



Prime Minister

Disuss with Sir R Armstrong?

Ref. A083/1004

PRIME MINISTER

MUS 31/3

As you know, Mr Jeffrey Sterling is an adviser to the Secretary of State for Industry.

2. As you will see from the attached letter which Mr Sterling has sent to Sir Peter Carey, Mr Sterling's company, Town and City, is contemplating the possibility of a bid for British Electric Traction (BET), one of whose subsidiaries is Rediffusion Limited. The Department of Industry has dealings both with BET and with Rediffusion, and of course with GEC, who might be involved.

3. I have been consulted about the proprieties of Mr Sterling's position.

4. Clearly, if Mr Sterling has to make a choice between his duties as an adviser to the Department of Industry and his involvement in Town and City, he will choose Town and City. But the Secretary of State for Industry does not wish to lose his services as an adviser, which both he and the Department value.

5. This has of course to be considered against the background of the Cockfield case: those who have been criticising Lord Cockfield would be quick to criticise Mr Sterling and the Secretary of State for Industry.

6. I think, and I propose to say to Sir Peter Carey, that the least that should be done is that Mr Sterling should write a letter to the Secretary of State, stating that, while he has had nothing to do with the Department of Industry's relations with BET or with Rediffusion Limited, he considers that, while this acquisition is under consideration and until it is either abandoned or completed, he must ask to be released from his duties as an adviser to the Department of Industry. That period could of course be quite a long time, if the acquisition was referred to the Monopolies and Mergers Commission, though Sir Peter Carey thinks that that is unlikely.

This is the very minimum. And there would have to be a 5 yr before he returned



7. The question is whether a letter of that kind, and Mr Sterling's withdrawal from his duties as an adviser while the acquisition was in progress, would be sufficient to deal with political criticisms, or whether it is necessary to ask Mr Sterling to resign completely - which neither he nor the Secretary of State is anxious that he should have to do.

8. I should be grateful if I could have a word with you about this.

REA

ROBERT ARMSTRONG

31 March 1983

4, Carlton Gardens, Pall Mall,
London, SW1Y 5AB. 01-839 5611

Jeffrey M. Sterling, CBE

Personal

I refer to the short conversation that we had with Patrick yesterday with reference to the possibility of my Company making a take over bid for BET.

I first mentioned this to Patrick last Thursday as my discussions have reached the stage that a bid was becoming a possibility in the coming months, maybe as early as a month to six weeks from now.

I have been very interested in this company for several years as several of its activities are closely allied to those in my original company, Sterling Guarantee Trust, which is now the industrial service division of Town & City. As you may remember my own background is both financial and operational management and I became involved in sorting out Town & City some years ago at the request of the Prudential, Barclays and the Bank of England. This sort out is more than completed and Town & City is moving from strength to strength and we are now in a position to expand both organically and by acquisition. More important my colleagues are more than ready to assume further management responsibility.

The size of BET compared with Town & City is such that I decided sometime ago that if we did wish to move we would have to dispose of one or two of the subsidiary companies in order not to become too highly geared. Following that thinking through I went to have a chat with Arnold Weinstock, my initial idea being that he might be interested in Rediffusion and that would produce sufficient cash to meet our debt equity requirement. In practise Arnold indicated that he would be much more interested in a major strategy which would consist of injecting some of his service companies into Town & City thereby acquiring a sizeable share stake with the idea being for Town & City to make a bid for BET, which, if successful, would give GEC a stake in the overall Group of something over 20%. This would be an on going strategy with the intention of Town & City becoming a major force in the service industry field, both here and overseas. As you know Arnold and I have known each other for some twenty years and from time to time there have

been discussions as to the possibility of closer management links particularly on the personal front. This move, if it transpires, means GEC would be backing my management team. Could I finally add that an eventual decision to a move does not depend on GEC, and it is too early to state whether this is likely to transpire.

When I told Patrick of this possibility one possible problem that should be anticipated was whether my role as Special Adviser to him and the Department together, therefore with possible access of information on the Cable front could create any controversy. It is vital that his reputation, the Department's, and I hasten to add my own, is above question. Other than in the very early stages I have not been involved in the Cable discussions - I have to admit somewhat out of boredom! Pretty well all has been highlighted in the media, and nothing I have learned leads me to suppose that bonanzas are going to be in this field, certainly not in the short run. It is going to be a much slower build-up than is generally supposed during the course of which I am quite sure a lot of fingers will be burnt. I should also point out that Rediffusion is only one division of BET. Over and above this specific question is possibly my on going role as Special Adviser. First may I say I have found it a most stimulating experience and much enjoy working with Patrick and Officials, and if the above mentioned transpires would hope I will be able to continue. The problem seems to me that if advisers can play a part in Government, they must not only have a track record but be actively involved in business in order to have a view point which is backed by present day experience. In the ultimate I hope, without sounding pompous, one's track record regarding integrity and reputation is what it is all about.

Although I happen to be Chairman of a company, of which a major division is in the property field, in practise any part that I may play for the Department has always been due to my experience in managing, running and sorting out operational companies. I leave the thought with you.

Sir Peter Carey GCB
Ashdown House

29th March 1983