

Confidential Filing

P.M.'s meeting with Sir Ernest HARRISON of Racal Electronics Ltd.

PRIME MINISTER

December 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
21.12.81 18.12.81 24.12.81 10.2.82							
PREM 19/886							



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As Requested

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15/2*

With the Compliments of the
Private Secretary to the
Secretary of State for
Industry

Kim
Pease



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Secretary of State for Industry

10 February 1982

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Willie

Thank you for your letter of 24 December to Jonathan Hudson.

2 My Secretary of State strongly supports the Prime Minister's suggestion of a lunch to discuss what more the higher education sector could do to help with the introduction of new technology into industry. He agrees that closer links are needed in this area and is to have a discussion with the Secretary of State for Education and Science shortly to see what more can be done. My Secretary of State is not free to attend a lunch on April 2, and he would therefore like to suggest that Mr Kenneth Baker be invited.

3 The following list of candidates for invitation has been prepared in consultation with the Department of Education and Science and the CPRS. The list is intended to achieve a regional balance as well as one between the new and the old universities and a mixture of relevant academic disciplines. There are also candidates from the SERC, Engineering Council and the CVCP as well as the UGC, which the Prime Minister suggested. There are a number of alternatives for the Prime Minister to consider; these could also serve as reserves if people were unable to come. In these cases my Secretary of State's preferred candidate is placed first, his preference being for those with a working involvement in the new technologies even though they may not be such well known names. This applies for example in the case of Professor Roger Needham, who has recently taken the chair of computer systems at Cambridge and made a good contribution to a recent Department of Industry mission to Japan.

4 The names are as follows:

Two University Representatives:

- (a) Mr Waldegrave has suggested that Professor Crawford, the Vice Chancellor of Aston, would be an alternative and possibly stronger candidate than Professor John Ashworth, Vice Chancellor of Salford University, the Prime Minister's suggestion.



- (b) Professor Roger Needham, Professor of Computer Sciences at Cambridge (and an expert on computers and communications). An alternative would be Sir Rex Richards, former Vice Chancellor of Oxford.

One Polytechnic Representative:

Rev Canon George Tolley, Principal of Sheffield City Polytechnic. An alternative would be Dr Ray Rickett, Chairman of the Committee of Directors of Polytechnics and Director of Middlesex Polytechnic.

One SERC representative:

Professor John Kingman, Chairman of the Science and Engineering Research Council.

One UGC/CVCP representative:

Professor Gordon Higginson, member of the University Grants Committee and Chairman of its Technology sub-Committee and Professor of Engineering Sciences at Durham. An alternative would be Professor Albert Sloman, Chairman of the Committee of Vice Chancellors and Principals and former Professor of Spanish at Liverpool. With the restriction on numbers at the lunch it would be difficult to have representatives of both the UGC and CVCP. My Secretary of State would regard the UGC as being more relevant because of their control over university finance and the balance of places for arts and science. The CVCP are however interested in University industry links and recently published a booklet on the subject and held a seminar at which my Secretary of State spoke. We and the DES consider that Professor Higginson would be the better of the two nominations.

One Engineering Council representative.

Sir Kenneth Corfield, Chairman of Engineering Council. Sir Kenneth can also reflect the view of industry as Chairman and Managing Director of STC.

Two Industry Representatives:

- (a) Sir Ernest Harrison, Chairman and Managing Director of Racal.
- (b) Professor William Gosling, Technical Director of Plessey Electronic Systems and former Professor of Electronics at the University of Bath. An alternative would be Mr Denis Allport, Chairman and Chief Executive of Metal Box, who is also a member of the British Technology Group.



5 I understand that Dr Robin Nicholson has also been invited to attend the lunch. If Mr Baker is invited, this will make up the ten names which you are seeking.

6 My Secretary of State thinks that it will be helpful for the Prime Minister to have a list of specific topics to be discussed at the lunch. If you agree, I will let you have this and any further briefing material which the Prime Minister would find helpful in good time before the lunch.

