



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY
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Kenneth Baker's Office

Mrs Caroline Ryder
Private Secretary to
The Prime Minister
10 Downing Street
SW1

17 December 1981

Dear Caroline,

I attach a brief for the Prime Minister's meeting with Sir Ernie Harrison of Racal on Monday 21 December at 5.00pm. Mr Baker will attend the meeting.

*Yours sincerely,
Jonathan Hudson*

JONATHAN HUDSON
PRIVATE SECRETARY



RACAL ELECTRONICS LTD

Racal is the fifth largest UK owned information technology company, the others being GEC, ICL, Plessey and Thorn-EMI. The UK workforce totals 14,000.

Company figures (in £M):	1980/81	1970/71
Sales	536	17
Profit	73	2

1980/81 figures were up by 20% (on sales) and 42% on profits) over the previous year. Over the past 15 years Racal's share price has increased by over 5500%. The company has won 15 Queen's Awards for Exports and 9 for Technological Achievement.

Racal has three main areas of business of roughly equal size (ca £130M each):

- (i) Data communications (modems, data processors, encryption devices);
- (ii) Radio communications (tactical radios, the Jaguar frequency - hopping radio system — where they are ahead of the USA, electronics warfare equipment).

The third area is largely that acquired in 1980 by the purchase of Decca and is in electronic capital goods, including navigation aids, defence and marine radar, marine survey.

In addition Racal have interests in computer aided design (CAD, instrumentation, automatic test systems, simulators, intruder detection etc). They see considerable expansion potential in these areas, especially CAD.

Company Strategy

Racal's strategy from its formation in the early 1950s has been to achieve a high world scale position (initially in tactical radio communications) and use the cash accruing from the high relative market share to fund new areas of high growth potential. It operates on a world market basis with no obvious country basis (even its UK position is aggregated within Europe and not separately identified) although over the last 1-2 years there has been a shift to US markets, reflecting the very large US market for data communications. Since establishing a leading position in the US is the key to developing world leadership in most IT manufacturing and technological activities, this shift is sensible.



It follows that Racal is the most export-minded of the UK's electronics companies, exporting more than 60% of UK production. Arguably, based on world market share, it is the sole really competitive UK information technology company.

Expansion policy

Racal have always been eager to expand by acquisition, both overseas and in the UK. Their two US companies (both in data communications) have been particularly successful. Racal's major UK acquisition (in the face of a counter-bid by GEC) was Decca in April 1980 for £106M. Decca, formerly a leading UK electronics company, was well on the way to becoming moribund, with losses of £12M on a turnover of £180M. Disposal of Decca's loss-making consumer electronics (TV) interests and a revitalisation of the company, particularly in the capital goods sector, would appear to have stemmed the losses and Decca should make a positive contribution to Group profitability in the current financial year.

Further acquisitions

Having seemed to have digested Decca with less trauma than many forecast, Sir Ernest might well be giving thought to further acquisitions. An earlier interest in acquiring Plessey is now quite impracticable given Plessey's current very strong market performance. Ferranti (current turnover*£142.7M however might be attractive and offer both complementarity and some strengths to Racal, particularly in the defence electronics, microcircuits and CAD fields. Sir Ernest might be asked about his expansion plans in the UK and elsewhere.

*FIGURE RELATES TO THE FIRST 6 MONTHS OF THE CURRENT FINANCIAL YEAR

Sir Ernest might himself speak on the necessity for the Government to develop a policy of selective support for the UK electronics industry ('backing winners') as the only way in which the competitive position of the UK industry in world markets can be assumed.

Line to take: This is under serious consideration within the Department of Industry following a report by the Electronics EDC (of which Sir E Harrison is a member) to the NEDO Council in November.



SIR ERNEST HARRISON OBE, FCA

Sir Ernest was born in 1926, and was educated locally at Trinity Grammar School, Wood Green, London. After completing his National Service in the Fleet Air Arm, he qualified as a Chartered Accountant in 1950. The following year saw the beginning of Sir Ernest's long association with Racal when he joined them as Secretary and Chief Accountant when the company commenced manufacturing. He was made a Director of the company at the age of 32 in 1958, and when Racal became a public company in 1961, was appointed Deputy Managing Director and became Chairman and Managing Director of the Racal Electronics Group five years later on his fortieth birthday.

He was Knighted in the Birthday 1981 Honours List for his services for Exports and was recently named Businessman of the Year.

Other than his work with Racal, Sir Ernest has given great service to the National Savings Movement between 1964 and 1976 and for this, he was awarded the OBE in 1972. He was a pioneer of the weekly large prizes for National Savings Premium Bonds, and remains convinced of the movement's importance to the UK economy.

Sir Ernest has also served as a Council Member of both the Electronics Engineering Association and the National Electronics Council. In 1975, he was elected Companion of the Institute of Electronics and Radio Engineers, and was elected a Companion of the Institution of Electrical Engineers in 1978.

Sir Ernest is married, with five children and lives at Tilford in Surrey. He is a supporter of the Government's policies; both in 1979/80 and 1980/81 Racal contributed £10,000 to the Conservative Party.

18/12

CF.

20 November 1981

I am writing to confirm that the Prime Minister is looking forward to seeing Sir Ernie Harrison and Mr. Baker at 1700 hours on Monday 21 December. Could your office please prepare a list of topics and a brief to reach us by close of play on Friday 18 December?

CAROLINE STEPHENS

J.C. Hudson, Esq.,
Department of Industry.

Rb

B.R.

Sir E. HARRISON

20/11

NOTE FOR THE RECORD

I spoke to Kenneth Baker's Office today and offered 1700 on Monday 21 December for a meeting with Sir E. Harrison. Mr. Baker's office will confirm whether this is convenient. I warned them that if it was not, they would have to wait until after Christmas.

NB: CS to request briefing if they confirm.

C.S.

Caroline

13 November 1981

Has this been confirmed

Yes take you

CS.

Kay

20/11

CS

5th November 1981

Thank you so much for your letter of 30th October. ?

The Prime Minister would like to meet Sir Ernie Harrison, and we will arrange this.

The Prime Minister's diary is horribly overcrowded at present and it may be a little time before a meeting can be arranged. I think it would probably be helpful if you were present as well.

Ian Gow
Parliamentary Private Secretary

Kenneth Baker Esq MP



FROM THE
MINISTER OF STATE
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KENNETH BAKER MP

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Ian Gow Esq MP
10 Downing Street
LONDON SW1

30 October 1981

Dear Ian,

This week I saw Sir Ernie Harrison, Chairman of Racal. He has made this company into one of the most successful electronics companies in the UK with most of its business overseas. He is one of our real stars. He is a very robust character who strongly supports what we have done over the last two years to put industry into a more competitive position.

He is passionately concerned that we win the next election and favours a mild reflation to achieve this, as the other side will blow the top off with wild reflationary expenditure should they win. I am sure that Margaret would like to meet him - he'll certainly cheer her up after a bad day! Geoffrey Pattie has also seen him recently and thinks that a meeting would be useful.

I am copying this to Geoffrey Pattie.

[Handwritten signature]
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KENNETH BAKER