PRIME MINISTER

MEETING WITH LORD PRIOR

You are seeing Lord Prior tomorrow at his request. He has said only that he wants to talk about a number of topics, including 'problems with ECGD'.

I attach briefing by the Department of Trade and Industry on a number of issues which he may raise. As you know, GEC are major beneficiaries from ECGD and ATP and are always lobbying to be sure their interests are considered. If he mentions the continuing dispute between GEC and DTI over the former's merger with Plessey, you should make clear that this is entirely a matter for the Trade and Industry Secretary.

You might for your part ask how their business in Malaysia is progressing.

CDP

(CHARLES POWELL)

9 April 1990

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cc PL
cc PS/P

dti
the department for Enterprise

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Charles Powell Esq
Private Secretary to the
Prime Minister
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Our ref PE5ALA
Your ref
Date 9 April 1990

Dear Charles

LORD PRIOR'S VISIT ON 10 APRIL 1990

Thank you for your letter of 3 April 1990 in which you said that Lord Prior had asked to come and see the Prime Minister on 10 April 1990 about a number of topics which included an item described as 'Problems with ECGD'.

I enclose a background brief on ECGD issues which we believe might be raised, and a short note on GEC/Siemens/Plessey following last week's announcement by my Secretary of State of his agreement to a partial variation in the terms of undertakings given by GEC in 1987.

Yours ever

Ben Slocock

BEN SLOCOCK
Private Secretary

Recycled Paper

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BRIEF FOR PRIME MINISTER'S MEETING WITH LORD PRIOR ON 10 APRIL 1990

ECGD

Issue

GEC and some other major companies have expressed concern over various changes ECGD are introducing to support capital goods exports.

Recent letters from GEC to Ministers and MPs have raised the following major issues:-

1) That the prospect of substantial premium increases with the introduction of the Portfolio Management System (PMS) will damage exporters' competitive position.

2) That the withdrawal of interest rate support from Category II countries even if implemented multilaterally could put exporters at a disadvantage in view of high UK interest rates.

3) Larger budgets for aid and soft loans are needed and on a more flexible basis.

4) Concern about the prospect of new ECGD cover not being available for new project business for some large markets where ECGD's existing exposure is already high, eg, India, China, Hong Kong, Indonesia, USSR and South Africa.

Line To Take

1. It is premature for companies to complain as premium rate levels will only be settled when ECGD's Business Plan for 1990/91 has been approved by Ministers. No decisions have yet been taken and, indeed, no recommendations have even been put to Ministers.

   Project business is risky and the intention of the new PMS system is to allow a financial framework to be established which enables national interest and trade encouragement arguments to be considered against financial risks to ECGD and the Exchequer. A difficult balance has to be drawn between these demands. Regard will be paid both to the premium rates charged by Export Credit Agencies in competitor countries and to the need to maintain a viable framework of support from ECGD for project and capital goods exports.

2. UK's long standing international objective has been to aim for progressive elimination of export subsidies but HMG does not wish to put UK exporters at a disadvantage by unilateral action. Should sterling currency appear unattractive ECGD support can be made in other major trading currencies. In this and other areas, the Government does not wish to put UK exporters at a competitive disadvantage.

3. Budgetary allocation for mixed credits has generally been greater than amount of business to be supported. HMG has been flexible in designing hybrid financing packages.

4. The Portfolio Management System also addresses how ECGD handles markets where there is already a heavy concentration of ECGD exposure but where UK exporters can be expected to secure further large scale orders. The strength of the national interest argument then becomes the prime issue.

   Officials are already working on these aspects and it would be helpful if GEC would liaise with them so that they are fully aware of the implications for UK trade.

Support for Project Exports: General

It may be helpful to reassure Lord Prior of the importance that the Government attaches to capital goods exports and that it fully recognises the benefits which accrue to the economy from such exports.