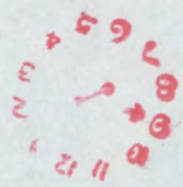
7 I am sending a copy of this letter to Nick Cornwell (DES) and Dr Nicholson (CPRS).

Yours ever

Andrew Coop

ANDREW COOP
Private Secretary

[Faint red markings]



12 FEB 1982





cc: DES
CRS
Mrs. Goodchild

289

10 DOWNING STREET

From the Private Secretary

24 December 1981

~~FF 12-2-82~~

In my letter of 21 December recording the Prime Minister's discussion with Sir Ernest Harrison, I said that I would come back to you about the suggestion that the Prime Minister should hold a lunch to discuss what more the higher education sector could do to help with the introduction of new technology into industry. I have now consulted the Prime Minister.

She would like to hold a lunch here on Friday 2 April, followed by thirty minutes of discussion in one of the State Rooms. The lunch would start at about 1300, and the discussion would end at about 1515. The Prime Minister would like to keep the party to twelve in total. Given that the Prime Minister and a Private Secretary will be present, this means that there will be room for ten guests. The Prime Minister feels that these should include representatives of the universities, polytechnics, the University Grants Committee, and industry. She has also suggested that Professor John Ashworth of Salford University should be invited.

I should be grateful if you could suggest some candidates for invitation, in consultation with Nick Cornwell (Department of Education and Science) and Dr. Nicholson (CPRS), to whom I am copying this letter. It would be useful to have your advice by 12 February.

W. F. S. RICKETT

Jonathan Hudson, Esq.,
Minister of State's Office,
Department of Industry.

A.

PRIME MINISTER

At the meeting with Sir Ernest Harrison yesterday afternoon, you said you would like to hold a lunch or dinner to discuss what more the higher education sector could do to help with the introduction of new technology into industry, either by providing more scientists and engineers, or by extending collaboration with industry. You mentioned inviting representatives of universities, polytechnics, industry, and the UGC.

If you wish to pursue this, I suggest:-

- (a) We make it a lunch in the Small Dining Room, followed by a discussion of 30 minutes in one of the State Rooms.
- (b) That you invite about one dozen people in total. I could ask the DES and DOI to produce a guest list, in consultation with Dr. Nicholson, Dr. Ashworth's replacement in the CPRS. It might also be a good idea to invite John Ashworth himself.

Content to proceed on this basis? If so, the first convenient slot in your diary is Friday, 2 April.

CJR

Yes not

PM
PS
DES
DOI

UGC
Univ
PRG
ind

22 December 1981

SUBJECT



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10 DOWNING STREET

cc. A. Duguid.

*Mr. Onwin, IT Section
Cabinet Office*

From the Private Secretary

21 December 1981 *Econ Pol Pt 11
Strategy*

Sir Ernest Harrison of Racal called on the Prime Minister at 1700 hours this afternoon. Your Minister was present.

Sir Ernest opened by discussing the development of Racal's business, and the company's strategy. He made a strong plea for a government policy of selective support for the UK electronics industry. The Ministry of Defence provided a lot of business for the UK industry, but very little of this had export potential; the industry would need government help if its competitive position in world markets was to be assured. There were areas in which the UK industry had led the world in innovation, such as the development of liquid crystal displays, fibre optics, and the use of lasers in telecommunications; but UK industry had been bad at exploiting these developments commercially. In reply, the Prime Minister said:-

- (a) The electronics EDC had reported on this subject to the NEDC in November. The report was being considered within the Department of Industry. The subject would come up at the NEDC in February, which would be chaired by the Prime Minister. She would welcome a short tutorial on this subject before the Council meeting, with plenty of visual displays. The presentation of the paper in the Council itself should also be accompanied by visual displays. The Treasury will wish to take account of these comments in arranging the NEDC meeting on 3 February, and the Prime Minister's briefing meeting on 2 February.
- (b) More should be done to recognise those who had made these innovations. Your Minister agreed to discuss with the Department of Education and Science the possibility of encouraging scientists to nominate the engineers and scientists concerned for Nobel Prizes. The Prime Minister had particularly in mind the recognition of the developments mentioned above.

