Jle VK

10 DOWNING STREET

From the Principal Private Secretary

11 June 1984

Many thanks for your letter of 8 June and for the background information about your plans for the development of your semiconductor business including the closure of the Plessey factory at South Shields. It is very useful to have this, and I will make sure that the Prime Minister is aware of it if any aspect of the matter is raised with her.

FERB

Sir John Clark

10 DOWNING STREET

From the Principal Private Secretary

11 June 1984

I attach a copy of a letter which I have received from Sir John Clark about Plessey's plans to expand their semiconductor business, including the closure of their South Shields plant. No doubt this is familiar to you, but I thought you should have a copy of the letter. I have acknowledged it and no further action is necessary.

Callum McCarthy, Esq.,
Department of Trade and Industry.

CHAIRMAN AND CHIEF EXECUTIVE
SIR JOHN CLARK

The Plessey Company plc
Millbank Tower · London SW1P 4QP
Telephone: 01-834 3855 Telex: 897971

8th June 1984

F E R Butler Esq
Principal Private Secretary
to the Prime Minister
No 10 Downing Street
LONDON SW1

Dear Robin.

You will I am sure be aware of our exciting new £50m programme to develop our semiconductor industry. We announced this at a press conference on Wednesday 6th June. Unfortunately, there has been a reaction from some quarters expressing some rather harsh comment bearing on our decision to close a telecommunications plant employing 600 people in South Shields, whilst apparently announcing an equivalent new factory in the Plymouth area also creating 600 new jobs.

As you may imagine it is clearly not in our interest to dispel with the goodwill of a superb work force and the production capacity of an existing facility such as South Shields without some very detailed soul-searching and analysis. The decision to close this factory was one which was reached with the understanding of the Rt Hon Kenneth Baker MP, to whom we explained that because of the run-down of old-fashioned technology that the old factory could no longer be economically justified. However, this decision was not taken without first considering to what other use the facility and its work force could be put.

The new programme of investment provides for a totally new type of building especially designed for the manufacture of advanced microchip products. Requirements for production of these amazingly small dimension products - eventually down to 1 micron - are extremely stringent. There must be precisely controlled temperature, humidity and dust particle count. Conditions of a cleanliness which could not be found in any existing Plessey building are essential. Furthermore, when dealing with the exacting dimensional tolerances required, vibration becomes a serious problem, indeed it becomes a major limiting factor. The production floor has to be mounted on separate piles isolated from side walls, roof structure and basement floor. The production floor has to be constructed of a special dynamically stable, vibration resistant material and the basement area for services has to be located directly under, and as close as possible to, the production area to prevent the induction of impurities into the process materials.

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For those reasons, conversion of an existing, even high quality conventional building, is absolutely impossible for good technical reasons.

Now another issue is whether we should have chosen to construct this new building at a location in South Shields. Plessey Semiconductors have had a rapidly expanding (at least 30% per annum) MOS facility at Plympton near Plymouth, for some 10 years. Now employing 250 people, this operation is forecasting a continuing, even increasing, level of growth for the forseeable future. A very important part of the plan to expand our MOS business into the new generation microchip manufacture is to situate the new building as closely as possible to the existing one. This is necessary to allow an effective changeover of product and specialist production knowledge to the new manufacturing area. Also it is fundamental that we utilise the existing highly trained and specialist work force and technical staff to commission the new factory upon completion 18 months from now.

Finally, another source of very understandable aggravation has been the figure of 600 pesons which would be employed by this new factory compared to a similar number losing their jobs in South Shields. In fact, about 250 new employees will be required during the near future at the new plant. We expect that this number will grow to 600 by the year 1990 and this figure includes 100 persons who will have to be located at the Plessey Semiconductors headquarters in Swindon in the central design and services area. These people will have to have a very different type of skills mix from those in the South Shields establishment.

In summary, I hope you will understand that it is not our business policy to make large redundancy together with vast re-investment decisions without looking across the whole gamut of Plessey Group interests to ensure synergy. We have found that unfortunately the South Shields facility cannot be used for any other programme within our sphere of presently-understood operations. Also since the market requires our expansion in an area of expertise which we believe is fundamental to our future survival, we must take the broadest possible view of the best way to capitalise on this capability. For good technical, synergistic and employment grounds therefore, we are convinced that our only logical course of action will be to expand our existing semiconductor facility in the Plymouth area.

