

PO-CH/NL/0500 PT A

Part A.

**SECRET**

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COMMERCIAL - IN - CONFIDENCE

Begins : 12/9/89.  
Ends : 25/9/89

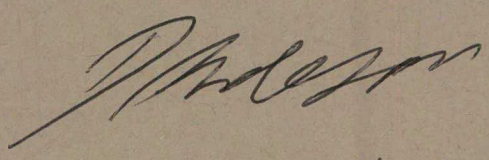
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PO CM | NL | 0500 .  
Pt.A.

Chancellor's (Lawson) Papers:

Ferranti International Signal PLC : Suspension of Trading.

DD's : 25 Years



23/2/96 .

PO CM | NL | 0500 .  
Pt.A.



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/3

CH/EXCHEQUER	
REC.	13 SEP 1989
ACTION	
COPIES TO	

✓13/9

12 September 1989

MO 26/11/9L  
MO 26/8/2

Dear Charles,

FERRANTI

The Prime Minister will have seen the announcement by Ferranti International Signal plc yesterday of the suspension of trading in their shares and the review of the company's accounts. This follows a re-assessment of the value of certain overseas contracts entered into by a Ferranti subsidiary, ISC Technologies Limited. The Prime Minister ought to be aware of the background.

Sir Derek Alun-Jones, Chairman of Ferranti, has told us that the immediate problem is the non-payment of sums due on a contract, and that the sums are sufficiently large (understood confidentially to be £200m) that they have caused Ferranti's loan agreement with their bankers - National Westminster and Barclays - to be in default. The banks have been informed and have agreed to extend sufficient facilities to Ferranti to allow their business to continue normally, even in the worst case of a liability of £200m.

We believe that the contract involved is supposed to be with Pakistan for "missile know-how". Dealings were supposed to be taking place through a series of intermediaries; the work is supposed to have been effected in South Africa. The nature and the substance of the contract appears to be in considerable doubt; further investigation will be necessary to establish precisely what the position is.

Ferranti's association with International Signal and Control Group (ISC) has been an unhappy one. At the time the merger was announced in September, 1987 Sir Clive Whitmore, and Sir Peter Levene sought an explanation of the merger from Sir Derek Alun-Jones. His account was sufficiently unconvincing for the Ministry of Defence to put in hand secret enquiries into the nature

Charles Powell Esq  
No 10 Downing Street



of ISC's business. These showed that ISC and its Chief Executive, Mr James Guerin (who became Deputy Chairman of Ferranti), had close contacts with the South African government, and that ISC had been involved in a certain amount of two-way trade in missile equipment and technology. We informed the Department of Trade and Industry of this in May 1988, and Sir Michael Quinlan and Sir Peter Levene told Sir Derek Alun-Jones of our concerns in July, 1988. Sir Michael subsequently informed Mr Younger. The subsequent divestment of ISC Technologies by Ferranti and the resignation of Mr Guerin was, we believe, partly as a result of our warning to Sir Derek Alun-Jones. Ferranti had expected that ISC Technologies would take with them all of their overseas contracts and that links with the company would be severed. However, Mr Guerin was unable to raise sufficient funds to finance the acquisition and Ferranti retained responsibility for some overseas contracts.

We cannot yet know whether Ferranti's problems result simply from poor judgement on the part of their management over their involvement with ISC or whether there is something more seriously at fault in the conduct of ISC's overseas contracts, and the role of Mr Guerin in them. It is unclear how far the difficulties go, but there is an alleged connection between ISC and a UK company involved in the European network of companies providing technology for the CONDOR missile programme.

In the light of this latest information, we have updated the DTI on our concerns; they are considering what further investigation may be necessary. In case any element of fraud on the Ferranti shareholders might be involved, they have informed the Serious Fraud Office of the situation.

The immediate concern for the Ministry of Defence is the effect that this uncertainty will have on Ferranti as a major supplier to us, and most importantly as a competitor for the EFA radar contract. The Germans will now be able to claim that the company's ability financially to lead such a major programme must be in considerable doubt. Ferranti has other major contracts from the MOD which include the Blue Vixen radar, the command and control system for the Type 22 Frigate, and sonars for the Type 23 and for the new class of conventional submarines. The total value of our outstanding contractual liability is about £450m.