Sir Ernest went on to say that introducing new technology into industry was essential to the future survival of British industry; much of industry needed to make the step from using electro-mechanical processes to using electronic processes;

/many more

[Handwritten signature]

many more scientists and engineers were needed in this country if the UK was to achieve this. Sir Ernest felt that 80 per cent of places in universities and polytechnics should be assigned by the Government to scientific subjects. In reply, the Prime Minister said she would consider holding a lunch, or dinner, to discuss what more the higher education sector could do to help in this area. I will be in touch with you and the Department of Education and Science when I have consulted the Prime Minister about whether, and how she wishes to pursue this.

There was some discussion of the problem of unemployment. Sir Ernest Harrison said that he was depressed by how few employees of Racal ever tried to set up small businesses of their own. He was sure that more would do so if they felt they could remain a part of the Racal Group; but the rules on the taxation of subsidiary companies did not encourage this, nor did the incentives open to small businesses apply to subsidiary companies. Your Minister said he would take this up with the Treasury. Sir Ernest also asked why more could not be done to encourage early retirement, or even to reduce the retiring age. The Prime Minister said that in general it was more expensive to support a pensioner than an unemployed person; Sir Ernest's suggestions would be expensive to implement unless the indexation of pensions was abandoned, and that would be extremely difficult.

I am sending a copy of this letter to Peter Jenkins (H.M. Treasury) and Peter Shaw (Department of Education and Science).

W. F. S. RICKETT

Jonathan C. Hudson, Esq.,
Office of the Minister of State,
Department of Industry.



FROM THE
MINISTER OF STATE
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Kenneth Baker's Office

Mrs Caroline Ryder
Private Secretary to
The Prime Minister
10 Downing Street
SW1

17 December 1981

Dear Caroline,

I attach a brief for the Prime Minister's meeting with Sir Ernie Harrison of Racal on Monday 21 December at 5.00pm. Mr Baker will attend the meeting.

*Yours sincerely,
Jonathan Hudson*

JONATHAN HUDSON
PRIVATE SECRETARY



RACAL ELECTRONICS LTD

Racal is the fifth largest UK owned information technology company, the others being GEC, ICL, Plessey and Thorn-EMI. The UK workforce totals 14,000.

Company figures (in £M):	1980/81	1970/71
Sales	536	17
Profit	73	2

1980/81 figures were up by 20% (on sales) and 42% on profits) over the previous year. Over the past 15 years Racal's share price has increased by over 5500%. The company has won 15 Queen's Awards for Exports and 9 for Technological Achievement.

Racal has three main areas of business of roughly equal size (ca £130M each):

- (i) Data communications (modems, data processors, encryption devices);
- (ii) Radio communications (tactical radios, the Jaguar frequency - hopping radio system — where they are ahead of the USA, electronics warfare equipment).

The third area is largely that acquired in 1980 by the purchase of Decca and is in electronic capital goods, including navigation aids, defence and marine radar, marine survey.

In addition Racal have interests in computer aided design (CAD, instrumentation, automatic test systems, simulators, intruder detection etc). They see considerable expansion potential in these areas, especially CAD.

Company Strategy

Racal's strategy from its formation in the early 1950s has been to achieve a high world scale position (initially in tactical radio communications) and use the cash accruing from the high relative market share to fund new areas of high growth potential. It operates on a world market basis with no obvious country basis (even its UK position is aggregated within Europe and not separately identified) although over the last 1-2 years there has been a shift to US markets, reflecting the very large US market for data communications. Since establishing a leading position in the US is the key to developing world leadership in most IT manufacturing and technological activities, this shift is sensible.



It follows that Racal is the most export-minded of the UK's electronics companies, exporting more than 60% of UK production. Arguably, based on world market share, it is the sole really competitive UK information technology company.

