

CCB/UP

PRIME MINISTER

9 June 1986

GEC

Over 90% of GEC's business is quasi public sector, ranging from traffic lights and hospital equipment to power stations, railway engines, telephone exchanges and defence. They are experts in getting Government to take the risk whilst they make the easy money. Their lobbying team is well supported by former Ministers and DTI officials.

In each product sector, the basic strategy is the same, to become the dominant or sole British supplier, keeping out foreigners and new entrants. But whilst this may be good for GEC, it has not necessarily been good for the customer or the UK.

On the Nimrod, GEC promised Callaghan that they would meet the specification "at the right time and at least as effectively as AWACS". It [Nimrod] will cost notably less". Whatever the faults in the MoD, it is GEC who made the promise. The Foxbat Radar for the Tornado and the Tiger Fish Torpedo are other examples of how GEC have compromised national defence.

Others have also suffered: British Rail and their high-speed trains; British Telecom who are now buying Swedish telephone exchanges to keep GEC honest. The South of



Scotland Electricity Board do not wish to be railroaded into a PWR reactor whose main attraction cynics claim is the American license which allows GEC to manufacture something it couldn't design itself.

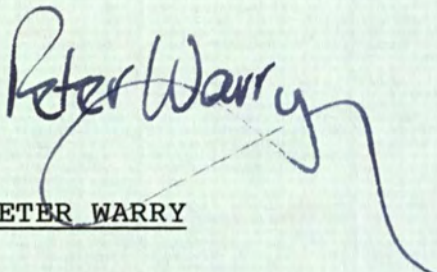
Despite GEC's billion pound cash mountain, they have successfully cornered some 10% of total ECGD finance and receive roughly £20 million a year of DTI discretionary support in addition to regional development grants. But all this money has produced little innovation and GEC continue to spend proportionately less in this area than their competitors.

### Lessons

1. GEC already get more than their fair share of the Government handouts, until they become more innovative and start satisfying their customers, there can be no case for giving them more.
2. For so long as we take a nationalistic attitude to defence procurement, it is vital that wherever possible there are at least two British suppliers. On the evidence to date, any savings through having a single supplier are swamped by the abuse of the monopoly position.



3. Whilst size is helpful in international competition,  
GEC's main interests are non-competitive domestic  
business and subsidised exports.

  
PETER WARRY