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E(80) 10th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held
at 10 Downing Street on
MONDAY 17 MARCH 1980 at 4.45 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for
the Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 2)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Item 2)

The Rt Hon Mark Carlisle QC MP
Secretary of State for
Education and Science
(Item 1)

Mr Paul Channon MP
Minister of State
Civil Service Department
(Item 1)

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr P Mountfield (Item 1)
Mr R G Courtney (Item 1)

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1. COMMITTEE OF INQUIRY INTO THE ENGINEERING PROFESSION (FINNISTON REPORT)

The Committee considered a memorandum by the Secretary of State for Industry (E(80) 25) which summarised the consultations taking place over the Report of the Committee of Inquiry into the Engineering Profession (the Finniston Report).

THE SECRETARY OF STATE FOR INDUSTRY said that the Finniston Report had made many important recommendations calling for action by Government. Among these was the establishment of an Engineering Authority, a statutory register of qualified engineers and a number of specific proposals relating to the education and training of engineers. Consultation with industry, professional institutions and the academic world had begun. First reactions to the Report's recommendations were generally favourable, though more critical responses were to be expected as the consultation procedure continued. He hoped that an analysis by officials, taking account of the results of consultation, would be ready for Ministers to consider in time for decisions to be taken, and announcements made, on the key proposals before the summer recess. The Secretary of State for Education and Science was organising a conference on the educational aspects of the Report to take place in October and final decisions on these matters should be deferred until the conference had taken place. In the meantime the National Economic Development Council (NEDC) would be discussing the Report at its meeting on 2 April. Given the early stage of the consultation process, he would propose to confine his contribution to the NEDC discussion to a general welcome for the Report and the encouragement of continuing debate.

THE PRIME MINISTER, summing up a brief discussion, said that the Committee recognised the importance of a healthy engineering profession and were grateful to the Finniston Committee for the work they had done. They endorsed the arrangements proposed by the Secretary of State for Industry for handling the Committee's recommendations and the forthcoming discussion in the NEDC.

The Committee -

Endorsed the conclusions of E(80) 25 and invited the Secretary of State for Industry to proceed accordingly.

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2. INMOS: FINANCE AND FACTORY LOCATION

The Committee considered a memorandum by the Secretary of State for Industry (E(80)23) reporting discussions in the Ministerial Sub Committee on Economic Affairs (E(EA)) about a proposal to advance a further £25 million to INMOS, and the location of its first production unit, a memorandum by the Secretary of State for Wales (E(80)28), in which he set out the case for building the INMOS Production Unit in Cardiff; and a letter dated 16 March from the Private Secretary to the Secretary of State for Industry to the Prime Minister's Private Secretary, reporting discussions with the company about the granting of an Industrial Development Certificate (IDC) for the Bristol site.

THE SECRETARY OF STATE FOR INDUSTRY said that the previous Government had undertaken to provide £50 million of equity capital for the new company, INMOS, to manufacture standard micro-electronic chips in the United Kingdom. This capital was to be advanced in two tranches of £25 million. An application had now been made for the second tranche. The proposal had been considered by E(EA) under his Chairmanship, and the Sub-Committee had interviewed the Chairman of the National Enterprise Board (NEB) and the Chairman of INMOS. The Sub-Committee recommended unanimously that the second tranche of £25 million should now be advanced while making it plain to the company that no further Government funding would be forthcoming. They noted, however, that in the extreme case where the company collapsed completely without any production, and where the assets proved totally unsaleable, the Government would have not only to write off its own loans but also to honour some £50-40 million of private loans raised by the company with the guarantee of the NEB. They considered this risk to be remote.

The Sub-Committee had been unable to agree on the siting of the first production plant. The company had already established its technology centre in temporary quarters at Bristol, and had secured an IDC for the construction of permanent quarters. It had originally intended to place the first production unit in an assisted area. It had now come to the conclusion that this course would carry substantial technical and operational risks, and wished to build the first production unit next to the technology centre. Some Ministers felt that the

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Government should back the commercial judgement of the company, which had been endorsed by the NEB; failure to do so would make a risky project even riskier, and give the company an alibi in the case of failure. Other Ministers felt strongly that the Government's investment entitled it to a say in the siting of the first production unit, which should go to South Wales, to offset the loss of jobs from the run-down of the steel industry, and bring new hope of technologically based industry to a depressed area. Since the Sub-Committee's meeting, the Minister of State, Department of Industry (Lord Trenchard) had carried out the statutory consultation procedure with the company, and now recommended the grant of an IDC for the first production unit in Bristol. He himself endorsed this recommendation.

THE SECRETARY OF STATE FOR WALES said that there had been two developments since the meeting of E(EA). He had joined the Minister of State, Department of Industry for his two hours of discussions with the company about the siting. He had also at last persuaded the company to disclose to him, in strict confidence, a report on siting by PA Management Consultants Limited, to which reference had been made in Debate in the House of Commons. This report contained a study of 238 sites for the production unit, and recommended a site at Cardiff. Admittedly, the consultants had not been asked to consider the penalties of separating production from the technology centre: had the question been put in that form, they might have recommended that the production unit should be sited in Bristol, or they might have taken the view that the technology centre as well as the production unit should go to Cardiff. The operation in Bristol was still only on a very small scale, with some 60 staff, of whom 30 were management technologists. Most of these could, in his view, be given sufficient inducement to make the move to Cardiff, or to travel half an hour each way each day. Failure to secure the move to Cardiff would undermine the whole of the Government's assisted area policy, and would have a serious impact on the psychology of those faced with the run-down of existing industries in South Wales.

In support of the Cardiff site, it was argued that Ministers would find it difficult to defend the use of public money to support the company, if it could not also be used to benefit regional policy. Given the scale of public support, the company was being unhelpful in its attitude. Other electronics and high-technology companies had flourished in similar surroundings. The site at

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Cardiff was immediately available, fully-serviced, adjacent to other high-technology firms, and near the university. The surroundings were attractive, and key staff already living at Bristol could commute from there to Wales. By contrast, the Bristol site had not yet been purchased, and the company had not yet applied for planning permission to develop it. This cast some doubt on the alleged urgency of a decision.

In favour of Bristol, it was argued that the success of the company depended critically on its ability to retain and recruit a limited number of highly-skilled key personnel. These people were internationally mobile, and needed suitable inducements to bring them to work in this country. Some of them had already settled in the Bristol area and bought houses there. If they were required to commute to South Wales, this would bring no benefit to the Welsh economy. The essential point was to make a success of a high-risk technological venture. Having decided to retain the National Enterprise Board, the Government should back its judgement, and maintain its policy of non-interference in management decisions. There would be considerable support among interested Government back-benchers for such a decision.

THE PRIME MINISTER, summing up the discussion, said that the majority view in the Committee clearly favoured the construction of the first INMOS production unit at Cardiff. On the information available to them they were not prepared to allow an IDC to be granted for this factory at Bristol. The Secretary of State for Industry should explain the Government's views to the company, and should explore with them the reasons for the delay in constructing the technology centre at Bristol. If new facts emerged, he could bring them before the Committee again at a future meeting. Otherwise, the decision in favour of Cardiff stands.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for Industry, to discuss with INMOS the reasons for the delay in the construction of the permanent technology centre at Bristol.

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3. Subject to the outcome of these talks, agreed that no Industrial Development Certificate should be granted for the construction of a production unit at Bristol, and that the company should be encouraged to develop the available site at Cardiff.

4. Invited the Secretary of State for Industry to report back to the Committee if new facts emerged in the course of his discussions with the company which invalidated the grounds on which their decision had been taken.

Cabinet Office

19 March 1980

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