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#8.

10 DOWNING STREET

From the Private Secretary

27 November 1980

Dear Sir,

As you know, the Prime Minister had lunch with the board of the National Enterprise Board yesterday. They had a wide-ranging discussion, but the following issues in particular came up:

(i) INMOS. It was explained that INMOS was part of the new board's inheritance and a good deal of scepticism was expressed as to the Company's prospects. The Prime Minister said she shared this scepticism, but at least the Government had been able to insist that the INMOS factory be located in a development area.

(ii) NEXOS. Sir George Macfarlane explained the technology underlying this project, and argued that there was a real prospect of a "winner" here. There was no other British company which seemed interested in the technology that NEXOS were developing, and there was a huge potential market for their product. Other board members seemed less confident: in particular, Sir John King suggested that the risks were too great and that if private companies were not prepared to enter the high technology office equipment field, it was doubtful whether the NEB should be using Government money to do so. He generalised this point to suggest that the NEB was not equipped to select and promote new high technology business. The Prime Minister said that she shared some of Sir John's doubts. Sir Arthur Knight, however, pointed out that the promotion of high technology was one of the tasks laid down in the Government's guidelines to the NEB, and he argued that the NEB could provide effective encouragement for such business. But he also explained that this was only a small part of the NEB's current activities: its main task was to ensure that the existing investments were well managed so that they could in due course be sold off.

(iii) Promotion of small companies. Sir Arthur Knight having explained the Venture Capital Fund project, the Prime Minister said that she very much hoped that the NEB would concentrate their resources on promoting small businesses. She would prefer to see the NEB's funds spread around small companies rather than concentrated in larger ventures such as INMOS and NEXOS. At the same time, she thought that the banks and other private financial institutions - though they were insufficiently prepared to take risks at present - were likely to be more effective at providing finance for small firms. On the other hand, it was argued by Mr. Emms

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that there was no shortage of finance at present - only a shortage of small business applicants. Mr. Stevenson said that this was the inevitable consequence of the recession, but he was concerned that when the upturn came there would still be a dearth of new businesses starting up. The reasons for this were very deeply seated, but the Government ought to consider mounting a publicity campaign during the next twelve months to change people's attitudes towards business and encourage new business endeavours.

(iv) NEB/NRDC overlap. Sir Arthur Knight said that there was a clear overlap between the NRDC and the new technology activities of the NEB; he suggested that the Government might in due course decide to merge the two bodies.

As regards the last point, the Prime Minister - as you may know - has been critical for some time of the NRDC's capacity to spot technological "winners" and to translate them into commercial propositions. She was interested in Sir Arthur Knight's suggestion, and has asked if your Secretary of State would set in hand an examination of the possible merger of the NRDC with the NEB - with a view to reporting back to her in due course.

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*Tin Lahan.*

Ian Ellison, Esq.,  
Department of Industry.