

Prime Minister ②

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Pl put in (EA)  
folded tomorrow.

I will follow this up.

MR TURNBULL

28 June 1984

AT 28/2

cc Mr Redwood  
Mr Owen

GEC AND BRITISH AEROSPACE

1. It is now 34 days since GEC declared an interest in acquiring BAe and 20 days since Thorn-EMI effectively withdrew. GEC are thought to be examining BAe in detail, but have made no formal bid.
2. The longer this goes on, the harder it will be for Government to make real use of its 48% stake in BAe.
3. Firstly, GEC and BAe both have an interest in dragging matters out. BAe could well be inventing delay in the hope, however forlorn, of avoiding the takeover at all. On the other hand, for GEC a slow pace of progress actually strengthens their position. It keeps competitive bidders at bay and enables them to find out more. The latter point is particularly important; we regard it as somewhere between possible and probable that GEC will bid only for the defence parts of BAe, or will bid low for the whole thing and demerge civil aerospace afterwards.
4. Secondly, GEC's offer price (and therefore the value of HMG's shareholding) can only go down as GEC find out about BAe's more dubious ventures.
5. Thirdly, while GEC and BAe embrace ever more tightly behind the curtains, the more difficult it will be for Government to reason with them when they emerge.
6. Fourthly, but more tentatively, we believe that every passing week's silence on the Government side and on the companies' side will lead the rest of the defence equipment industry and the public to believe that Government sees no competitive issue at stake, or that it is giving the two companies time to mount a defence.

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7. It is open to DTI to make it clear that Government will dispose of its entire shareholding in BAe wherever it can unless GEC makes a bid within a specified period. Norman Tebbit could easily ask an intermediary to sound out interested parties.

8. We suggest that the Prime Minister might put DTI on notice that she is becoming concerned about the apparent inaction, and that she wonders what more the Department could do by virtue of its shareholding to prevent further delay.

*Agreed mt*

*R.Y.*

ROBERT YOUNG

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