

2/22

SECRET

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CONFIDENTIAL FILING

POSSIBLE MERGER BETWEEN BRITISH AEROSPACE AND THORN - EMI OR GEC

AEROSPACE.

MAY 1984.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>15.5.84</del>							
16.5.84							
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20.6.84							
24.6.84							
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10 DOWNING STREET

Prime Minutes (2)

I have subsequently heard from the Tebbitt office that Sir Austin Pearce did come to DTI at lunchtime and reported to officials, though information of this did not reach Mr Tebbitt by the time he left for House of Commons.

This mitigates but does not totally excuse Sir Tunis tardiness in reporting to Government

AT  
"15



Prime Minister ②

CONFIDENTIAL

Pl put in (EA)  
folded tomorrow.

I will follow this up.

MR TURNBULL

28 June 1984

AT 28/2

cc Mr Redwood  
Mr Owen

GEC AND BRITISH AEROSPACE

1. It is now 34 days since GEC declared an interest in acquiring BAe and 20 days since Thorn-EMI effectively withdrew. GEC are thought to be examining BAe in detail, but have made no formal bid.
2. The longer this goes on, the harder it will be for Government to make real use of its 48% stake in BAe.
3. Firstly, GEC and BAe both have an interest in dragging matters out. BAe could well be inventing delay in the hope, however forlorn, of avoiding the takeover at all. On the other hand, for GEC a slow pace of progress actually strengthens their position. It keeps competitive bidders at bay and enables them to find out more. The latter point is particularly important; we regard it as somewhere between possible and probable that GEC will bid only for the defence parts of BAe, or will bid low for the whole thing and demerge civil aerospace afterwards.
4. Secondly, GEC's offer price (and therefore the value of HMG's shareholding) can only go down as GEC find out about BAe's more dubious ventures.
5. Thirdly, while GEC and BAe embrace ever more tightly behind the curtains, the more difficult it will be for Government to reason with them when they emerge.
6. Fourthly, but more tentatively, we believe that every passing week's silence on the Government side and on the companies' side will lead the rest of the defence equipment industry and the public to believe that Government sees no competitive issue at stake, or that it is giving the two companies time to mount a defence.

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7. It is open to DTI to make it clear that Government will dispose of its entire shareholding in BAe wherever it can unless GEC makes a bid within a specified period. Norman Tebbit could easily ask an intermediary to sound out interested parties.

8. We suggest that the Prime Minister might put DTI on notice that she is becoming concerned about the apparent inaction, and that she wonders what more the Department could do by virtue of its shareholding to prevent further delay.

*Agreed mt*

*R.Y.*

ROBERT YOUNG

CONFIDENTIAL



PRIME MINISTER

BRITISH AEROSPACE

Sir John Clark was present at the Harrow Governors Meeting I attended over the weekend. He asked me to show you the attached letter which he had sent to Mr Heseltine about the proposition that GEC should take over BAe; and he had four further points which he had noted on the letter below - first, that the issue should be regarded as one of industrial policy and not as merely a means of obtaining funds for the PSBR; second, that a GEC takeover would make a nonsense of the Government's competition policy; third, that it would produce a "gross over-concentration" of a national resource vital to the nation's security; and fourth, that Plessey had put forward their own proposition for a co-operative venture with BAe which would not involve the acquisition by Plessey of any of BAe's equity.

FERB  
....

20 June 1984



Prime Minister

AT 15/6

MR TURNBULL

15 June 1984

GEC AND BAe

John Redwood asked me to write on the competition problem with a GEC/BAe merger.

The absorption of BAe into a larger grouping is an unmissable opportunity for Government to dispose of its entire shareholding in BAe.

There are industrial pros and cons:

On the credit side:

- a. The creation of a large, very nearly all-can-do corporation in civil and military aerospace, should improve the ability of the enlarged company to fight its corner in overseas markets.
- b. There is little product or technology overlap between GEC and BAe which would result in the elimination of competing products. The only substantive area here is underwater weapons, which I believe could be dealt with by divestment.
- c. Under GEC ownership BAe might be less likely to undertake daffy projects such as the A320 which command heavy subvention by the taxpayer.

The debit side is weighty:

- a. The creation of a larger aerospace grouping which can compete internationally is of no use to the taxpayer: the MOD is disinclined to source by international competitive tender.
- b. The grouping of an end product maker with a major sub-systems maker does give cause for concern. GEC's Marconi operations now have a spread of product activity which spans large parts of Plessey, Ferranti, and Racal and smaller parts of Dowty, Smiths and STC. These latter companies would fear the effective elimination of competition for major sub-systems on military aircraft; and by extension would feel that GEC had acquired even more muscle to negotiate non-airborne systems such as ground surveillance or secure communications. I believe we could almost guarantee that the "offended" companies, backed by the Defence Industries Council, would press for a reference.

The potential problem of reduced competition among sub-systems competitors might require an MMC reference. But

DAUAAE



we should not get the scale of the problem out of proportion. It is easy to say that GEC and BAe together would be twice as big as the six main sub-systems suppliers. The more relevant issue is to determine how much bigger Marconi is than its direct product competitors. Accounts conceal this in detail, but in sales and profit terms, my guess is that Marconi is about as big as Ferranti, Racal and Plessey put together - a very strong position but not a killer.

I am driven to the conclusion that the bid should be referred and dealt with very quickly. We could only pray it was then given the green light.

*Linda Fensell*

RP ROBERT YOUNG



CHAIRMAN AND CHIEF EXECUTIVE  
SIR JOHN CLARK



The Plessey Company plc  
Millbank Tower London SW1P 4QP  
Telephone: 01-834 3855 Telex: 897971

14th June, 1984

The Rt. Hon. Michael Heseltine PC MP  
Secretary of State for Defence  
The Ministry of Defence  
Main Building  
Whitehall  
LONDON SW1

- 1) Industrial issue not financial.
- 2) Competition becomes a nonsense.
- 3) Gross over concentration of a national resource vital to the security of the nation.
- 4) Own proposition.

*Dear Secretary of State,*

Plessey has been studying, in conjunction with Racal and Ferranti, the implications for the defence industry of the takeover of BAe by GEC, and I am writing to express our extreme concern at the prospect of such a move.

This possible takeover is we believe highly undesirable from the point of view of both the defence industry and the nation. It cannot be in the national interest to place such a large proportion of the defence industry in the hands of one group: over half of the vital guided weapons and electronics sector alone would fall into this category. As far as the industry generally is concerned, it will eliminate in many areas the possibility of that competition which both we and HMG favour, and which acts as such a healthy spur to our efforts in the export market. We do not consider that assurances given by a new group would alleviate our fundamental concerns. Furthermore, we do not accept that the formation of this group would improve the UK's international competitiveness.





We consider it is important that any positive proposal by GEC in this context should be considered by the Office of Fair Trading and referred to the Monopolies Commission. We have commissioned Robert Fleming & Company Limited to produce, as rapidly as possible, a study of the likely effects on the industry and we would ask for your assurance that no definite action is taken before this study is available for your information and guidance.