My Secretary of State is concerned about the wider issues. The fact that a major UK company might have links with South Africa in the defence field, which could become public, is a matter of considerable concern. Also Ferranti has been subject to take-over speculation for months. When share dealing is resumed, it is quite possible that a predator will make a move: GEC, BAe, Siemens and Thomson-CSF have all been mentioned. If there is a continuing cloud of uncertainty hanging over the company, bidders may hold off. But, in any event, the company is in a weak position. Although Ferranti's bankers are providing them with cover at



present, we do not know how long this would continue; the DTI will be pursuing this. At the same time MOD officials will be examining the position on our contracts with Ferranti.

We will keep you informed of any further information which becomes known to the Ministry of Defence. No doubt the DTI will do likewise on the wider company issues.

I am sending a copy of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretaries of State for Trade and Industry, Scotland, and to the Attorney General, and to Trevor Woolley (Cabinet Office).

*Your sincerely  
B R Hawtin*

(B R HAWTIN)  
Private Secretary



CH/EXCHEQUER	
REC.	13 SEP 1989
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10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

Ch. Mr Robson / Mr Feltham have seen  
on a personal basis,

13 September 1989

This is a bucket of worms: apart from the more obvious ghastlinesses, the CONDOR programme mentioned on page 2 is to construct a missile for Argentina (+ I think there is some Egyptian, Syrian and Iranian interest).

Dev  
Birn.

**FERRANTI**

Thank you for your letter of 12 September about the problems of Ferranti, about which your Secretary of State has also spoken to me. The Prime Minister takes the view that this is a very serious matter and there will need to be a meeting of Ministers principally concerned to discuss it. We will be in touch to arrange this, but unfortunately it cannot be before the Prime Minister leaves on her visit to Japan. The Prime Minister has said she would not wish any necessary action to be delayed in the meantime, and the Trade and Industry Secretary should proceed as he sees fit, in consultation with the Attorney.

I am sending copies of this letter to the Private Secretaries to the Trade and Industry Secretary, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Attorney General and Sir Robin Butler.

(C. D. POWELL)

Brian Hawtin, Esq.,  
Ministry of Defence.

[A respectful  
take over of  
Ferranti will  
be made  
No crisis.]

13/9

13/9



Phup

Will have to  
accept - No - CST  
No poor - a  
my minutes  
can't

Ch.

Ferranti.

Tom  
Inman

I have succeeded in persuading  
No 10 to take CST in your place (hooray).  
Unfortunately, No 10's apparently immovable  
time for the meeting is 3.00 pm,  
when CST has an equally immovable  
bilateral with Mr Clarke (boo).

2. I am a bit reluctant to learn on  
CST. Mr Ferranti has suggested that an  
alternative would be for you to send a  
short minute to the PM saying that  
we should let the market sort this  
out, etc.

My view is that  
this  
talk  
James  
Inman

3. Agree? If so, I'll get a minute put  
up today.

2/9

by 21/9



Ch.

Ferranti.

[A Turnbull  
checking: Ferranti  
ready to brief (BT)]

No 10 are organising a meeting on this on 25/9. This will consist of the PM, + Messrs Ridley + King: neither you nor the foreign Sec. can go, + No 10 are accepting no substitutes (nor are they prepared to re-schedule the meeting).

2. Shall I try to persuade them to let CST come (as your No 2, rather than as o/c public expenditure). He is of course v. busy, but could probably reschedule his bilaterals to accommodate this.

MS  
21/9

21/9





the department for Enterprise

COPY No 6 of 9  
of 21/9/89

COMMERCIAL: SECRET AND MARKET SENSITIVE  
NOT TO BE COPIED (EXCEPT PRESS LINE)

The Rt. Hon. Nicholas Ridley MP  
Secretary of State for Trade and Industry

C Powell Esq  
Private Secretary to  
The Prime Minister  
10 Downing Street  
LONDON SW1

*mp*

Department of  
Trade and Industry

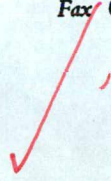
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CH/EXCHEQUER	
REC.	15SEP1989
ACTION	
COPIES TO	

Direct line 01 215 5622  
Our ref PB5AAV  
Your ref  
Date 15 September 1989



15/9/89.