Expansion policy

Racal have always been eager to expand by acquisition, both overseas and in the UK. Their two US companies (both in data communications) have been particularly successful. Racal's major UK acquisition (in the face of a counter-bid by GEC) was Decca in April 1980 for £106M. Decca, formerly a leading UK electronics company, was well on the way to becoming moribund, with losses of £12M on a turnover of £180M. Disposal of Decca's loss-making consumer electronics (TV) interests and a revitalisation of the company, particularly in the capital goods sector, would appear to have stemmed the losses and Decca should make a positive contribution to Group profitability in the current financial year.

Further acquisitions

Having seemed to have digested Decca with less trauma than many forecast, Sir Ernest might well be giving thought to further acquisitions. An earlier interest in acquiring Plessey is now quite impracticable given Plessey's current very strong market performance. Ferranti (current turnover*£142.7M however might be attractive and offer both complementarity and some strengths to Racal, particularly in the defence electronics, microcircuits and CAD fields. Sir Ernest might be asked about his expansion plans in the UK and elsewhere.

*FIGURE RELATES TO THE FIRST 6 MONTHS OF THE CURRENT FINANCIAL YEAR

Sir Ernest might himself speak on the necessity for the Government to develop a policy of selective support for the UK electronics industry ('backing winners') as the only way in which the competitive position of the UK industry in world markets can be assumed.

Line to take: This is under serious consideration within the Department of Industry following a report by the Electronics EDC (of which Sir E Harrison is a member) to the NEDO Council in November.



SIR ERNEST HARRISON OBE, FCA

Sir Ernest was born in 1926, and was educated locally at Trinity Grammar School, Wood Green, London. After completing his National Service in the Fleet Air Arm, he qualified as a Chartered Accountant in 1950. The following year saw the beginning of Sir Ernest's long association with Racal when he joined them as Secretary and Chief Accountant when the company commenced manufacturing. He was made a Director of the company at the age of 32 in 1958, and when Racal became a public company in 1961, was appointed Deputy Managing Director and became Chairman and Managing Director of the Racal Electronics Group five years later on his fortieth birthday.

He was Knighted in the Birthday 1981 Honours List for his services for Exports and was recently named Businessman of the Year.

Other than his work with Racal, Sir Ernest has given great service to the National Savings Movement between 1964 and 1976 and for this, he was awarded the OBE in 1972. He was a pioneer of the weekly large prizes for National Savings Premium Bonds, and remains convinced of the movement's importance to the UK economy.

Sir Ernest has also served as a Council Member of both the Electronics Engineering Association and the National Electronics Council. In 1975, he was elected Companion of the Institute of Electronics and Radio Engineers, and was elected a Companion of the Institution of Electrical Engineers in 1978.

Sir Ernest is married, with five children and lives at Tilford in Surrey. He is a supporter of the Government's policies; both in 1979/80 and 1980/81 Racal contributed £10,000 to the Conservative Party.

18/12

CF.

20 November 1981

I am writing to confirm that the Prime Minister is looking forward to seeing Sir Ernie Harrison and Mr. Baker at 1700 hours on Monday 21 December. Could your office please prepare a list of topics and a brief to reach us by close of play on Friday 18 December?

CAROLINE STEPHENS

J.C. Hudson, Esq.,
Department of Industry.

Rb

B.R.

Sir E. HARRISON

20/11

NOTE FOR THE RECORD

I spoke to Kenneth Baker's Office today and offered 1700 on Monday 21 December for a meeting with Sir E. Harrison. Mr. Baker's office will confirm whether this is convenient. I warned them that if it was not, they would have to wait until after Christmas.

NB: CS to request briefing if they confirm.

C.S.

Caroline

13 November 1981

Has this been confirmed

Yes take you

CS.

Kay

20/11

CS

5th November 1981

Thank you so much for your letter of 30th October. ?

The Prime Minister would like to meet Sir Ernie Harrison, and we will arrange this.

The Prime Minister's diary is horribly overcrowded at present and it may be a little time before a meeting can be arranged. I think it would probably be helpful if you were present as well.

