



PRIME MINISTER

FERRANTI

As you know, an Opposition Supply Day debate will be held on Wednesday afternoon, 18 June, on a motion relating to the disposal of the NEB's shareholding in Ferranti. A paper has been circulated - E(DL)(80)8 - by the Minister of State for Industry, intended for discussion at an E(DL) meeting which I believe is likely to be held on 24 June. This provides an analysis of the problems and leads to the firm conclusion that the NEB should be advised to sell their holdings to the highest UK bidder, subject to assurances about safeguarding the Scottish interests.

But in view of the wide concern that has been expressed about the possibility that the NEB might follow this course I think it would be most helpful if, in anticipation of the debate the following day, E Committee could consider it for a few minutes at its meeting on Tuesday next, 18 June.

It is not difficult to have sympathy with the Ferranti Board, and with Ferranti's employees, in their anxiety about the future of their company. I do not wish to prejudice it in any way. I believe that whatever happens it will be difficult for the Government to avoid criticism, but our actions must certainly be seen to be defensible in terms of the interests of the taxpayer and in relation to the generally-accepted tenets of good practice in City matters. The essential point, as I see it, is that the



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NEB believe that shortly after the publication of Ferranti's Report and Accounts on 24 June bids are likely to be made from GEC, Racal and Hawker Siddeley. The NEB would expect these bids to be pitched at a premium at perhaps 20% above the current market price. The NEB have been advised by Rothschilds, on the other hand, that institutions would expect to buy the shares at a discount of perhaps 10%. All the parties concerned are likely to have arrived at much the same view. On that basis the possibility is that one or other of the principal bidders will succeed (subject, of course, to any reference that might be made to the Monopolies and Mergers Commission). Against that background I do not think that any useful purpose would be served in our advising the NEB to place their shares with institutions. We would appear to be following a course which led to the taxpayer receiving substantially less than he would otherwise have done; disregarding our own principles of letting market forces determine the outcome; acting in a deliberately discriminatory way in relation to one or other of the country's largest and most successful companies; and, with all that, not affecting the outcome in any way. Moreover, nothing is lost by our advising the NEB to go for the highest bidder. If, against expectation, the three firms that I have mentioned did not come forward then the institutions would still be in the running.

If, despite these considerations, colleagues still consider that



Ferranti's future should be completely safeguarded, then the only way of achieving this would be for the NEB to retain its shareholding, and this would be a negation of our policies. I believe - and the NEB share this view - it would be quite unrealistic to suppose that institutions would be prepared to hold the shares indefinitely - unless, perhaps, they were offered them at a discount so large as to be indefensible in terms of the taxpayers' interest.

I am sending copies of this minute to members of E Committee, the Secretary of State for Defence, the Secretaries of State for Scotland and Wales and the Chief Whip.

*Catherine Bell*

K J

(approved by the Secretary of State and signed in his absence)

16 June 1980

Department of Industry  
Ashdown House  
123 Victoria Street

B.R.

LIST (PROVIDED BY THE CHIEF WHIP) OF  
"DOUBTFUL" CONSERVATIVE MPs ON FERRANTI

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Federick Silvester  
John Lee  
William Montgomery  
Winston S. Churchill  
Alastair Goodlad?  
John Bruce-Gardyne  
Nicholas Winterton  
Robert Atkins  
Peter Fraser  
John Mackay  
Bill Walker?  
Ian Lang?  
Alex Pollock?