Sincerely

SNRS
Enclosures
Press cuttings re New Semiconductors Plant

FINANCIAL TIMES

Plessey to build £50m microchip plant

By Jason Crisp

PLESSEY, the British electronics group, is to spend £50m on building a microchip plant at Plymouth, Devon, which will employ over 600 people by 1990.

The investment is part of an £80m programme for microchip capital expenditure over the next five years. In addition, Plessey expects to spend £30m on research and development over the same period.

Plessey specialises in semi-custom and full custom semiconductors, designed for specific applications, rather than the commodity microchips made by companies like Texas Instruments, Intel, NEC and Inmos.

It is mostly that latter sector where supply shortages have been seen recently, but chips for specific applications are now taking an increasing share of the overall semiconductor markets. Sales of the application specific product worldwide last year reached $2.8bn (£2bn), according to U.S. consultants Dataquest.

Sir John Clark, chairman of Plessey, said yesterday the company was determined to increase its share of the world microchip market, which was "so important for the future of the electronics industry."

Plessey semiconductor sales are currently over £50m a year. It expects to increase that by 450 per cent over the next five years.

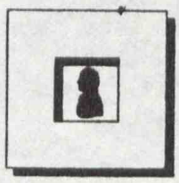
The Plymouth plant will produce chips for use in telecommunications, direct broadcast by satellite and cellular radios.

The company already makes microchips in Swindon, Wilts, and at Plympton, near Plymouth.

The company is seeking government support for the new plant in the form of regional development grants and under the Microelectronics Industry Support Programme.

The other British companies making microchips are GEC, Ferranti and Inmos, which is Government-owned.

Several foreign-owned companies have or are building semiconductor plants in Britain, including National Semiconductor of the U.S., NEC of Japan and Motorola of the U.S.



DAILY TELEGRAPH

Plessey plans £50m plant for microchip

By Our Business Correspondent

PLESSEY, the electronics group, yesterday announced plans for a £50 million microchip plant which could create up to 600 jobs on a 13-acre site at Plymouth.

Construction is to start shortly and the plant should be in full production by the end of next year. In its first two years 250 jobs will be created.

Sir John Clark, Plessey chairman, said the company was seeking Government help for the plant.

Significant expansion

He added: "At a time when so many sections of industry are talking of retrenchment it is heartening to be able to announce a significant expansion which will create jobs for Britain.

"The Government has repeatedly emphasised its determination to increase the effectiveness of the UK electronics industry and we are looking forward to full Government support for this particular investment plan."

THE STANDARD

PLESSEY'S DISH OF CHIPS

ELECTRONICS giant Plessey are investing £50 million in a new silicon chip plant in Plymouth to step up production of chips for such markets as telecommunications, direct broadcasting by satellite and cellular radio.

Theplant, due to come on stream at the end of next year, will initially produce five inch wafers offering 250,000 transistors on a single chip.

Plessey chairman Sir John Clark said the investment was "good news for Plessey, for Britain and for the industry in general."

Plessey have concentrated on "application specific" chips where the worldwide market is expected to grow this year by nearly 40% to around £3 billion. But most chip users go for "standard component" chips which are still expected to hold 65% of the market in 1990 even after rapid growth in the "application specific" field.

Sir John justified Plessey's chip strategy by saying that in the "standard component" market, the company faced "the most ginormous competition' from the U.S. and Japan.

Plessey are committing £130 million over the next five years just to silicon chips, while £50 million is being invested in Gallium Arsenide, a new chip material. CB

THE TIMES

Plessey picks Plymouth for microchip plant

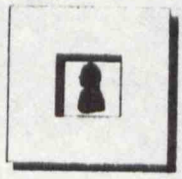
By Jonathan Davis, Financial Correspondent

Plessey is to spend £50m on building an advanced microchip factory in Plymouth, which could create up to 600 jobs by 1990.

Construction of the 120,000 sq ft plant is to begin in the next few weeks, with the aim of starting production by the end of 1985. The company is negotiating with the Department of Trade and Industry about grants. Sir John Clark, chairman of Plessey, announcing the project said yesterday that the plant will produce sophisticated integrated circuits (microchips) for specific uses in telecommunications, military electronics and mobile radio systems.