The case for withdrawal of ECGD support for project exports (known as the Zero Option) was examined by Ministers as recently as last Autumn. The Government then decided that export credit and financing support should continue to be provided. Mr Ridley confirmed this in his December statement about the future of ECGD.

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BRIEF FOR LORD PRIOR'S CALL ON PRIME MINISTER
(TUESDAY 10 APRIL)

GEC-SIEMENS ACQUISITION OF PLESSEY

Line to take (only if raised)

Right that this merger should have been fully scrutinized by the MMC.

If raised

- Departures from the undertakings GEC gave on the 1986 MMC report or from the specific alternative examined by the MMC in the 1989 report must be looked at closely to consider effects on public interest. For DTI to determine what is acceptable.

Background

1. A bid by GEC for Plessey was blocked in August 1986, following an MMC report. GEC gave undertakings in 1987 not to acquire more than 15% of Plessey or its subsidiaries, and not, without the Secretary of State's consent, to enter into any arrangement which would constitute a "merger situation" with any of the Plessey businesses.

2. In March 1988 the Secretary of State for Trade and Industry agreed to a variation of these undertakings to allow the establishment of a joint venture company to handle the telecommunications interest of both companies. The variation followed the Secretary of State's decision not to refer the joint venture to the MMC.

3. In mid-November 1988 GEC announced that it was making a further bid for Plessey in association with Siemens. This was referred to the MMC for investigation on 12 January 1989. The MMC report, published on 21 April 1989, concluded unanimously that the acquisition could be allowed to proceed provided appropriate undertakings were given by GEC and Siemens to deal

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the department for Enterprise

with aspects of the merger which might otherwise be expected to operate against the public interest. The Secretary of State therefore requested:

(a) that the Director General of Fair Trading should seek undertakings from GEC that GEC should not acquire any influence or control over the management of the Plessey Radar and Defence Systems businesses or Plessey's traffic control activities;

(b) that the Secretary of State for Defence should seek undertakings from GEC and Siemens that access to the technology and the licences for production of JTIDS (Joint Tactical Information Distribution Systems) equipment be available on terms satisfactory to the MOD to competing companies designated by the MOD; and that he should seek undertakings from GEC and Siemens that would satisfy United Kingdom national security requirements as to the ownership and management of defence, R & D and semiconductor activities.

4. Undertakings were subsequently obtained and published on 2 August 1989. The Secretary of State then agreed to waive GEC's 1987 undertakings to the extent necessary to enable GEC Siemens to renew its bid for Plessey, and to carry out the restructuring envisaged in the MMC's report.

4. Since the acquisition of Plessey GEC has asked for full release from the 1987 undertakings, contending that these are no longer applicable. GEC representations on this point are still being considered. In separate representations GEC requested specific relaxations in order to be able to restructure some Plessey business differently from what was proposed at the time of the 1989 MMC report. The Secretary of State has agreed to a partial waiver of the 1987 undertakings in respect of some (but not all) of the businesses involved, as indicated in the press notice at Annex A.

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9 April 1990

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press notice

90/188 3 April 1990

GENERAL ELECTRIC COMPANY PLC - RESTRUCTURING OF PLESSEY BUSINESSES

The Secretary of State for Trade and Industry has agreed to a variation of the undertakings given by GEC in June 1987 (following the 1986 MMC report on the merger proposed in 1985 between GEC and Plessey). This will allow GEC and Siemens to restructure certain of Plessey's businesses in a manner that was not foreseen in the 1989 MMC report on the 1988 GEC Siemens bid for Plessey. This press notice also clarifies the position with regard to review under the Fair Trading Act 1973 of new mergers which may arise as a result of the proposed restructuring of the Plessey businesses.

Two groups of Plessey businesses are involved:

1. **Businesses where it was expected in the 1989 MMC Report that GEC should have a 51 per cent or more share.**

The Secretary of State has released GEC from the undertakings given in 1987 in relation to those businesses where it was expected in the 1989 MMC report that GEC should take a 51 per cent or more share. This will allow GEC to increase its holding in any such business up to 100 per cent.

