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10 DOWNING STREET

From the Private Secretary

29 November 1982

Dear Jonathan,

INMOS

The Prime Minister held a discussion about INMOS this evening. The Chancellor of the Exchequer, the Secretary of State for Wales, your Secretary of State and Dr. Robin Nicholson of the CPRS were present.

The Prime Minister said that she was highly sceptical about the case for putting more public money into INMOS, or extending the Government's financial support for the company further. £84 million had already been spent on the company, of which £56.5 million related to assets in the United States. The company was employing 269 people in the United Kingdom and 660 people in the United States. This was not a proper use of UK taxpayers' money. Nor would it be right to make further funds available in order to allow the company to realise its plans to increase its employment in the US to 1,000 by 1984. The company had consistently under-achieved its forecasts: in its 1978 plan it had forecast sales for 1982 at £60 million, profits at £6 million, cash required £71 million and UK employed 2,560. In the 1980 plan it had revised these figures to sales of £45 million, profits of £4 million, cash required of £79.9 million and UK employed of 742. The latest plan or outturn was for sales of £16 million, profits of -£17 million, cash required of £84.8 million and UK employed of 293. She was not at all impressed by the letter from Hill Samuel of 18 November, which had been drafted carefully to avoid any significant commitment. The best that Hill Samuel could say was that they would be able to put together a group of private sector investors in the spring of 1983 provided that INMOS achieved its 64K RAM production targets, and that the "Newport ramp-up" was proceeding successfully. It was all very well for INMOS to claim that they had secured 75% of the market for 16K Static RAMs. But the world market, as she understood it, was very small at present, and the factory in Colorado Springs was currently working at around one third of its viable production level. Furthermore, the price of the 64K Dynamic RAM had earlier been forecast at \$12 per chip. She understood that the current price was around \$4, and was expected to fall soon to around \$2½. On what price assumptions were the forecasts made? What were the other assumptions underlying these forecasts?

Your Secretary of State said that in reviewing the credibility of the financial forecasts for INMOS it was more useful to compare with the 1980 plan than with the original 1978 plan. The latter

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had been very broad brush, and had been drawn up before the company had a clearly defined strategy for introducing various families of products. Comparison between the 1980 plan and outturn or the latest projection showed that the 1980 projections would be achieved but with a slippage of about 1 year. This slippage was in part due to the delay in 1980 while the Government considered the case for the release of the second £25 million. INMOS's achievements were already substantial. Its design capability and production facilities were first class; indeed, it was already the sole source of supply for a number of military contractors in the US, and as both he and the Foreign and Commonwealth Secretary had pointed out, one of the reasons for keeping INMOS going was strategic, given the hold which the Americans had over the memory chip component in various electronics systems - for example in the Nimrod aircraft. He had regretted the way in which the project had been set up in the first place. But the fact was that the Government had to build on what existed. A decision was now urgent, since INMOS was likely to run through its cash ceiling within a matter of weeks.

The Secretary of State for Wales said that, in view of his interest in the future of the company, he had visited their plant both in the UK and at Colorado Springs on a number of occasions. It had always been recognised that the design work would have to commence in the United States. He supported the Industry Secretary's assessment of the success of the company in an area where a number of well-established competitors had failed. They had expected to capture only 25% of the market for 16K RAM chips, but had secured 75%. The standard of the premises which had been built at Newport was highly impressive as was the quality of the INMOS team. He understood that, if certain further work was transferred from the USA to the UK, a further 700 jobs, over and above those forecast in the attachment to the Industry Secretary's minute, would be created in the United Kingdom.

The Chancellor of the Exchequer said that the information which had been provided was not sufficient to justify a decision for the investment of further Government support. There was no information, for example, about the company's sales prospects, the likely total market, the company's market share, the price and cost assumptions and so on. There was not even a balance sheet of the company, or projected future balance sheets. It might be that some further Government support could be justified. But the case had not been made.

The Prime Minister, summing up the discussion, said that she did not accept the argument that INMOS should be kept going for strategic reasons. The fact was that, because INMOS manufactured the 16K RAMs in Colorado Springs, a US attempt to deny us use of these components as in the Siberian pipeline case would be successful, notwithstanding the UK Government's involvement in the matter. Indeed, she doubted whether these components would become wholly unavailable; they could be bought from Japan. So as far as further Government financial support was concerned, a proper financial appraisal of the company's prospects was required. She would ask the Minister of State, Revenue, HM Treasury (Mr. John Wakeham) together with Mr. John Sparrow and Mr. Jeffrey Sterling to carry out an urgent appraisal, in order to permit an informed view to be taken of

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Hill Samuel's assertion that private sector funding for INMOS would be available in the spring of 1983 if certain conditions were met.

I am sending copies of this letter to John Kerr (HM Treasury), Brian Fall (FCO), Adam Peat (Welsh Office), Gerry Spence (CPRS), Dr. Nicholson (CPRS), Andrew Hudson (Mr. Wakeham's Office, HM Treasury), and Mr. Jeffrey Sterling.

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,
Department of Industry.

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