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PRIME MINISTER

INMOS: GRANT OF AN IDC

Following our discussion in E Committee on Monday 17 March (E(80)10th item 2) I met Professor Barron and Mr Petretz of INMOS and Sir Arthur Knight. I explained to them the Government's preference for the first INMOS production unit to be built in an assisted area and the difficulties which stood in the way of revising the existing IDC to permit an expansion of their proposed production facilities at Bristol. I also explored with them the reasons for the supposed delay in constructing the technology centre at Bristol.

I learned of several facts which I had not previously appreciated, and the company described to me a new development in their thinking about production facilities. Mr Barron and Mr Petretz are exploring this urgently with their colleagues in the United States and hope to submit a proposal to me through Sir Arthur Knight and the NEB shortly. I think that the new facts and the company's possible proposal may enable us to view the application for a revised IDC in a new light. If the proposal eventuates I shall be submitting it to E Committee.

Since dictating these two paragraphs the situation has changed again - see the attached minute of a telephone call from Sir Arnold Weinstock.

Mr Barron and Mr Petretz emphasized to me in our talk the "fragility" of a new entrepreneurial team working on the frontiers of very advanced technology to catch a market.

Prime Minister Ind P.D.  
 Re "SEC situation", if it  
 really is a runner, is  
obviously worth pursuing.

PL  
 24/3

✓ Mr Lyham  
 Mr Walker  
 Mr Denis  
 Mr Wright (ed. MR)

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/Sir Arnold ...



Sir Arnold may or may not be right in his provisional assumption that the team could succeed if both relocated and taken wholly or partly into GEC. The idea is far too interesting to ignore. It is for the NEB, who thought - no doubt correctly at the time a few weeks ago - that there was no private participation available, to explore possibilities.

I am therefore asking Sir Arthur Knight to see Sir Arnold Weinstock.

I am not copying this minute to anyone at this stage.

KJ

K J

24 March 1980

Department of Industry  
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## NOTE OF A TELEPHONE CONVERSATION BETWEEN THE SECRETARY OF STATE FOR INDUSTRY AND SIR ARNOLD WEINSTOCK, CONCERNING INMOS

5.00pm 21 MARCH

1 Sir Arnold Weinstock telephoned the Secretary of State this afternoon to say that GEC were interested in exploring whether they might be involved in the INMOS project. Sir Arnold said that, as the Secretary of State knew, GEC were no longer comfortable in their relationship with Fairchild under their new owners, Schlumberger. Sir Arnold suggested that the present arrangements, with the prospect of the payment of a further £25 million by the Government, appeared to be an expensive venture for the Government. Moreover, if the INMOS entrepreneurs succeeded, it was likely that they would try to cash in on their shares. Sir Arnold suggested that it was only by GEC taking over the venture that a long term UK involvement in the project could be assured. He mentioned that GEC had a factory on Merseyside which would be suitable for the production of microchips as envisaged by INMOS. Sir Arnold also pointed to the fact that INMOS would have to build a market for their products, and GEC could provide part of this market.

2 In reply the Secretary of State said that he was very interested to hear Sir Arnold's views. By way of background the Secretary of State explained that he had raised with the NEB the question of the potential interest of private investors in the INMOS venture. However, he had been told that such interest did not exist yet. This seemed no longer to be so. The Secretary of State said that he would like to ask the NEB to talk to Sir Arnold.

3 The Secretary of State mentioned that he was not sure what view the INMOS entrepreneurs would take of Sir Arnold's proposal. They viewed themselves very much as a cottage industry. Sir Arnold entirely agreed that this sort of operation was a cottage industry, and he said that it would be treated as such within the GEC empire. However, he would ensure that bright people were put in under the entrepreneurs, to learn from them, with a view to taking their place if the entrepreneurs themselves cash in and moved out.

4 More generally, Sir Arnold suggested that the involvement of GEC was the only way in which the Government might limit its insurance premium on the project. He suggested that the Government might make the offer of further money conditional upon the involvement of GEC. The Secretary of State cautioned that the entrepreneurs had argued constantly that the venture would not succeed if Government imposed conditions upon it. The Secretary of State suggested to Sir Arnold that moving the project might cause the core talent to be lost. Sir Arnold commented that the only indispensable talent was that of Schroder; he was not in the UK but in the US operation, and would stay with the company because he had a strong financial interest in it.

5 In conclusion, Sir Arnold agreed that the Secretary of State should ask Sir Arthur Knight to get in touch with him.

*Catherine Bell*  
 CATHERINE BELL  
 PS/Secretary of State for Industry  
 Rm 11.01 Ashdown Ext 3301  
 21 March 1980

PS/Mins  
 cc PS/Secretary o/r  
 Mr Bullock  
 Mr Lippitt  
 Miss Mueller  
 Mr Atkinson  
 Mr Harrison  
 Mr Leeming

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