We have also written a letter confirming this view to the Secretary of State for Trade and Industry.

Sincerely,

John Baul



Prime Minister

SECRET

The point to emphasize is that once any of the bidders shows his hat into the ring, he will be all fours with Thorn. It will be

That surely HMA is only 2

1 June 1984

Private  
for Shareholders to judge which is preferable in terms of management and financial resources.

PRIME MINISTER

BRITISH AEROSPACE/THORN EMI

AT '16

interested in cash bid. We do not want EMI shares

I understand in your discussions last weekend concerning a Thorn bid for British Aerospace, some points were made about the unsuitability of Thorn EMI as a suitor.

Does Thorn EMI have the necessary cash for the bid? Thorn does not have the money to make a cash bid for British Aerospace: it will be a share offer which forms the backbone of the Thorn terms when they are finally decided.

Thorn will, however, have a good cash flow in future years. The television rental business is maturing. Television rental only gobbles up cash when the number of sets out on rental is expanding rapidly. The replacement of sets with maintained volumes, or even some decline in the number of rented sets, will generate substantial cash for Thorn.

Is it suitable for a television rental and consumer electronics company to get involved in hi-tech defence? It may well be suitable, and is common in many other major companies. GEC, for example, mixes hi-tech defence (Marconi) with a consumer electrical division and with heavy electrical engineering. This should be a matter for shareholders of Thorn to decide.

Should there be a pre-emptive right for those companies that once owned portions of British Aerospace? In law, there cannot be a pre-emptive right. People were compensated when the business was nationalised, and now that the business is up for sale again, it must go to the best bidder, subject to monopoly considerations.

JOHN REDWOOD

SECRET





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JU397

Secretary of State for Trade and Industry

25 May 1984

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

*Dear Andrew,*

When I spoke to you on the telephone earlier this afternoon, I reported to you a conversation between Lord Weinstock and Sir Tin Pearce which took place this morning. This is in line with a number of approaches which have been made to this Department by GEC. It may be of use if I set out the line which we have adopted in all approaches from GEC.

*M.M.C.  
 U.K.  
 Airbus*

2 We have stressed that the conditions set out in Mr Lamont's statement in the House on 16 May, made in relation to the discussions between Thorn-EMI and BAe, would apply equally to any other proposed merger. In particular, there would be the need to consider the merger in terms of a reference to the MMC; there would be a requirement to give effect to the undertaking that the company would not pass outside UK control; and there would need to be an undertaking that BAe's participation in the Airbus programmes would continue.

3 There is one further proposal emanating from GEC of which you should be aware. This is that GEC might offer to buy out the Government's shareholding. The motives for such a proposal are not clear; GEC might use the Government's 48% shareholding to oppose the Thorn-EMI bid; to make a gain for themselves by subsequent reselling the shares to Thorn-EMI; or to use them as a base for acquiring control of BAe. There are very considerable objections to such a proposal, not least because it would take away from the private shareholders in BAe the ability to determine the company's attitude to any proposal put to it. It would also, unless special provisions were made, run counter to the undertaking about a minimum shareholding to entrench the safeguards against foreign ownership; it would fall to be considered by the Director-General of Fair Trading; and the Takeover Code would, in any case, probably require a formal offer

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to be made to the remaining shareholders. For all these reasons,  
we see very considerable difficulties in such a proposal.

4 I am copying this letter to David Peretz (Treasury).

*Yours ever*

*Callum McCarthy*

M C McCARTHY  
Private Secretary

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10 DOWNING STREET

Prime Minister

As Ministers will ultimately need to decide whether to refer a GEC bid to the MMC and whether to accept the latter's recommendations, you will want to be cautious in talking to Lord Weinstock about BAc.

AT

25/3

Note from John Redwood attached below

FEBB

25.3.



PRIME MINISTER

Policy Unit

25 May 1984

British Aerospace

Robin suggested that I send you some thoughts on the Thorn EMI prospective bid for British Aerospace and on the possible interest of GEC in acquiring the company.

The Government's concerns are:

- (1) As a shareholder in British Aerospace.
- (2) As a buyer of military equipment keen to see competition in the supplying industries.
- (3) A general interest in the well being of major British companies.

The first two interests should be the predominant ones in coming to any decision. The interests of either the Thorn EMI or the GEC shareholders are not concerns of Government.

Thorn EMI

Thorn EMI has had a troubled history from late 1979 when under the direction of its new Chairman, Sir Richard Cave it decided to take over EMI. Prior to that date Thorn had been a marvellous example of a successful consumer electrical business built up by a dynamic first generation entrepreneur. Cave's bid for EMI led to a sharp decline in the share price and ushered in a 5-year period of lower profits per share. However, the Thorn management did eventually succeed in making sense of what was a bad bid. In mid 1980 they sold the unsuccessful scanner and hotels businesses and by 1982 were beginning to control the wayward



EMI music business which had been in prolonged difficulties after the break up of The Beatles. By 1984 Thorn was emerging as a much better group with cash flow building up again and with the defence electronics business a particular strength.

Richard Cave has now moved on and Thorn is run by Peter Laister. He was Cave's Managing Director and was obviously sympathetic to the EMI acquisition strategy. His decision to bid for British Aerospace is therefore part of the modern Thorn style and should not have unduly surprised shareholders. It has led to a sharp decline in the Thorn share price as any such major acquisition would, particularly in the light of the early difficulties with EMI. However, even if Thorn were to fail in their bid for British Aerospace the troubles for their shareholders would not now go away as they would be waiting nervously to see what else Thorn might decide to buy.

From the Thorn shareholders point of view, if the company has to make an acquisition British Aerospace is one of the best it could choose. Putting the two together produces a combination with a better balance sheet than Thorn currently has whilst offering scope for mutual development of defence hardware. British Aerospace does need a sugar daddy, particularly in the light of its decision to go ahead with a wide-ranging defence programme at the same time as taking on the A320 airbus.

The combined grouping of Thorn/British Aerospace based on 82/83 figures would have sales of £4.8 billion and profits of £200 million. This would bring it up to the same size in terms of sales as GEC but far short of GEC's impressive profit total of £670 million. In part the difference reflects the different mix of business. In the main it demonstrates how inadequate the returns are on both the Thorn and British Aerospace businesses. It will be the



task of the combined management to improve these returns. The Thorn management, particularly the Finance Director, should strengthen controls over British Aerospace. Thorn EMI's defence business is quite small, with only a quarter of the Group's total turnover outside the consumer area.

### GEC

Judging by the amount of cash available both to make the acquisition and to fund British Aerospace's future requirements GEC is by far and away the stronger suitor. Judging by proven ability to manage assets and men well again GEC is ahead. GEC are becoming a little desperate to invest their enormous cash mountain. Whereas it looked clever in the mid 1970s to sit on an ever-growing cash heap as returns on cash were superior to returns on manufacturing, by the mid 1980s the position looks markedly different. GEC are now being pressurised by some of their better shareholders and by the press to do something about their idle assets.

