

PRIME MINISTER

BRITISH AEROSPACE

Sir John Clark was present at the Harrow Governors Meeting I attended over the weekend. He asked me to show you the attached letter which he had sent to Mr Heseltine about the proposition that GEC should take over BAe; and he had four further points which he had noted on the letter below - first, that the issue should be regarded as one of industrial policy and not as merely a means of obtaining funds for the PSBR; second, that a GEC takeover would make a nonsense of the Government's competition policy; third, that it would produce a "gross over-concentration" of a national resource vital to the nation's security; and fourth, that Plessey had put forward their own proposition for a co-operative venture with BAe which would not involve the acquisition by Plessey of any of BAe's equity.

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20 June 1984

CHAIRMAN AND CHIEF EXECUTIVE
SIR JOHN CLARK



The Plessey Company plc
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14th June, 1984

The Rt. Hon. Michael Heseltine PC MP
Secretary of State for Defence
The Ministry of Defence
Main Building
Whitehall
LONDON SW1

- 1) Industrial issue not financial.
- 2) Competition becomes a nonsense.
- 3) Gross over concentration of a national resource vital to the security of the nation.
- 4) Own proposition.

Dear Secretary of State,

Plessey has been studying, in conjunction with Racal and Ferranti, the implications for the defence industry of the takeover of BAe by GEC, and I am writing to express our extreme concern at the prospect of such a move.

This possible takeover is we believe highly undesirable from the point of view of both the defence industry and the nation. It cannot be in the national interest to place such a large proportion of the defence industry in the hands of one group: over half of the vital guided weapons and electronics sector alone would fall into this category. As far as the industry generally is concerned, it will eliminate in many areas the possibility of that competition which both we and HMG favour, and which acts as such a healthy spur to our efforts in the export market. We do not consider that assurances given by a new group would alleviate our fundamental concerns. Furthermore, we do not accept that the formation of this group would improve the UK's international competitiveness.



We consider it is important that any positive proposal by GEC in this context should be considered by the Office of Fair Trading and referred to the Monopolies Commission. We have commissioned Robert Fleming & Company Limited to produce, as rapidly as possible, a study of the likely effects on the industry and we would ask for your assurance that no definite action is taken before this study is available for your information and guidance.

We have also written a letter confirming this view to the Secretary of State for Trade and Industry.

Sincerely,

John Baul