

Top Copy on  
Legal Procedure,  
November 1983  
Conveyancing for Reward

PRIME MINISTER

Mr. Tebbit will be staying behind after Cabinet tomorrow to discuss:

- (i) The solicitors' conveyancing monopoly. He seeks your guidance as to how far to push the issue, which will come to Cabinet next Thursday, 15 December (see the Policy Unit note and the Minutes of H Committee - Flag A);
- (ii) He wants to give you an oral report on the complex of issues relating to BT/ICL, listed in my letter to his Private Office - see Flag B;
- (iii) He also wants to raise a question of senior management in his Department. I believe he discussed this about six weeks ago and will be enquiring about progress. Unfortunately Sir Robert Armstrong will not be available;
- (iv) He has minuted you on INMOS - see Flag C. He is suggesting additional funding for INMOS either in the form of an additional loan or an increase in its temporary borrowing ceiling. Lord Cockfield is extremely sceptical and would require more by way of justification. He also recommends that if any more money is put in, there should be a revision of the terms. Policy Unit are deeply sceptical and also suggest more information is required. I have not yet had the Treasury's response. I suggest you do not raise this until the Treasury have replied, but if Mr. Tebbit raises it, you should take the same line as Lord Cockfield.

AT

MR. TURNBULL

INMOS

Mr. Tebbit's minute of 2 December raises some worrying questions. Before reaching any conclusion, we suggest that DTI explain:

1. Why has INMOS' trading performance this year been so far from plan, and why was it not intercepted earlier?

Mr. Wakeham's exhaustive investigation of last December foresaw a 1983 loss before interest and tax of £2.2 million. By June 1983, the actual loss was over four times greater than that (£9.5 million) and by September six times greater (£13.3 million).

2. Do INMOS need further funds now?

We understand that the company is not in immediate danger of reaching its borrowing limit. Rather, it wants funds to begin the 1984 capital investment programme. In our judgement, this requirement should put BTG under pressure to find a buyer for INMOS, not to look to Government for 'bridging finance' while negotiations proceed.

3. Why does INMOS need £50-£75 million for developments in 1984?

This is a major surprise. The Wakeham investigation envisaged no such sum in any year up to 1987. Indeed, the 1984 development requirements were estimated at £8.1 million for R and D and £10.2m for capital assets. If the need for £50-£75 million is real, the pressure on BTG to sell INMOS is even greater.

4. Are DTI and BTG taking a properly commercial approach to suitors for INMOS? Are they getting on with the job?

We do not see INMOS as of "increasing strategic importance" if that is thought to justify a non-commercial deal. The ideal buyer for INMOS should be familiar with the risks associated with the micro circuit industry, have the financial muscle to recover from setbacks and misjudgements, and be prepared to take the long view. We should not close the door on overseas purchasers if they are willing to preserve INMOS' expertise and manufacturing operation in the UK and offer an attractive price. Western Electric may qualify at least as well on all counts as GEC.

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The history of INMOS is a litany of missed targets. The business needs a lasting commercial solution to its problems in the form of a private sector owner. To raid public funds yet again while we pick over non-commercial issues is not an option we should entertain.

We recommend no increase in INMOS' borrowing limit until DTI answer the questions.

A handwritten signature in dark ink, appearing to be 'R. Young', written in a cursive style.

ROBERT YOUNG  
7 December 1983