However, GEC is much more likely to attract opposition from other defence suppliers. The Marconi business is already the dominant part of GEC's enormous structure and competitors will feel that the combination of Marconi and British Aerospace in areas like missiles and other electronic defence systems would be too strong for the UK defence market. The Government would be under pressure to refer the bid to the MMC.

### Conclusion

The Government's interest as shareholder is to sell its holding. On its own British Aerospace is a bad investment. The Government cannot influence the bidding and should not try to. In one sense it is in the Government's interest to encourage or to promote an auction to develop to achieve a

/higher



higher price.

The only difficulty is whether an MMC reference for GEC will be needed. It would be prudent for DTI/MOD - as I hope they are doing - to come to an early view on whether the case about GEC UK market dominance in some defence sectors is or is not a serious one. With Whitehall away today I do not have enough numerical information on GEC to determine this question but MOD are likely to object to a GEC purchase and they have a good case. I think either suitor makes more sense than leaving British Aerospace alone and that on all grounds, save competition grounds, GEC is the better industrial partner. The Government is lucky to be offered this way out of its residual shareholding.



John Redwood



MOD Projects in Common

British Aerospace	Thorn	GEC
ACA		X
ALARM	X	X
ASRAAM		X
Harrier I		X
Harrier II	X	X
Sea Harrier		X
Hawk		X
Jaguar		X
Lynx		X
Nimrod	X	X
Rapier		X
Tracked Rapier		
Sea Dart	X	X
Sea Eagle		X
Sea Wolf		X
Sea King	X	
Sidewinder		
Spearfish		X
Stingray		X
Striker		
Tornado		X



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From the Minister of State for Industry

NORMAN LAMONT MP

*Prime Minister*  
Prime Minister  
*To note*

*AT*

*'715*

*MT*

*17* May 1984

The Prime Minister  
10 Downing Street  
LONDON  
SW1

*Dear Prime Minister*

**BRITISH AEROSPACE**

Lord Weinstock telephoned Sir Brian Hayes last night to say that he was inclined to enter the bidding for British Aerospace. He would be consulting others within his company and would be in touch with us again by 22 May to let us know whether he had reached a decision. He gave as his reason the concern he felt over the possibility of British Aerospace coming under the control of a company such as Thorn EMI, which in his view had little knowledge of the aerospace business and on which the manufacturers of equipment for British Aerospace products could not therefore rely as they could on the company under its present management. Lord Weinstock emphasised the confidentiality of this conversation and asked that knowledge of it should be confined as narrowly as possible.

This development is neither unexpected nor necessarily unwelcome. It may however raise competition policy issues because of the overlap between GEC's and British Aerospace's activities.

I am sending a copy of this letter to the Chancellor.

*Yours etc*  
*Norman*

NORMAN LAMONT

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## British Aerospace (Merger)

3.31 pm

**The Minister of State, Department of Trade and Industry (Mr. Norman Lamont):** With permission, Mr. Speaker, I should like to make a statement about British Aerospace.

The Boards of Thorn—EMI and British Aerospace have announced that they are having talks to explore the possibility of a merger between their two companies. Such a merger would fall to be considered by my right hon. Friend the Secretary of State under the provisions of the Fair Trading Act 1973, so that he can decide whether investigation by the Monopolies and Mergers Commission is required. No decision on this point can be reached until details of a proposal have been studied and a recommendation received from the Director General of Fair Trading.

When British Aerospace was privatised, the Government gave an undertaking that the company would not pass outside United Kingdom control. If the proposed merger is to go ahead, the Government will require the new company to agree arrangements which would continue to give effect to that undertaking. The precise nature of these arrangements would need to be determined in the light of circumstances. The Government will also require an undertaking that British Aerospace's participation in the Airbus programmes will continue.

Subject to these considerations, and to studying the details of any proposal which might emerge from the present exploratory discussions, the Government do not see any reason which would justify using their shareholding in British Aerospace to impede such a merger if it proved acceptable to a majority of the remaining shareholders.

**Mr. Peter Shore (Bethnal Green and Stepney):** This is a thoroughly bad and muddled statement and, depending on how the Minister responds to questions, possibly disgraceful as well.

Does the Minister really think that it is a reasonable use of his powers to begin the statement by dangling the prospect of putting this unwelcome bid proposal to the Monopolies and Mergers Commission and then end by saying that the Government will not use their voting power to impede such a merger? That is an astonishingly passive approach by the Government in an industry in which they have the major responsibility.

Does the Minister think it sensible to allow a firm, albeit a successful one, that is involved in colour television and video and in marketing various pop groups to have the responsibility of looking after the development of Britain's largest company in civil and military aviation, in missile technology and in the space satellites? Does he think that there is the experience, expertise, skills and management in the proposed takeover firm, and the long-term commitment to the success of the British aerospace industry that any such ownership must necessarily have?

The Minister referred to the fact that when British Aerospace was privatised, some undertakings were not only given but written into the articles of association to prevent any large proportion of the shares of that firm falling into foreign hands. The ceiling figure was given as 15 per cent. Although he referred to them, he gave no repetition of those undertakings. I press him, if he is

contemplating any change in ownership, to ensure that the same strong defences against foreign ownership are built into any articles of association and any agreement that is reached.

Another undertaking was given at the time of privatisation that I shall draw to the Minister's attention because it does not feature in his statement. It was in the form of a public letter written by the then Secretary of State for Industry, the right hon. Member for Leeds, North-East (Sir K. Joseph). He said:

"Following the offer for sale HMG does not intend to sell any more of its shareholding in the company for the foreseeable future. HMG has also made it clear that, in any event, it intends to retain a shareholding conferring more than 25 per cent. of the voting rights ordinarily exercisable in general meetings."

Will the Minister give a renewed undertaking that the words spoken in good faith by his right hon. Friend the previous Secretary of State for Industry still stand? If not, we shall certainly want to bring him to account. There will have to be a major debate in the House, because one cannot give such major undertakings and lightly abandon them.

I remind the Minister that the undertakings were given on 48 per cent., on not selling more in the foreseeable future and on the absolutely irreducible minimum of 25 per cent., because, although the Government do not wish to intervene in day-to-day matters, the overall strategic control of an industry vital to Britain's defence and future in aerospace must remain under Government control.

**Mr. Lamont:** The right hon. Gentleman is somewhat over-reacting. The first point is that these are only proposals. Talks are still going on, and we will have to see what will emerge from them. The second point is that we made it clear when British Aerospace was to be privatised that we would not interfere with the day-to-day commercial decisions that have to be made by the company. The third point, as I implied in my statement, is that the Government's position, subject to the requirements that I listed being satisfied, is essentially a neutral one. If those considerations are satisfied, we do not see any reason why the merger should not go ahead. It would be wrong for me, in advance of the Director General of Fair Trading having looked at the proposal—he has wide terms of reference and takes into account the national interest—to comment on the industrial merits of the proposal.