In common with other British companies, Plessey has no plans to produce multi-purpose, or standard microchips, the bulk of which are imported from the United States and Japan.

Sir John said that Plymouth had been chosen because of its development area status, good communications and skilled labour. About 250 jobs will be created in the first two years.



CHARLES BARKER GROUP

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Plessey to make microchips in Plymouth

By Jonathan Davis

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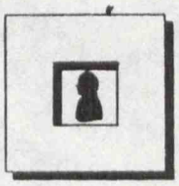

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THE SUN

Jobs with chips

ELECTRONICS giant Plessey yesterday announced plans to build a new £50million microchip factory at Plymouth. The plant is expected to be operational next year, and to create up to 600 jobs by 1990.

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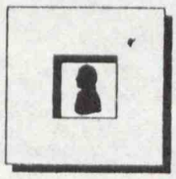
DAILY MAIL

600 jobs at chip factory

THE electronics giant Plessey is to build a £50 million microchip plant at Plymouth which could create 600 jobs. CB



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MORNING STAR

Chip plant planned

The electronics giant Plessey yesterday announced plans to build a new £50 million micro-chip plant at Plymouth initially providing 250 jobs and hopefully 660 by 1990.

07 JUN ...

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DAILY STAR

STAR NEWS

Electronics giant Plessey yesterday announced plans to build a £50 million microchip plant in Plymouth which will create up to 600 jobs. CB

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THE GUARDIAN

Old paradox

THE Government's decision (reported below) to resist the easy option in its determination to denationalise the state-owned microchip enterprise Grants is heartening so far as it goes.

But the terms in which it was announced show that the Government is still not brave enough to face the real issue publicly. Sir John Clark, chairman of the huge electronics group Plessey, has no such political inhibitions.

He said yesterday that Plessey would not get into the mass-market chip business — the competition is too huge — yet he also acknowledged that Britain should be in that business.

The paradox has been painted again and again. If Britain today had three firms making mass-markets chips then we would have the edge on our competitors in the current world shortage.

Britain's demand for chips now exceeds that of any other European country — mainly but not entirely because of our home computer bonanza. We cannot satisfy that demand, because the collection of foreign-owned chip plants here do not contribute their chips directly to the UK. Therefore economic revival is is being slowed.

But, as Sir John Cark indicated, there is no commercial sense in meeting that demand on a UK scale. The business is far too chancey. So, the only answer is a non-market one, a government-backed supply of a crucial but uncommercial national resource.

Mrs Thatcher has bought most of the arguments about the post-industrial world we are moving into. But that particular argument she just cannot accept. Therefore, whatever Inmos deal eventually emerges, Britain now looks certain to lose a crucial advantage. We will be paying for it in the 1990s.

C.J.S

THE GUARDIAN

Institutions' plan for investment turned down as Plessey reveals new plant

Baker rejects City stake in Inmos

By Peter Large,
Technology Correspondent

The government has rejected a £30 million investment package proposed by City institutions for a 30 per cent stake in the state-owned microchip company Inmos, because it undervalues the company.

The rejection was announced in the Commons yesterday by the Information Technology Minister, Mr Kenneth Baker. He said in reply to questions that the government's British Technology Group, which owns three-quarters of Inmos, would now explore "other options" for the privatisation of the firm. These could include an American share flotation or a takeover by the American giant AT&T on a new basis that would ensure the development of Inmos technology in Britain.

Earlier yesterday, the Plessey electronics group announced a further strengthening of Britain's hold on microchippery through a £50 million investment in a new chip-making plant in Plymouth. This plant will provide about 250 new jobs in the next two to three years and should be employing 600 by 1990.

But the Plessey expansion will be in microchips designed for a particular industry sector, like telecommunications, not in mass-market general-purpose chips — the mainstream of the business in which Britain had no presence till the formation of Inmos in 1978.

Plessey's chairman, Sir John Clark, in making the announcement, frankly acknowledged the commercial dilemma of Britain's strategic need for mass-market chips — particularly now that the world is caught in yet another chip famine.

Sir John Clark

He said that Plessey, although it has been in the chip business since 1957, had set its face against the mass-market business because of "the most ginormous" competition in the two vast market places of the US and Japan. Yet Sir John also said that Britain needed to be in that business — if only for balance-of-payment reasons.

