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PRIME MINISTER

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INMOS

(E(80) 36)

BACKGROUND

The Committee agreed on 17th March (E(80) 10th Meeting) that an Industrial Development Certificate (IDC) should not be granted for INMOS's first production unit at Bristol. They agreed also that INMOS should be encouraged to site this plant at Cardiff, although the Government could not direct them to do so. You said that, if new facts emerged, the Secretary of State for Industry could bring the question again to E. Otherwise the decision would stand.

2. In his minute to you of 3rd April the Secretary of State for Industry referred to two developments:-

(i) INMOS had offered to consider putting an assembly and testing factory in Cardiff rather than Singapore - but his present paper says they have now decided that this would be uneconomic.

(ii) A possibility of participation by GEC following the collapse of their own collaborative venture with Fairchild's.

3. In his letter of 15th April, the Secretary of State for Employment argued that neither development justified reversing E's decision. He warned against letting things drift until INMOS could try to bounce the Government into a decision.

4. On 16th April the Secretary of State for Wales argued, in similarly strong terms, for sticking to the previous decision and for making an early announcement. He questioned the relevance of GEC's interest to the immediate issue. He was sceptical - and rightly so as it turns out - of the offer to switch from Singapore. The Secretary of State for Scotland's letter of 21st April strongly supports him.

5. In his present paper Sir Keith Joseph informs colleagues that following further discussions he is even more convinced that it would be a mistake to refuse an IDC for a first production unit at Bristol. You will recall that the main arguments were that because of the close link between designers and

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researchers, the first production unit had to be next to the technology unit at Bristol; that key people were already living in Bristol; that a Government intervention would offer INMOS an alibi for failure; and that there was a risk that the key entrepreneurs could withdraw. In addition Sir Keith now draws attention to two further possibilities, namely:-

- (a) that if an additional IDC were refused for Bristol, INMOS might try to build a smaller production unit at Bristol within the ambit of their present IDC.
- (b) That INMOS might seek to turn their operation into "a purely American venture based on the facilities already built at Colorado Springs at a cost of £20 million to the NEB".

6. You will want to explore the reality of these two possibilities. Squeezing up in Bristol would be difficult to defend: loss of the project to the USA would be the worst outcome. In the same context you may wish to probe the reality and meaning of the INMOS guarantees to "build their next United Kingdom production facility in the Assisted Areas".

7. As to GEC, Sir Keith Joseph will be meeting Sir Arnold Weinstock shortly before the meeting and will report the outcome. His provisional judgment is that a decision to let INMOS go ahead now would help the NEB in negotiations with GEC, even though such a decision would be unwelcome to the latter company.

HANDLING

8. You will wish to ask the Secretary of State for Industry to introduce his paper, explaining in particular what are the new facts and what is the latest GEC position. The Secretaries of State for Employment and Wales will want to put the counter arguments. In the discussion you will wish to cover the following points:-

- (i) What are the new facts?

Apart from the GEC interest, they appear to be the possibility that INMOS may go ahead in Bristol anyway, and the possibility of the withdrawal of the project to the USA. Otherwise the arguments are essentially those previously rejected by the Committee.

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(ii) What is the relevance of GEC's interest?

GEC may well take two or three months to reach a decision. In the meantime they would no doubt prefer no decision to be taken on the siting of the production unit, so that the options for them remain as open as possible. But since there is no guarantee that they will go ahead - or that INMOS's top people would be willing to stay with them - a delay could put the whole project at risk. The Committee may feel, therefore, that GEC's interest is irrelevant to the decision on an IDC for Bristol.

CONCLUSIONS

9. In the light of the discussion the Committee might be guided:-

either

(i) to confirm the decision not to give a further IDC for INMOS in Bristol and leave it to the company to decide what to do next;

or

(ii) to decide to grant a further IDC to INMOS in Bristol and defend the decision on whatever grounds appear most plausible;

or

(iii) to risk the continuing substantial costs of delay, and wait for GEC to reach their decision before coming to a final view.



(Robert Armstrong)

23rd April, 1980