As to the shareholding in 1980, our commitment was that for the foreseeable future we would maintain the present holding at the same level. It was made clear by my hon. Friend the Minister of State, Northern Ireland Office, that that commitment to the 48 per cent. level applied for about a year. It was, however, made clear that we intended to maintain—

**Mr. Peter Shore rose—**

**Mr. Lamont:** Perhaps if the right hon. Gentleman will listen.

—we intended to maintain voting rights of more than 25 per cent. in the company. When a company becomes merged with another company, obviously the device of a 25 per cent. shareholding in the original company which merges would be overtaken by the new situation. The purpose of our shareholding was to ensure that control of British Aerospace remained firmly within the United Kingdom, and that commitment still applies. If this proposition comes about, we must look for the mechanism



by which that position will be safeguarded. It has been made clear time and time again that we intended to reduce our shareholdings in BAe below 48 per cent. Indeed, my right hon. and learned Friend the Chief Secretary said that at the time of the Budget debate about public sector shareholdings. The commitment against foreign control remains, very firmly.

**Mr. Michael Grylls** (Surrey, North-West): Does my hon. Friend accept that the British Government have been well served by an efficient and competitive defence industry, in which, until 1977, the Government had no shares? Ownership of shares is, therefore, by no means necessary. Will my hon. Friend give a categorical assurance that he will do nothing to interfere in the proper workings of the market in relation to this proposed bid and will simply act as any other shareholder?

**Mr. Lamont:** My hon. Friend is right. There are many important defence companies in this country which are efficient and competitive and in which the Government do not have a shareholding. There is no reason why the Government should have a shareholding in them. I have listed the matters about which the Government are rightly concerned. It would be wrong if the Government used their shareholding to force on other shareholders a view to which they were opposed.

**Mr. Bruce Millan** (Glasgow, Govan): Is it not clear that, as the Government presently have 48 per cent. of the shareholding, the merger can go ahead only with positive Government encouragement and approval? Is it not therefore irresponsible for the hon. Gentleman to say that the matter will be left to the other shareholders, especially in view of the undertakings given at the time of denationalisation—which, in the light of this statement, may soon be breached by the Government?

**Mr. Lamont:** I do not think that it is irresponsible. This company has been privatised, and it is wrong to go on treating it as though it were in the public sector. We have listed our specific concerns, and they will be considered. It would be wrong at this stage to take a view, as the Opposition seem prepared to do, against the proposal, even if those criteria could be satisfied.

**Mr. John Wilkinson** (Ruislip-Northwood): I remind my hon. Friend that the companies with which British Aerospace must compete on the world market are highly diversified corporations of the stature, scale and scope of the United Technologies Corporation and the General Dynamics Corporation? Is it not the case that, if BAe is to have an expanding and prosperous future, it must benefit from the cash flow that will accrue from the market-oriented consumer goods of Thorn and the complimentary of the electronics warfare and electronic satellite technology of Thorn-EMI?

**Mr. Lamont:** I note what my hon. Friend has said. He will have noted what the chairman of Thorn-EMI said publicly about the proposed merger. I have said—I do not wish to go beyond what I have said—that it is improper for me to comment on the industrial merits when the matter falls to be examined by the Director General of Fair Trading.

**Mr. Malcolm Bruce** (Gordon): The Minister is suggesting that the Government do not even have the legitimate view about the deal that any shareholder would have. Given that the Government are the major

shareholder in this proposed merger, it is surely right for the House to expect the Minister at least to exercise the best commercial judgment on behalf of the taxpayers for whom he holds those shares. Will the Minister give an assurance that the Government will assess the commercial benefits from such a merger before making any decision on whether those shares should be put into such a deal?

**Mr. Lamont:** The hon. Gentleman ignores what we said in the prospectus at the time British Aerospace was privatised. It was made crystal clear that

"HM Government does not intend to use its rights as a shareholder to intervene in the Company's commercial decisions."

The company is in the private sector. The Government are concerned with the Airbus programme, defence, competitive aspects, the matters to be considered by the Director General of Fair Trading and, above all, aspects of foreign control. It is wrong to impose views on other shareholders if the Government are satisfied about those considerations.

**Mr. Michael Marshall** (Arundel): Does my hon. Friend agree that one of the aspects about the shareholding that is perhaps rather special, is the shares held by employees? Does he accept that the success of the shareholding scheme and the continued interest of the employees in adding to their shareholdings through the save-as-you-earn scheme should be taken into account? If it is in the best interests of the shareholders and employees to go ahead with the merger, I hope that my hon. Friend will add an enthusiastic voice to that development.

**Mr. Lamont:** The employee shareholding is an important consideration. I am not sure of the exact figure, but about 4 per cent. of the shares are held by employees. Under the law, the same offer must be made to them as to other shareholders. They will have the opportunity to participate in any decision about the future of their company.

**Mr. Lewis Carter-Jones** (Eccles): Is it in the national interest and in the interests of competition to have a set-up in which the avionics industry is tied closely to the airframe industry? Will not that present a risk to the security of Britain? Will it not put certain of our prominent avionics industries at grave risk?

**Mr. Lamont:** The defence aspects will be considered by my colleagues in the Ministry of Defence. If the hon. Gentleman was hinting that in a competitive sense it is unhealthy for a company with interests in the avionics industries to be tied to an airframe manufacturer, I can assure him that that consideration will be borne in mind by the Director General.

**Mr. Andrew MacKay** (Berkshire, East): Will my hon. Friend confirm that if the merger takes place the Government will continue with launch aid for civil aircraft projects at the current levels?

**Mr. Lamont:** Launch aid is available for companies in the private sector, regardless of the structure of the company. As British Aerospace will remain in the private sector, it will continue to be eligible for launch aid.

**Mr. George Park** (Coventry, North-East): Will the Minister now answer the question asked by my right hon. Friend the Member for Glasgow, Govan (Mr. Millan)? As the Government are still the major shareholder, is not the



[Mr. George Park]

House entitled to be told the Government's assessment of the proposal? The Minister should not adopt such a stand-back-at-arm's-length attitude.

My right hon. Friend the Member for Bethnal Green and Stepney (Mr. Shore) questioned the competence of those endeavouring to take over British Aerospace. Are we supposed to believe that, despite the importance of the industry, the Government have made no assessment of the competence of those wishing to take over BAC to carry on its work and to develop it further, in the way that we all want? The Minister must answer those questions.

**Mr. Lamont:** The hon. Gentleman must remember that these are early days. No detailed proposition has yet been put forward. We must await the details if such a proposition emerges. The hon. Gentleman must also remember that the company has been privatised. We said again and again that we did not intend to use our shareholding to interfere in commercial matters. The hon. Gentleman may wish that British Aerospace was still in the public sector, but it is not. We must not behave as though it were a pseudo-public sector company.