Ian Gow
Parliamentary Private Secretary

Kenneth Baker Esq MP



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER MP

DEPARTMENT OF INDUSTRY
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Ian Gow Esq MP
10 Downing Street
LONDON SW1

30 October 1981

Dear Ian,

This week I saw Sir Ernie Harrison, Chairman of Racal. He has made this company into one of the most successful electronics companies in the UK with most of its business overseas. He is one of our real stars. He is a very robust character who strongly supports what we have done over the last two years to put industry into a more competitive position.

He is passionately concerned that we win the next election and favours a mild reflation to achieve this, as the other side will blow the top off with wild reflationary expenditure should they win. I am sure that Margaret would like to meet him - he'll certainly cheer her up after a bad day! Geoffrey Pattie has also seen him recently and thinks that a meeting would be useful.

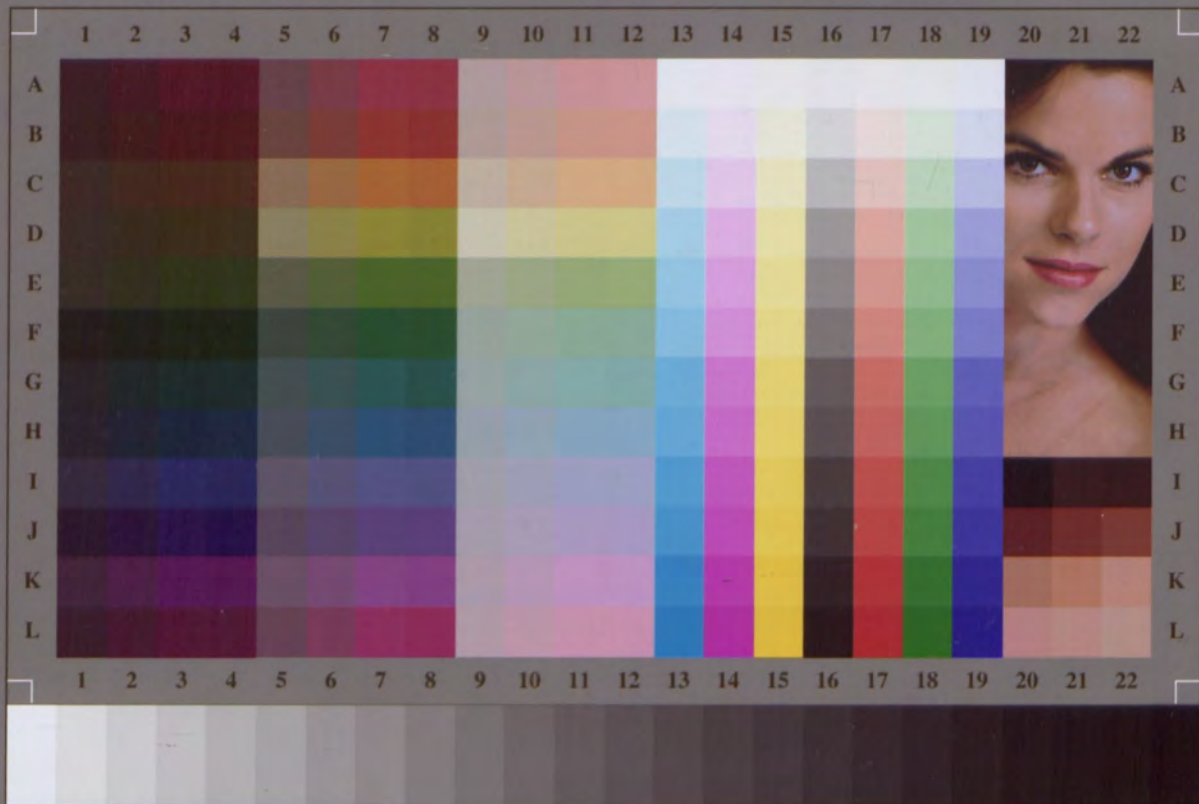
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KENNETH BAKER

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