

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:-

- W. S. G. H. T.*
- Ann Smith*
- 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
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25 JUL 1961