**Mr. Michael Stern** (Bristol, North-West): While I welcome that part of my hon. Friend's statement relating to the future of the Airbus, is he prepared to use the Government's influence to ensure that the continued involvement of the company in future civil airline projects is at least encouraged under any structure that emerges from the merger?

**Mr. Lamont:** I am sure that my hon. Friend knows that the Government are a guarantor of the development costs of British Aerospace in the Airbus programme. Obviously, the Government will want to be satisfied that those commitments are honoured. That will be a major consideration in the Government's mind. Although that applies to the A300 and the A310, there is no such guarantee for the A320, because the inter-governmental agreement has not yet been signed. As regards a future project, as I said to my hon. Friend the Member for Berkshire, East (Mr. MacKay), any public or private sector company is eligible for launch aid under the terms of the legislation.

**Mr. Tam Dalyell** (Linlithgow): How else are we to interpret the answer given to my right hon. Friend the Member for Glasgow, Govan (Mr. Millan) other than that the Minister and his Government colleagues are now willing to tear up the undertakings that they gave on the occasion of British Aerospace's privatisation? Are they not tearing up their own undertakings?

**Mr. Lamont:** I am not sure whether the hon. Gentleman is advocating that if the merger takes place the Government should go into the market place and buy 25 per cent. of a much bigger company. We gave the undertaking—

**Mr. Dalyell:** You are breaking it.

**Mr. Lamont:** —to safeguard the future of British Aerospace against a foreign takeover. That commitment still applies. The mechanism by which it is achieved is something that we will have to consider in the light of the circumstances that may develop.

**Mr. Tom Sackville** (Bolton, West): Does my hon. Friend agree that, in view of the fact that British Aerospace

is relatively cash-short in the context of the major developments that it wishes to undertake, we should give every possible consideration to a merger with a highly prestigious British company which does not just sell at more than twice the multiple of British Aerospace but has a strong projected cashflow?

**Mr. Lamont:** I note what my hon. Friend says. He is echoing some of the words that have been used by the chairman of Thorn-EMI. If I were to comment upon them, I should be anticipating the consideration that the Director General of Fair Trading is giving to the matter.

**Mr. Andrew F. Bennett** (Denton and Reddish): Is the Minister aware that the rumours in the press and his statement in the House will have caused a great deal of anxiety to all those people who work in British Aerospace? Why did he not give a guarantee that their jobs would be safeguarded in any possible merger? Will he now make it clear to the House that the Government will use their shareholding to ensure that there are no further redundancies in the industry as a result of this possible merger?

**Mr. Lamont:** Of course I appreciate that these matters cause anxiety. As the hon. Gentleman may be aware, there is a large British Aerospace factory in my constituency. One would not give any guarantee about jobs in British Aerospace, whether or not the merger had been proposed. There is some uncertainty.

**Several Hon. Members rose—**

**Mr. Speaker:** Order. We have a heavy day ahead of us, but I will call the hon. Members who have been rising, if they will keep their questions brief.

**Dr. Jeremy Bray** (Motherwell, South): Is the Minister sufficiently confident of the track record of Thorn-EMI in its management of advanced technology companies that it has taken over in recent years for him to allow his interests as a British Aerospace shareholder to be possibly prejudiced by such a merger?

**Mr. Lamont:** As I have already told the House, the considerations that the Director General can employ are wide and relate to the national interest; on previous occasions considerations of the adequacy or otherwise of management have fallen under the scrutiny of the Director General of Fair Trading. I cannot go beyond that; that would be to anticipate his examination.

**Mr. Anthony Beaumont-Dark** (Birmingham, Selly Oak): Does my hon. Friend accept that there may well be a great deal of sense in the merger, although if I were a Thorn-EMI shareholder I would not touch it with a bargepole? Will he give us two undertakings in this matter—first that the Government will not consider the profit made out of their 48 per cent. holding as the main criterion—as to whether the merger should be allowed. Secondly, bearing in mind the doubtful synergy in these two companies merging and the fact that he has referred many other companies to the Monopolies and Mergers Commission, surely the huge size involved means that, for propriety to be seen, the matter should be gone over by the Monopolies and Mergers Commission to ensure that justice is done to all concerned?

**Mr. Lamont:** I am sure that the second point will be in the front of the mind of the Director General of Fair Trading. On the first point, I can give my hon. Friend the



assurance that he seeks. The Government did not bring this proposition about: it happened. Therefore, I do not believe that the Government can be accused of having tried to bring it about for financial reasons.

**Mr. Ernie Ross** (Dundee, West): With 48 per cent. of the shares, the Minister must accept that he has a responsibility not just to the employees but to the national interest, and must give some consideration to, and make some statement about, the competence of a company that has been involved mainly in consumer electronics attempting to take over British Aerospace.

**Mr. Lamont:** I have already said that the Government are concerned about the possibility of a foreign takeover. We are concerned about the continuation of the civil aerospace programme, for which launch aid has been given. We are also concerned about various defence matters. The points about the wider national interest will be considered by the Director General of Fair Trading and it will then be for my right hon. Friend to decide whether a reference to the Monopolies and Mergers Commission is appropriate.

**Mr. Rob Hayward** (Kingswood): Is this not an unnatural merger? In the effort of trying to merge these two companies, will not harm be done to the prospect of British Aerospace improving its productivity, as it has done in the past few months and as the Government have encouraged it to do?

**Mr. Lamont:** I am not sure what my hon. Friend means by an unnatural merger. Mergers occur all the time as part of the process of restructuring and change in British industry. There are certain national interest considerations that we will consider but, subject to those being satisfied, it must be for the other shareholders to make up their minds, without having a solution imposed upon them by the Government. That would be appropriate for a private sector company.

**Sir Kenneth Lewis** (Stamford and Spalding): Is not my right hon. Friend aware that when the merger was mooted yesterday in the press the signs were clear that it was in the early stages and that tentative discussions were taking place? Is my right hon. Friend further aware that his statement today will lead people to assume that the matter has gone much further than it has? In any case, now that a statement has been made, the Government should get on with the matter quickly and let us know the proposals.

The second question that I should like to ask—

**Mr. Speaker:** Briefly.

**Sir Kenneth Lewis**—is whether my hon. Friend can advise me whether the Government shareholding in the new takeover—whoever is taking over whom—will be at the same ratio as for the British Aircraft Corporation.

**Mr. Lamont:** I agree with my hon. Friend that it would be desirable for the matter to be resolved as soon as possible, which would remove uncertainty. At our end, we shall endeavour to act as quickly as possible.

On my hon. Friend's second point, I am afraid that I cannot give him the undertaking that he seeks. We wish to retain a mechanism to ensure British control, whether that means a 25 per cent.-plus shareholding or some other device. We need to consider the matter.

**Mr. Timothy Wood** (Stevenage): Although I have some reservations about the suggested merger, I hope that the Minister will bear in mind the fact that the initial comments from the Opposition Front Bench are regarded as nonsense by many of my hon. Friends. I hope, however, that the Government will pay particular attention to ensuring that our developments in high-technology industries are enhanced in such a merger and that the competitiveness that we need in such areas is improved rather than reduced.

