conditions in which new, more modern, more secure, better paid jobs come into existence. This is the best way of helping the unemployed and those threatened with the loss of their jobs in the future.

Government strategies and plans cannot produce revival, nor can subsidies. Where it is in the national interest to help a firm in difficulties, such help must be temporary and tapered.

We all hope that those firms which are at present being helped by the taxpayer will soon be able to succeed by themselves: but success or failure lies in their own hands."

Page 15 "Even where Labour have not nationalised they interfere too much. We shall therefore amend the 1975 Industry Act and restrict the powers of the National Enterprise Board solely to the administration of the Government's temporary shareholdings, to be sold off as circumstances permit.



NEB "Technology" Shareholdings

Data Recording Instrument Co Ltd  
Insac Data Systems Ltd  
Nexos Office Systems Ltd  
Computer & System Engineering Ltd  
Computer Analysts and Programmers (Holdings) Ltd  
Logica Holdings Ltd  
Logica VTS Ltd  
Logica Securities Ltd  
Systems Designers International Ltd  
Systeme Ltd  
Systems Programming Holdings Ltd  
Legibus Twelve Ltd  
Muirhead Office Systems Ltd





JUL 6 1978

FILE

MB

(incl PSE)



~~central office~~

10 DOWNING STREET

*From the Private Secretary*

6 May 1979

I am writing to thank you for your letter of 4 May which you sent to Ken Stowe, and for the enclosed copy of the N.E.B. Annual Report and Accounts.

T. P. LANKESTER

Sir Leslie Murphy

B

REPORT SENT  
PRESS OFFICE  
6/5/79 vlc

## National Enterprise Board

Sir Leslie Murphy  
Chairman

LFM/ A/dmb

12/18 Grosvenor Gardens  
London SW1W 0DW

Tel: 01-730 9600  
Telex: 8812971

4th May, 1979.

K. R. Stowe, C.B.,  
Principal Private Secretary to the  
Prime Minister,  
10, Downing Street,  
London, SW1.

*to James*

*You will wish to  
be aware of X.*

*Dear Ken*

*TL*

*6/5*

As you know, it is my usual practice to send a personal copy of our Annual Report and Accounts to the Prime Minister.

In the circumstances, I thought I should not trouble Mrs Thatcher herself. but should send a copy to you instead. The Report will be published next Tuesday, and we will be having a press conference that morning.

X |

*Yours sincerely*

*Leslie*

Enc:

