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COMMERCIAL - IN CONFIDENCE

The Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
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1. Mike
2. Ashdown
for Mr
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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risk then is that the management and research and development capacity of Ferranti in Scotland would be progressively withdrawn, leaving the Ferranti factories with the status of a reduced and peripheral manufacturing operation.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

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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