**Mr. Lamont:** I note what my hon. Friend says.

**Mr. Peter Thurnham** (Bolton, North-East): Does my right hon. Friend consider that the proposed merger would improve the ability of British Aerospace to compete in world markets? Have the Government considered linking acceptance of the offer with the sale of Rolls-Royce?

**Mr. Lamont:** As I have said over and over again in the House, I do not want to be drawn on the industrial merits of the merger. I have listed the criteria to which we attach importance. I have also said that the Director General of Fair Trading is entitled to investigate the merger on a wide basis. He will be submitting his views to the Secretary of State.

**Mr. Shore:** The Minister is confusing himself and the House about two quite separate guarantees that the then Secretary of State gave to the House three years ago when he announced privatisation. Will the Minister confirm that, in respect of foreign producers, he will not allow shares in a merged firm to be held at more than the 15 per cent. limit that was imposed on British Aerospace?

Secondly, in respect of ensuring the national interest in areas of defence and aerospace, will the Minister repeat his right hon. Friend's statement in 1981 that we will retain 25 per cent. of the total shares?

**Mr. Lamont:** The purpose of the 25 per cent. shareholding on which we gave an undertaking was to ensure that there could not be a foreign takeover of the company.

**Mr. Beaumont-Dark:** That is separate.

**Mr. Lamont:** No, it is not separate. It is linked. The 25 per cent. was retained so that the articles of association of the company could not be changed and it was written into the articles of association that foreigners together could not own more than 15 per cent. of the company. The two matters were linked and acted together. That was the purpose of the 25 per cent. shareholding, and the 15 per cent. requirement was linked with it. The purpose of the two together was to prevent a foreign takeover of what was seen as a vital British interest.

In a new situation and a much larger company we cannot necessarily just replicate the same arrangements if the merger takes place, but I hope that the right hon. Gentleman will accept my assurance that we wish to have similar safeguards to prevent the takeover of a vital British national interest and that we shall be considering the most appropriate way to achieve that object if the merger goes through.



## Cammell Laird (Redundancies)

4 pm

**Mr. Frank Field** (Birkenhead): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the announcement of possible redundancies of up to half the Cammell Laird work force."

The request is specific because it relates directly to the redundancy announcement made last night, it is important because the announcement affects a whole army of my constituents and their families who depend on work in the yard, and it is urgent because redundancies on such a scale raise the question of the future of the whole yard. I hope, therefore, that the request falls within the guidelines by which you, Mr. Speaker, are guided.

I wish to mention two other matters. First, a debate on this issue would allow me to stress to the two sides, who are still negotiating, about the implementation of flexible working arrangements, the importance of reaching agreement very soon. Secondly, it would allow the House to question the Government on their corporate plan for the future of British shipbuilding.

For all those reasons, I hope that you, Mr. Speaker, will be able to grant my request.

**Mr. Speaker:** The hon. Member for Birkenhead (Mr. Field) asks leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely, "the announcement of possible redundancies of up to half the Cammell Laird work force."

I do not underestimate the hon. Gentleman's concern about this important matter and I have listened carefully to what he has said, but I regret that I do not consider the matter that he has raised to be appropriate for discussion under Standing Order No. 10 and, therefore, I cannot submit his application to the House.

## Local Authorities (Prevention of Expenditure on Party Political Advertising)

4.2 pm

**Mrs. Angela Rumbold** (Mitcham and Morden): I beg to move,

That leave be given to bring in a Bill to prevent local authorities from incurring expenditure on advertising for party political purposes.

The Bill would add to sections 137 and 142 of the Local Government Act 1972 a subsection stating:

"Nothing in this section shall permit expenditure upon any advertisement or publicity material designed directly or indirectly for party political purposes."

Section 137 gives local authorities power to spend up to the product of a 2p rate on purposes not otherwise authorised by statute. It thus allows local authorities to give grants to any organisations that they deem to be worthy. As no substantive challenge has been made to the terms of the section through the district auditor or the local government ombudsman, at present money can be used for purposes such as supporting to the tune of about £35,000 a celebration for the centenary of Karl Marx and providing more than £30,000 for the Waltham Forest police monitoring group, the aim of which was to oppose the local police and £21,712 for Women in Greenwich. Similar amounts have been granted to many other organisations for similarly ridiculous purposes.

A recent example which attracted the attention of the district auditor was the allocation of money under section 137 to an organisation called Capital, described as "the trade unions and transport users organisation" which sent out propaganda for the GLC using the pre-paid post. The district auditor has requested the council to remove that money from the grant to Capital. The point of principle, not the sum of money involved, is that funds from rates and taxes should not be used for political purposes. Indeed, my hon. Friend the Member for Stirling (Mr. Forsyth) has produced a booklet entitled "Politics on the Rates" setting out a large number of similar examples.

**Mr. Frank Dobson** (Holborn and St. Pancras): How much did it cost?

**Mrs. Rumbold:** I also wish to amend section 142 of the Local Government Act 1972 to exclude advertising for purely party political purposes. At present, a local authority may provide—by whatever means it considers suitable—information relating to the services that it provides for its ratepayers. I believe that that is absolutely right. I have no wish at all to restrict the ability of local councils fully to inform their ratepayers of the way in which they spend their resources. Indeed, it is a fundamental tenet of good local government that councils should be required to explain openly the priorities that they set for local services.

The only restraint that I wish to impose on the section is on using money raised through taxes and rates for party political purposes. I believe that the emphasis on party politics in local matters has, alas, been due more than anything else to the manner in which legislation passed by this House has imposed greater and weightier burdens of responsibility and expenditure on locally elected councils.

**Mr. Tony Banks** (Newham, North-West): The truth is coming out now!





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From the Minister of State for Industry

NORMAN LAMONT MP

**CONFIDENTIAL**  
**COMMERCIAL IN CONFIDENCE**

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

Prime Minister ①

Context?  
(BAe shares rose 36p to 293p  
following Thorn (EMI announcement))  
AT  
15/5

15 May 1984

Yes  
mt

Dear Andrew,

**BRITISH AEROSPACE**

As you know, it is now necessary for Mr Lamont to make a statement to the House on 16 May concerning British Aerospace. I attach a copy of the draft statement, which incorporates comments from the office of the Chancellor of the Exchequer.

I am copying this letter and enclosure to the offices of the Lord President, the Chancellor of the Exchequer, the Foreign Secretary, the Secretary of State for Defence, Mr Biffen, Lord Denham and Lord Belstead. I should be grateful for urgent comments by 11.00 am tomorrow.

Yours ever,

Kate Rhind

KATE RHIND  
Private Secretary



RAFT STATEMENT IN THE EVENT OF A PROPOSAL AGREED BY THE  
THORN-EMI AND BAE BOARDS

---

I should like to make a statement about British Aerospace.

