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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

INMOS

Memorandum by the Secretary of State for Industry

At its meeting on 17 March (E(80)10th Meeting, item 2), the Committee considered E(80)25: a memorandum in which I reported discussions in the Ministerial Sub Committee on Economic Affairs (E(80)5th) about a proposal to advance a further £25m to the NEB for the acquisition of further shares in INMOS, and about the location of the company's first UK production unit. The Committee also had before it a memorandum by the Secretary of State for Wales (E(80)28) which set out the case for building the INMOS production unit in Cardiff and my report, of 16 March, to the Prime Minister on my discussions with the company about an Industrial Development Certificate (IDC) for the unit at Bristol. The majority of the Committee were in favour of the construction of the first production unit at Cardiff; and accordingly on the information available they were not prepared to allow an IDC to be granted for the factory at Bristol. We cannot of course determine an alternative location: we can only block the production unit being built in Bristol by refusing an IDC. I undertook to explain the Government's views to the company and to explore with them the reasons for the delay in constructing the Technology Centre at Bristol. The Committee agreed that if new facts emerged I could bring the matter before them again. The purpose of this paper is to invite the Committee to review its decision in the light of subsequent developments.

The Committee will have taken note of my minute of 3 April to the Prime Minister in which I said that the NEB had reported the possibility that INMOS might construct an assembly and testing facility at Cardiff (which hitherto had not formed part of their plan). I also reported that GEC, quite unexpectedly, had shown an active interest in becoming involved in the company, (and subsequently GEC's interest was publicly acknowledged by the NEB). The Secretary of State for Employment and for Wales commented on these developments in their letters of 15 and 16 April to me, and I agree with their view that this is now a matter of urgency on which we must reach a final decision.

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At the last meeting some doubt was expressed about this urgency because of the delay in starting at Bristol. However looking at INMOS' operations as a whole this delay is more apparent than real. It must be remembered that - completely according to plan - nearly all of the £20m so far committed has been spent in Colorado Springs on the research facility and pre-production unit which has now been built there. Planning permission cannot be secured at Bristol until an IDC has been granted; the application was delayed because the management took time to revise its earlier judgement - reached before experienced people had been recruited - that the technology centre and the first production unit could work efficiently on separate sites; architects were commissioned 7 months ago; steel designed for the Bristol site is on order. Progress is now being held up by the absence of a decision on the IDC.

Since the Committee last met I have had several further discussions with Sir Arnold Weinstock, Sir Arthur Knight and - at length - with the senior management of INMOS. I can only tell colleagues that as a result of these further discussions I am more than ever convinced that we would be mistaken if we were to seek to intervene so as to force the project to Cardiff (or any other location). I believe it is critical - and what is more important the entrepreneurs also regard it as critical - to the success of this project that the first UK factory should be on the same site as the research facilities. I have come to this conclusion only with the greatest reluctance since I am well aware of the strong contrary view of colleagues and the difficulty of granting a further IDC for Bristol when we have accepted the continuation of IDC controls in order to be able to steer larger projects that are mobile to the Assisted Areas.

As a result of my discussions with them I am in no doubt that the entrepreneurs too are conscious of the real problems we face. They have made attempts to help us, first by considering the possibility of transferring some assembly work from Singapore to a factory in Cardiff - but this has proved to be uneconomic. They have also suggested that they might be able to manage within their existing IDC for Bristol by building a smaller first production plant, but I don't think this would really help us politically since it would be seen as a device to avoid the issue. They (INMOS) are also prepared to guarantee that they will build their next UK production facility in the Assisted Areas.

We cannot be sure, of course, what the outcome would be if we were to refuse an IDC. This is a very fragile high risk project which depends heavily on the entrepreneurs. The delay which has already been occasioned together with the further delays which a change in proposed location would involve might even cause the entrepreneurs to abandon the project. They stand to gain a very great deal financially if the project succeeds but there must be some point beyond which they would feel that they might as well abandon their hopes and look for other opportunities - they are all highly valuable experts in their field. In particular they might seek a partner to press forward with INMOS

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as a purely American venture based on the facilities already built at Colorado Springs at a cost of £20m to the NEB. This would need the NEB's consent, but it could not sensibly be withheld if it offered the only prospect of recovering some part of the NEB's investment.

I cannot guarantee, even if we refuse an IDC, that they will decide to move to Cardiff since they may take the view that a lesser risk would be to build a smaller production unit at Bristol under the IDC granted under the previous administration. If they were to go to Cardiff, however reluctantly, our decision to split the research and production facilities could prove fatal and would surely be used as an alibi for failure. Certainly it would impose a further delay and possibly this could be critical to the success of the venture. At the end of the day a successful project at Bristol will benefit the whole of the UK economy: an unsuccessful project in Cardiff would benefit no one, indeed it would be damaging by raising expectations which were subsequently dashed.

The GEC interest is a blessing, even coming at this stage. I am sure that we must press forward urgently in discussion with GEC to establish their real interest and I have asked the NEB to do so. The prospect of reaching a firm conclusion before we have to take our decision, however, is very small. But I intend to see Sir Arnold Weinstock again before the Committee meets so that I can report on the latest position. Fortunately too there is a meeting in London on 23 April of the INMOS Board and the NEB will be able to explore the views of the entrepreneurs on a GEC involvement.

I am satisfied that if we agree that the project should go ahead it will, if anything, strengthen the arm of the NEB in negotiations with GEC. The entrepreneurs will in any event need to be persuaded that they can work with GEC: though Sir Arnold Weinstock sees no difficulty in accommodating them, and giving them adequate discretion, we have serious doubts whether this will be acceptable to the entrepreneurs. He, however, is sure that their terms are so advantageous that they are bound to accept whatever we decide. Since he may see a decision to go ahead as disadvantaging him, we may have to face some criticisms from Sir Arnold, but although we place great weight on his commercial judgement we cannot regard him as a disinterested participant in this present matter.

All in all I am hoping that colleagues will now agree with my view that we should let the project go ahead at Bristol. I am very conscious of the difficulty of Parliamentary presentation and I would propose to make it quite clear that we had come to such a conclusion only after the most serious consideration of its implications for our regional policy; that we reached our conclusion with the greatest possible reluctance and had only been finally persuaded by the very serious risk of failure if we intervene in the location decision, and that it would be a mistake if others regarded this decision as indicating any

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weakening in our resolution on regional policy. I would also emphasise that a successful project will benefit us all whereas an unsuccessful one would benefit no one. The technical decision depends heavily on those who have the responsibility for the success of the company and on this question of location they are in no doubt. I hope too that I would be able to say that the discussions with GEC will continue.

K J

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