Since GEC already has a controlling interest in businesses in this category, any increase in GEC's holding would not give rise to a new "merger situation" under the Fair Trading Act 1973. The Secretary of State does not therefore intend to consider further any increase in GEC's holding in businesses in this category under the merger provisions of the Fair Trading Act.

2. **Businesses where it was expected in the 1989 MMC Report that GEC and Siemens should each have a 50 per cent share.**

The Secretary of State has released GEC from the undertakings given in 1987 in respect of a number of businesses where it was expected in the 1989 MMC report that GEC and Siemens should each take an equal 50 per cent share. The release will allow GEC to increase its holding in the relevant businesses up to 100 per cent. The businesses concerned are:

MORE/...

Department of Trade and Industry 1 Victoria Street London SW1H 0ET Fax 01-222 4382

Plessey Semiconductors Limited
Plessey Research Caswell Limited
Plessey Materials
Plessey Aerospace Limited
Plessey Aero Precision Corporatoin (USA)
E.S. Marine Systems Corporation (USA)

Any increase in GEC's holding above 50 per cent gives rise to a controlling interest, and may therefore give rise to a new "merger situation" under the Fair Trading Act 1973. The Director General of Fair Trading will advise the Secretary of State in the usual way on whether any of the above transactions is a merger which qualifies for investigation under the Act and if so whether it should be referred to the MMC. Release from the 1987 undertakings does not prejudice the Secretary of State's ability to refer any of the above mergers to the MMC.

Restructuring of Other Businesses where it was proposed in the 1989 MMC Report that GEC have a 50 per cent share or less.

If GEC and Siemens propose in the future that GEC should increase its share in any other business where it was expected in the 1989 MMC report that GEC should have a 50 per cent share or less, the companies should provide details to the Director General of Fair Trading, who will advise the Secretary of State:

- whether GEC should be released from the 1987 undertakings in respect of the particular proposals;

- on possible reference to the MMC under the merger provisions of the Fair Trading Act.

NOTES FOR EDITORS

1. In June 1987 GEC gave undertakings to the Secretary of State not to acquire Plessey businesses following the 1986 MMC report into the acquisition of Plesey by GEC alone proposed in 1985.

2. The Secretary of State announced on 2 August 1989, following the 1989 MMC report into the acquisition of Plessey by GEC Siemens plc proposed in 1988, that he had agreed to waive the 1987 undertakings to the extent necessary to enable GEC Siemens to make a bid. The 1987 undertakings otherwise remain in effect. A further waiver is required to allow any restructuring of Plessey businesses which is not in accordance with the proposals set out in the 1989 report.

MORE/...

3. References in this press notice to "the 1989 MMC report" mean the 1989 MMC report into the GEC Siemens bid for Plessey.

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(Out of Hours: 01-215 4657/8)
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ENDS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 April 1990

Lord Prior has asked to come and see the Prime Minister next week about a number of topics including what he describes as "problems with ECGD". He is coming on Tuesday 10 April. It would be helpful to have a short brief on ECGD issues by the previous evening.

(C. D. POWELL)

Martin Stanley, Esq.,
Department of Trade and Industry.

10 DOWNING STREET

Amelia

Can you find a time please

CP

Charles

I have spoken to Jim Prior and agreed 1530 on Tuesday 10th April

AP
3/4

(1)

PRIME MINISTER

Jim Prior has telephoned to ask whether he could come to see you in the next week or two to discuss three subjects: the Marathon project, the problems with ECGD and a honour for Mr. Stones of China Light and Power.* Would you be ready in principle to see him if we can find a time?

CDP Yes MT

C. D. POWELL

30 March 1990

* Mr Stones is being recommended for a K in the next list. AT

10 DOWNING STREET

Prior : Marsh
ECDD
Stan