The Boards of Thorn-EMI and British Aerospace have announced that they are having talks to explore the possibility of a merger between their two companies.

Such a merger would fall to be considered by my Rt Hon Friend the Secretary of State under the provisions of the Fair Trading Act, so that he can decide whether investigation by the Monopolies and Mergers Commission is required. No decision on this point can be reached until details of a proposal have been studied and a recommendation received from the Director General of Fair Trading.

When British Aerospace was privatised, the Government gave an undertaking that the company would not pass outside UK control. If the proposed merger is to go ahead the Government will require the new company to agree arrangements which would continue to give effect to that undertaking. The precise nature of these arrangements would need to be determined in the light of circumstances.

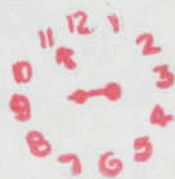
The Government will also require an undertaking that British Aerospace's participation in the Airbus programmes will continue.



Subject to these considerations the Government does not see any reason which would justify using its shareholding in British Aerospace to impede such a merger if it proved acceptable to a majority of the remaining shareholders.



5 MAY 1954





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Secretary of State for Trade and Industry

15 May 1984

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

Dear A. Turnbull,

BRITISH AEROSPACE

It is still not clear whether the Boards of Thorn-EMI and British Aerospace will issue a statement about the possibilities of a merger before 3.15pm today. As to the timing of any announcement, I shall contact you as soon as possible. It remains possible that we shall be able to make a statement today. Should an announcement be made before 2.30pm the matter may be raised at Prime Minister's questions. I attach a form of words for the Prime Minister to use if such a statement is issued.

2 In the event of no announcement by the companies, but where leaks or rumours are circulating, the Prime Minister could say she is not aware of any announcement by the companies concerned, but that the possibility of any merger of such a size would raise questions for the Government to consider under the Fair Trading Act and in other ways.

Yours ever,  
Andrew Lansley

ANDREW D LANSLEY  
Private Secretary

JH3AHX





10 DOWNING STREET

Prime Ministers

To note that an announcement  
by Thorn (EMF) and B Ae is  
possible tomorrow. If it does  
go ahead, you will need  
briefing for Question Time,  
though you will probably  
want to deflect questions to  
the statement.

AT

1415





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Secretary of State for Trade and Industry

14 May 1984

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

MT

Dear Andrew,

BRITISH AEROSPACE

I regret that it is not yet clear whether it will be possible for Mr Lamont to make a statement to the House tomorrow concerning British Aerospace. We believe that it will become clear whether such a statement can be made at, or shortly after, 11.30am, following the British Aerospace Board meeting which is to commence at 10.00am. We see advantage in being prepared to make a statement if it is possible to do so. To this end, a draft statement has been prepared and is enclosed.

2 I should be grateful for urgent comments by 11.00am tomorrow, 15 May, and from the Office of the Chancellor of the Exchequer, to whom I am copying this letter and its enclosure.

Yours sincerely,  
Andrew Lansley

ANDREW D LANSLEY  
Private Secretary



Draft Statement in the Event of a Proposal Agreed by the  
Thorn-EMI and BAe Boards

I should like to make a statement about British Aerospace.

The Boards of Thorn-EMI and British Aerospace are having talks to explore the possibility of a merger between their two companies.

Such a merger would fall to be considered by my Rt Hon Friend the Secretary of State under the provisions of the Fair Trading Act, so that he can decide whether investigation by the Monopolies and Mergers Commission is required. No decision on this point can be reached until details of a proposal have been studied and a recommendation received from the Director General of Fair Trading.

The Government has also given an undertaking that British Aerospace will not pass outside UK control. If the proposed merger is to go ahead the Government will require the new company to agree arrangements which would continue to give effect to that undertaking. The precise nature of these arrangements would need to be determined in the light of circumstances.

The Government will also require an undertaking that British Aerospace's participation in the Airbus programmes will continue.

Subject to these considerations the Government does not see any reason which would justify using its shareholding to impede such a merger if it proved acceptable to a majority of the remaining shareholders.





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Secretary of State for Trade and Industry

11 May 1984

The Rt Hon M R D Heseltine MP  
Secretary of State for Defence  
Main Building  
Whitehall  
London  
SW1

*D Michael,*

BRITISH AEROSPACE

The contents of this letter are known within Government only to the Prime Minister, Nigel Lawson, Norman Lamont and a very few officials in my Department and the Treasury. It is important that you should also know of the matter, but I should be grateful if you could take every step to ensure that confidentiality is preserved within your own Department.

2 Thorn-EMI intend to launch a bid to take over British Aerospace. No formal proposition has yet been made, but informal discussion has taken place between Peter Laister and Sir Austin Pearce. I have seen both men separately. A formal bid may be launched early next week.

3 The BAe Board have not yet formally considered their attitude. Sir Austin Pearce appeared initially to be inclined to oppose the bid. Although it is possible he (and Sir Raymond Lygo also) might personally be inclined to see advantage in reaching a quick agreement on terms so that the affair can be publicly presented as an agreed merger, there is no certainty at all on this. In addition, it is not yet clear whether other potential bidders will emerge. If they do, the BAe Board will have to consider its position, and a battle may develop.

4 The position of the Government, with its 48% shareholding, is of course an important factor in determining the BAe Board's position. My provisional view is that on industrial grounds a merger between Thorn-EMI and BAe would be desirable. I think it

JH3AHI





would strengthen both companies and in particular would improve the financial control and overall competitiveness of BAe which have been causing me some concern.

5 However, there could also be advantage on industrial grounds in a merger between BAe and any other UK bidder that may emerge (say GEC).

6 I have discussed our position with the Prime Minister and Nigel Lawson. We believe that, if the Boards of Thorn-EMI and BAe reach early agreement on terms for a merger, the Government should make clear it will not seek to oppose the deal if it is approved by the other shareholders. Equally, if the two Boards do not reach agreement the Government should make clear that it will adopt a neutral position and leave the other shareholders in BAe to decide whether or not to accept any offer that may be made.

7 I have also made clear to Peter Laister that if the merger is agreed the Government will require certain safeguards and assurances. The Thorn-EMI proposal would involve that company acquiring 100% of the BAe shares, thus buying out the whole of the Government's present holding (an aspect which of course makes the proposal attractive to Nigel Lawson). You will recall that we undertook at the time of the flotation to retain a minimum 25% shareholding in BAe so that we would have the ability to block changes to certain of BAe's articles of association, including the article which requires that no more than 15% of the shares may be in the hands of foreigners.

8 The commitment to retain British ownership, via the articles of association and the minimum 25% blocking shareholding in BAe, was an important point during the passage of the British Aerospace Act through Parliament in 1979 and 1980. Defence considerations were of course given as the basic reason for it.