*Dear Charles,*

**FERRANTI**

Brian Hawtin's letter of 12 September set out the background to the announcement by Ferranti International Signal plc of the suspension of trading in the company's shares. This letter is intended to bring you up-to-date with developments.

This morning the Board of Ferranti announced that "there are indications that lead the Board increasingly to suspect significant irregularities in relation to some contracts" entered into by ISC Technologies Limited before the merger. The Board added that the position was far from resolved; and that the company had commissioned Coopers & Lybrand (and not Peat Marwick, who are Ferranti's auditors) to carry out an urgent investigation. We have kept the Serious Fraud Office informed.

Ferranti management has presented their bankers with their own "worst case" estimate - a gross loss of £215m (involving a net loss to shareholders' funds of some £160m) - because of various dubious contracts. Ferranti's bankers - National Westminster and Barclays are the main banks involved - are continuing to be supportive towards the company (though some of the banks involved in a 25 - bank syndicate underwriting certain loan facilities to Ferranti have not, so far, proved as constructive). Nat West executives made it clear to officials this morning recent events made it very much in Ferranti's own interests speedily to form an association with a stronger company. They said Ferranti had been promised continuing facilities until 6 October. It does not appear that this date has been set as a deadline but, rather, to





the department for Enterprise

COMMERCIAL: SECRET AND MARKET SENSITIVE

impress on Ferranti management the need to consider the company's longer term future as a matter of urgency. (Not surprisingly, some companies including overseas defence companies, have been in touch with Ferranti this week).

This morning's announcement by Ferranti may create press enquiries for Departments about the ISC Technologies contracts. We suggest the following line, which has been agreed both by Ferranti and the SFO:

that the company has informed the Government of the problem; that the SFO has been put in the picture; and that the Government expects that Ferranti and Coopers & Lybrand will inform the SFO, or any other appropriate body, of relevant material which becomes available as a result of the C & L inquiry.

I should add that there are reports that Sunday's press may contain suggestions of the evasion of US export controls by a separate ISC subsidiary. There must be a possibility that revelations of this kind will put at risk the support which Ferranti's leading bankers have so far displayed.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Defence, the Secretary of State for Scotland, and the Attorney General, and to Trevor Woolley (Cabinet Office).

*Yours ever*

*Neil Thornton*

NEIL THORNTON  
Private Secretary



6795/B

Johathan

Have we a  
note of the  
- 25/9

CV is very silly - The  
UK has not exported a new  
frigate for 20 years or so  
and a takeover by GEC  
would be the sure way to  
create a monopoly UK supplier of  
radars and sensors to the MoD!

That said, the argument might  
be made to run for aircraft with a  
Ferranti radar - we will need to  
watch for pressure for a GEC takeover,  
which would damage competition.

Rob. Felgitt



67. 3/10



CH/EXCHEQUER	
REC.	22 SEP 1989
ACTION	
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Foreign and Commonwealth Office

London SW1A 2AH

22 September 1989

Dear Charles,

Ferranti

Your letter of 13 September to Brian Hawtin recorded the Prime Minister's wish to convene a meeting of the Ministers concerned to discuss the problems of Ferranti. As you know, the meeting has now been fixed for Monday 25 September when the Foreign Secretary will be unable to attend due to his absence in New York for the UN General Assembly.

There are a number of potential foreign policy implications which he believes should be borne in mind in discussion:

(i) He is particularly concerned by the possible links of Ferranti's subsidiary, ISC, with South Africa. It would be damaging if it were to transpire that the subsidiary of a British defence contractor was in some way involved in circumventing the arms embargo on South Africa, given HMG's commitment to its strict observation. In the approach to the CHOGM we would want to demonstrate that any report of breaches of the embargo by British companies would be vigorously investigated. So far, the evidence suggests that any trade with South Africa involving ISC has been confined to the US. It is therefore probable that there has been no breach of the arms embargo on South Africa so far as the UK is concerned. If, however, the suggestion of South African links appears in the press, and if we are asked questions about it, we propose to take the line that HMG scrupulously observes the arms embargo and that any indication that it has been breached will be vigorously investigated.

