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Ref. A02723

PRIME MINISTER

INMOS
(E(80) 78)

BACKGROUND

The Secretary of State for Industry reports that, following a further extensive review, the National Enterprise Board have now concluded that INMOS's first United Kingdom factory should, after all, be in South Wales, and that they have invited him to authorise the subscription of £25 million more for the capital required.

2. The review was led by Mr. Jefferson, the Deputy Chairman of British Aerospace's Dynamics Group. He was supported by experts from his own company and by two teams of North American consultants recommended by Sir Robert Clayton of GEC (GEC themselves have now withdrawn all interest in this project). Their conclusion, reported in Sir Arthur Knight's letter of 18th July attached to E(80) 78, is that INMOS's management structure is generally sound and that the company is particularly strong in design and production. They note that the major competitors are making very slow progress.

3. There is already public expenditure provision for NEB to advance the further £25 million, which would be additional to £25 million already given. The regional grants would be up to £7 million. There would remain a risk, which has been present all along, that if the company were to fail the Government would be obliged to pick up the costs which could be as much as a further £50 million. But even if the Government were to put in no more now, and INMOS were to concentrate all its resources on its American venture, the Government's financial exposure would still be high.

4. The NEB have concluded that the earliest practicable date for the disposal of their shares on reasonable commercial terms is likely to be 1983-84. The Secretary of State for Industry recommends that agreement to the project should be on condition that disposal was completed in that year; and that in the meantime the NEB should continue to seek private capital.

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5. The company has not yet decided where their site would be in South Wales. The decision will turn largely on what are the maximum regional grants available for particular areas.

HANDLING

6. After the Secretary of State for Industry has introduced the paper the Chief Secretary, Treasury will wish to comment on public expenditure implications. The Secretaries of State for Wales and for Employment will wish to speak on the question of location of the site.

7. It seems likely that most members of the Committee will consider that the outcome is satisfactory. Given that the Government has already been heavily criticised for the delays in reaching decisions on this project, the Committee may well feel that it is right to accept the present proposals and announce the decision forthwith. I understand that, if this is the conclusion, you have it in mind to announce the decision yourself in the Censure Debate.

8. It might be suggested that the discretionary regional grants should be offset against the £25 million further injection of capital. This could however further delay decisions on the project and lead the company to reconsider its decision to go to South Wales. It was fully recognised in the earlier discussions, when Ministers were pressing for a decision in favour of South Wales, that the company would benefit from regional assistance if they went there.

CONCLUSIONS

9. In the light of the discussion you will wish to record conclusions:-

- (1) Authorising a further advance of £25 million and agreeing that regional grants should be available.
- (2) Making it a condition that the NEB's shareholding should be disposed of by 1983-84, and noting any further conditions.
- (3) Agreeing when the announcement of a decision should be made.



(Robert Armstrong)

25th July, 1980