9 I should therefore be grateful for your advice whether defence considerations still make it essential to retain the ability to block foreign takeover of BAe to stop any other changes to BAe's articles of association. If, as I expect, your feeling is that it is still essential to maintain this blocking ability, it will be necessary to negotiate an arrangement with Thorn-EMI giving us the necessary powers. The <sup>Prime</sup> Finance Minister, Nigel and I believe that a "Golden Share" arrangement might be suitable (and initial discussions with Laister suggest should be negotiable with Thorn-EMI).

10 On the civil side, I shall also need to seek certain assurances from any new owners of BAe, mainly relating to the Airbus programmes where the Government has given certain guarantees to the other Governments involved in the programme, and more recently has agreed to advance launching aid for the A320.





11 I should be most grateful if you could let me have your views as soon as possible on the questions I have raised. You may wish to nominate a small number of your senior officials to contact mine. For convenience I attach a list of the names of those in my Department to whom the matter is known. I am most anxious that the matter should go no further than a small circle who need to know.

12 I am copying this letter to the Prime Minister and to Nigel Lawson.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a long horizontal flourish underneath.

NORMAN TEBBIT



SECRET : COMMERCIAL IN CONFIDENCE

NOTE OF A MEETING ON THE TAKE-OVER OF BRITISH AEROSPACE HELD  
ON 10 MAY 1984 AT 0930

---

Present:

Prime Minister  
Secretary of State for Trade and Industry  
Chancellor of the Exchequer  
Mr. Lamont

The Secretary of State for Trade and Industry said he had seen Mr. Leister of Thorn/EMI to discuss the possible take-over bid for BAe. Mr. Leister set out why this made sense for Thorn/EMI.

i. it would create a larger enterprise with a greater capacity for R&D, particularly in the field of guided weapons.

ii. It would produce a better balanced company, making Thorn/EMI less dependent on the consumer sector.

iii. The cash flow from TV rentals would match BAe's cash needs.

Thorn/EMI were prepared to continue the civil aviation programmes of BAe which were all considered to be manageable though capable of improvement. Thorn/EMI were also prepared to take on several directors of BAe on to the board of the new company.

Thorne/EMI were prepared to offer cash or paper convertible immediately into cash. They were also prepared



to accept a blocking mechanism such as a golden share to replace the current 25% shareholding of the Government.

The Secretary of State for Trade and Industry regarded these developments as encouraging. Thorn/EMI were intending to maintain the BAe business. It would be necessary to define the golden share arrangement carefully to ensure that the Government did not find itself becoming involved in relation to parts of the existing Thorn/EMI business. He recommended that, if a bid were made, the Government should indicate that it was prepared to consider it but would leave the decision to the private shareholders. He did not believe the take-over would be referable to the MMC, though a counter bid by GEC might be.

The Secretary of State for Trade and Industry said the BAe board would soon face a difficulty. Their AGM was on Tuesday ~~and~~ The Chairman would need to consider whether he should say anything about the possibility of a bid, ~~He~~ and would need to take advice on what was required to fulfil Stock Exchange rules.

The Chancellor said it was crucial to secure the agreement of the BAe board as the Government would not want to be caught up in a contest ~~and~~ bid.

Summing up, the Prime Minister said it was agreed that the Government should consider such a bid carefully. The Secretary of State for Trade and Industry should arrange for the Government to receive merchant bank advice; should see the BAe Chairman as soon as possible; should put the Secretary of State for Defence in the picture; and in consultation with colleagues as necessary should prepare the terms in which the Government might respond if a bid were made.

BT

10 May 1984



~~MARKET SENSITIVE~~

PRIME MINISTER

BRITISH AEROSPACE (BAe)

I mentioned to you on Monday that I had that day been told by Sir Tin Pearce of BAe that he had had an approach from Peter Laister of Thorn-EMI to merge that company with BAe.

2 We hold 48% of the ordinary shares of BAe; and at the time of its privatisation in February 1981 undertook that "HM Government has also made it clear that, in any event, it intends to retain a shareholding conferring more than 25% of the voting rights ordinarily exercisable in general meetings". Because of our holding and our commitment, careful thought will have to be given to what we should do, in the event that the Thorn-EMI proposal turns into a formal bid. We may have to react very quickly, as a formal bid would become notifiable under Stock Exchange rules. It is clearly right for us to prepare our position in advance. If the bid were to be contested, we should come under pressure as to what attitude we wish to adopt towards our shares: whether to support the bid, remain neutral, or - in

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advance - make clear to Thorn-EMI that we should block any bid. We must also expect to be pressed on what steps we intend to take to ensure that what in the past has been regarded as an important defence capability remains in British hands. I should welcome Michael Heseltine's view on the continuing importance of the defence considerations. I suggest he should be brought into the discussions of the proposal. The reason for our commitment to a 25% shareholding was to enshrine in BAe's articles of association provisions protecting it from foreign control. We shall need to consider what should be our attitude towards a residual shareholding in a larger merged company; or whether alternative means should be sought to prevent undesirable foreign control.

3 On general industrial grounds, my initial assessment is that there is a great deal to be said for the proposed merger. Thorn-EMI is a company less vulnerable to the long cycles of development which BAe experience; and its cash flow would strengthen BAe. The Thorn-EMI management, which would clearly dominate in any merged company, would provide a more aggressive and commercial approach, and much needed improvement in financial control. For these reasons I see industrial advantage in what is proposed. The overlap





COMMERCIAL IN CONFIDENCE

MARKET SENSITIVE

between the companies is limited; and on my present knowledge I should not consider a reference to the Monopolies and Mergers Commission to be necessary. However, were any bid by Thorn-EMI to flush out counter-offers - for example, from GEC - a reference might well become desirable.

4 BAe were not able to tell me what had attracted Thorn-EMI to its interest in a merger, other than the obvious discrepancy between the two companies' P/E ratios. BAe, whose tactics towards Thorn-EMI are to delay any substantive discussion until after the BAe AGM on 15 May, have not probed this (or any other) aspect of the proposal. I therefore do not know what Thorn-EMI's plans would be towards the civil aircraft programmes now being carried on by BAe. I see this as one of a number of important points to be taken up with Laister.

5 I therefore see the informal approach which has taken place as presenting us both with problems and with what might be an opportunity for a significant strengthening of our industrial structure. Clearly, we need to know more. I intend, therefore, subject to your agreement, to explore with Laister, in discussion next week, what attitude Thorn-EMI intends to adopt towards the BAe business, and in

Agreed  
ms

JH2AHD





COMMERCIAL IN CONFIDENCE

MARKET SENSITIVE

particular towards the Civil Aircraft programmes, and report back subsequently. In the meantime, I believe it right to preserve an absolutely neutral attitude towards the Government shareholding; and to set in hand some investigation of the practicality of preserving a merged company from undesirable foreign control, other than through maintaining a significant shareholding.

6 I am copying this minute, which is the only written record of the discussions which I have had with Sir Tin, to Nigel Lawson. I should be grateful if its confidentiality could be very tightly guarded indeed.

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2 May 1984

Department of Trade and Industry

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