(ii) Involvement by ISC in the CONDOR programme or in passing missile technology to Pakistan would also undermine our efforts, through the Missile Technology Control Regime, to prevent ballistic missile technology reaching the Third World. The Foreign Secretary hopes that this aspect can be pursued in further investigation of ISC's activities so that, if their involvement in such projects is confirmed, we can look at steps to try to stop it.



(iii) We shall need to watch the progress of US investigation of ISC's activities, to ensure that they do not raise the sort of problems of extraterritorial jurisdiction with which we have had trouble sometimes in the past.

(iv) If there is any question of foreign take-over of Ferranti, the FCO will need to consider a specific security problem: the handling of our international secure and other telecommunications traffic depends on use of Ferranti Argus computer message switches in London and at our communications centre in Northamptonshire.

(v) Foreign take-over of Ferranti would also have a more general impact on our national defence sales reputation abroad. This is primarily a matter for the Defence Secretary but we should want to avoid a situation where a potential purchaser, eg in the Gulf, would be discouraged from looking to the UK if part of a system he wanted - eg a frigate with a Ferranti command system - were made by a company owned in a country, eg the FRG or the US, which he believed might make political difficulties about export. This is an obvious argument for preferring any take-over of Ferranti to be by another UK company, eg GEC.

I am copying this letter to the Private Secretaries to the Defence Secretary, the Trade and Industry Secretary, the Chancellor to the Exchequer, the Attorney General and Sir Robin Butler.

A handwritten signature in green ink, appearing to read 'Jans.' above 'J S Wall'.

(J S Wall)  
Private Secretary

C D Powell Esq  
10 Downing Street

SUBJECT CC MASTER

54 file

cc CH EXCU

SECRET  
COMMERCIAL IN CONFIDENCE - MARKET SENSITIVE



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	20 OCT 1989
ACTION	
COPIES TO	

From the Private Secretary

25 September 1989

Dear Neil,

✓

FERRANTI

The Prime Minister held a meeting this afternoon to consider the current problems of Ferranti. The Trade and Industry Secretary, the Defence Secretary and the Attorney General were present.

Your Secretary of State summarised what is known of the background to Ferranti's problems. The Serious Fraud Office were awaiting the results of the Coopers and Lybrand investigation before deciding whether to take action themselves. It seemed likely that Ferranti would have to write off some £215 million, although some of this might eventually be recovered from Peat Marwick (who had advised Ferranti on ISC's financial position before the merger) and their insurers.

There was considerable uncertainty about the company's future. Ferranti themselves wanted to stay independent and were looking for a minority partnership. Their merchant bankers were examining the possibility of putting together the defence interests of Ferranti, Racal and Thorn. But it seemed more likely that a major defence contractor would attempt to take the company over. Several companies, including some foreign ones, had already expressed interest. This could raise difficult issues of competition policy and might require referral to the MMC. In addition, take-over of Ferranti by a foreign company could give rise to security problems of particular concern to the FCO which would have to be taken into account (although it might be possible to hive off the activities in question, as had happened in other recent cases).

It was noted that there were allegations that ISC had been involved in supplying defence equipment to South Africa, China and Iran among others, although it seemed likely that these activities were confined to the US.

The most serious and immediate concern was the likely implications of the company's problems for Ferranti's

involvement in the EFA project. There was no doubt that recent events had gravely damaged the company's chances of winning the contract for the EFA radar. But there appeared to be little the Government could do about it. The company's best remaining hope of success probably lay in being taken-over by a top-grade defence contractor. But this might involve delay, especially if a bid had to be referred. The DTI should ensure that the company was fully aware of the possibility of referral, which was obviously more likely in the case of some potential bidders than others. For internal purposes, it would be helpful if DTI were to draw up a list of possible purchasers, so as to identify in advance problems which could arise in the event of a bid.

The Prime Minister concluded that the DTI should keep in close day-to-day touch with the company and bring home to them the need for rapid decisions about their future if their prospect of securing the EFA contract was to be kept alive. The normal procedures would of course have to be followed in the event of a bid for Ferranti.

I am copying this letter to the Private Secretaries to the Defence Secretary, the Foreign Secretary, the Attorney General and Sir Robin Butler.

*Yours sincerely,  
C. D. Powell*

C. D. POWELL

Neil Thornton, Esq.,  
Department of Trade and Industry.