In his Commons statement, Mr Baker said that the Government had "withheld the signature" of the British Technology Group to the City's Inmos deal, thereby hinting that the BTG itself would have accepted, despite resistance from within Inmos. The reply also indicates that the Industry Department has — pro-tem — won its battle with the Treasury over a quick Inmos sell-out.

Mr Baker pointed out that Inmos was now into profit. (The company, in fact, is currently ahead of its 1984 projections of a £10 million profit.) The Minister said that the BTG, in "actively exploring other options," would bear in mind the taxpayers' past investment (amounting to around £100 million in a mixture of direct funding, grants, and loan backing) and the future development of Inmos technology.

Plessey's new plant in Plymouth, due to be in production next year, will be seven miles from another Plessey chip factory at Plympton. Plessey's chip sales last year totalled more than £50 million, 70 per cent of them in exports.

The semi-specialised chips on which Plessey — and Britain's other big electronics groups — are concentrating are increasing in importance. It is estimated that by 1990 they will account for 30 per cent of the total world market for microchips.

-5 JUN 1984
WALL STREET JOURNAL

Plessey to Spend $70.1 Million To Build Semiconductor Plant

By Beth Karlin
Staff Reporter of The Wall Street Journal

LONDON – Plessey Co. plans to spend about £50 million ($70.1 million) to build a semiconductor plant in the U.K., in hopes of tapping an expected world-wide boom in semi-custom integrated circuits.

Plessey, a major British electrical company, is expected to announce its specific investment plans tomorrow. Its expansion comes as several other European semiconductor makers are starting to build up their semi-custom integrated circuit businesses as well. Plessey also is believed to be considering similar facilities in the U.S.

Industry watchers predict that the global semi-custom market, currently accounting for about 3% of world integrated circuit production, will rise to about 15% by 1990. Semi-custom circuits, which can be used in everything from cars to telephones, give customers more flexibility than standard mass-produced circuits, without the high pricetag of fully customized products.

In semi-custom circuit manufacturing, the basic product can be made in large quantities and then personalized in the last stage of production. Full-custom products are developed to satisfy one customer's requirements, and are therefore made in small quantities.

Custom Market to 'Explode'

The custom circuit "market is going to explode," according to Robert Heikes, vice president, international, for National Semiconductor Corp., a U.S. maker of integrated circuits. He predicts growth "both in dollar volume and, more importantly, in strategic importance."

Among European companies expanding semi-custom circuit production are Italy's SGS-Ates S.p.A.; France's Thomson S.A.; and Holland's N.V. Philips. They are well positioned to work closely with European users to develop customized products.

Industry observers acknowledge that the Europeans will still face tough U.S. and Japanese competition, but many believe that the odds are better than for mass-produced semiconductors. There, U.S. and Japanese companies have vast economies of scale that let them undercut European prices and still make a profit.

In mass-produced chips, the Europeans' share of the world-wide market has fallen more than 30% since 1978, to 9.6%, according to Dataquest Inc., a San Jose, Calif.-based consulting company. In the same period, the Europeans' share of their home market has dropped 9.4% to about 40%.

Though sales have risen lately, many industry participants worry that Europe's semiconductor manufacturers lack the money and global marketing skills to survive another major downturn. "The European semiconductor industry hasn't yet established the structural basis for its long-term profitability," said Jacques Noels, general manager for semiconductors at France's Thomson, at a recent Dataquest semiconductor industry conference.

While the big companies insist that they will continue to provide standard chips, they are also pursuing other strategies to broaden their customer base. Most are expanding into semi- and full-custom products, increasing exports and burrowing into niches. "The key to survival is to stand clear of mass production and concentrate on niche products," said George Stojsavljevic, an analyst with Mackintosh International Ltd., a U.K. consulting company.

Plessey's Semiconductor Investment

This is the second major semiconductor production investment planned by Plessey in six months. Late last year, the company said it would build a £35 million gallium arsenide plant in the U.K.

So far, Plessey's investment in semiconductors is paying off. In the year ended March 31, Plessey's microelectronics and components sector reported a 47% rise in operating profit to £12.5 million from £8.5 million the previous year, with much of the increase coming in the fourth quarter. At £63.4 million, the order book is 35% higher than last year.

The microelectronics and components operations represent about 12% of Plessey's total £146.3 million in operating profit, and Plessey expects that to grow.