

PRIME MINISTER

INMOS

(E(80)23 and 28; letter of ¹⁴~~16~~ March from Secretary of State for Industry's
Private Secretary)

BACKGROUND

The previous Government decided to provide up to £50 million of support, through the NEB, for INMOS, to manufacture 'standard' micro-electronic chips in this country. The first £25 million was provided immediately; the second tranche was to follow. The Secretary of State for Industry has now decided to recommend provision of the second £25 million. Your own view (Mr Lankester's letter of 5 March) was that this should be 'the absolute maximum under any circumstances'. E(EA) decided to cross-examine Sir Arthur Knight (Chairman of NEB) and Mr Barron (Chairman of INMOS). They did so last week. The Sub-Committee agreed to support the provision of the second £25 million. In doing so, they noted that it would not be possible (despite your reservation) to limit the Government's maximum exposure, which in the event of total failure and total unsaleability of assets could be as high as £100 million.

2. A major dispute then arose on the siting of the production facility, to be financed with this £25 million. The Secretary of State for Wales insisted on taking the matter to E. There was of course much political interest, when the company was first established, in the siting of INMOS. Although the work is not particularly labour-intensive, experience in the USA and elsewhere suggests that micro-electronics developments spin off new companies and generate new employment around them. It seemed important to steer INMOS towards a development area. The company succeeded, however, in convincing the NEB that it should be allowed to put its 'technology centre' (where all the research and development is done) in Bristol. An IDC for this was duly granted, and some of the company's highly-qualified staff have already moved to Bristol. Labour Ministers apparently thought that the company accepted a quid pro quo: that it 'intended' to site its first production unit in a development area. Mr Alan Williams, Mr Kaufman and

others certainly think so, and said this in a letter to the Times on 29 February and in an Adjournment Debate on 12 March. But the company say that there was 'fine print' in the agreement, and that they were not absolutely committed by the word 'intend' if later developments made this the wrong decision.

3. The company now wants to put the first production unit, involving about 1,000 jobs, in Bristol, alongside the permanent technology centre site. They base their case on a report done for them by PA Management Consultants, though the terms of reference were limited to purely financial issues, and apparently the Report - which we have not seen - did not cover the technical advantages of co-location. The company are now more convinced than they were two years ago that the production site must be co-located with the technology centre at Bristol despite the availability of regional grants at Cardiff. The design process is such that there is constant interaction between the designers and the manufacturers. Again, these arguments convinced the NEB (after a long debate) and the Department of Industry. They did not convince all the Ministers round the table at E(EA) when Sir Arthur Knight and Mr Barron were cross-examined. Since then, the company (Mr Barron and Mr Richard Petritz, the American entrepreneur who is the moving spirit) have been to see Lord Trenchard, to go through the formalities of an IDC application. The Secretary of State for Wales joined him. Lord Trenchard (whose views are reported in a letter of 14 March from Sir Keith Joseph's Private Secretary) believes that an IDC must be granted for the production facility in Bristol. Mr Edwards disagrees. His views are set out in his paper E(80)28, which he insisted on circulating in addition to the statement of his views in the report from E(EA) - circulated as E(80)25 - and in his letter of 5 March annexed to that report. The persistence with which he argues this case demonstrates his political concern about this matter.

HANDLING

4. I suggest you take the discussion in two stages: further support; and location.

Further Support

5. The eventual view at E(EA) was that this was a risky project, but that having decided to undertake it, and having put the NEB in charge, the Government should back the NEB decision. Sir Keith Joseph's personal view (taken after consulting 'a very wise man' in the industry - un-named) is that this is an insurance policy

which it would be unwise not to take out. Several Ministers were critical of the lack of any commercial discipline on the company. But they were told by Sir Arthur Knight that there was no prospect of raising the money from private sources until about 1982, when the first product could be demonstrated. In the end, E(EA) agreed unanimously that the project should be backed. They accepted, subject to your own views, that it would not be practicable to limit the Government's contingent liability to £50 million direct investment: if the project goes totally wrong, the total losses could be a lot higher. The chances of this happening, however, are fairly remote. You may wish to press Sir Keith Joseph on this point. The Chief Secretary was content to accept the risk.

Siting

6. The real issues arise here. The Secretary of State for Wales has put his own views on record. He has the support of Mr Heseltine (who may be late for this meeting because of a debate) and of the Secretary of State for Scotland, who has asked to be allowed to attend. Other Ministers felt that, having backed the NEB on a risky project, the Government should not make the task even more risky by failing to back them over the choice of site. To do so would give the company an alibi for failure.

7. The arguments for Bristol affect both the technology centre and the production unit. The technology centre (employing 400, mainly highly qualified staff) depends critically on the presence of a few key people: some of them are already settled at Bristol. The company believes strongly that it will lose some of these, and be unable to recruit the balance, if the technology centre is shifted from its present temporary quarters to Cardiff. The Secretary of State for Wales understandably believes that he can attract high-quality technologists and the designers to Cardiff. But all the evidence he quotes concerns production facilities for trans-national companies putting plants in Wales. There is nothing comparable to the technology centre yet on site in Cardiff. It is not self-evidently an attractive proposition for a British 'Silicon Valley'. If the technology centre stays at Bristol, there is then a strong case for co-locating at least the first production unit with it. The company argues that this case was understated last time, but as they gain experience of the design process, they become convinced that the two things go together. Most Ministers were prepared to accept this argument: Mr Edwards challenges it, but produces no real evidence.

8. The case for Cardiff is partly political, partly regional policy. The political argument is that a new venture of this kind would bring new hope at a time of steel closures. Although the numbers involved are fairly small, the spin-off effect could be considerable. The regional policy argument is that any additional jobs are worth having and if supported by public money should be steered if possible to Assisted Areas. But you will note that the production unit, at least, will employ mainly unskilled female labour, whom the firm will train on the spot. It will not make much of a difference to the problem of unemployed steel workers.

9. The arguments are thus fairly finely balanced, and it is not clear which way the Committee will go.

CONCLUSIONS

10. You will nevertheless want to record a final decision one way or the other: every day's delay costs an alleged £500,000 in lost production, and reduces the chance of the company breaking into the market. I suggest, therefore, that the conclusion should either be:

a. to approve the issue of £25 million second tranche assistance to the company; and to agree that an IDC should be given for construction of the first production unit in Bristol; (in this case, it should be possible to get the firm's agreement that all future production facilities should go to Assisted Areas.)

or

b. to agree the £25 million, to agree that the technology centre should remain at Bristol; but to insist (through the withholding of an IDC) that the production facility be sited in Cardiff;

or

c. to agree to the £25 million; but to insist that both the technology centre and the first production unit should go to Cardiff;

or



d. to withhold the second tranche of £25 million altogether
(thus in effect bringing the project to an end.)

ROBERT ARMSTRONG

*(approved by Sir Robert Armstrong
and signed in his absence.)*

14 March 1980