

**The General Electric Company plc,  
Siemens A G and  
The Plessey Company plc**

A Report on the proposed mergers



THE MONOPOLIES AND MERGERS COMMISSION

# The General Electric Company plc, Siemens AG and The Plessey Company plc

A report on the proposed mergers

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
April 1989**

## Members of the Monopolies and Mergers Commission as at 10 April 1989

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Mr S Wainwright CBE  
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Mr S N Burbridge (*Secretary*)

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<sup>1</sup>These members formed the group which was responsible for this report (see Appendix 1.1, paragraph 2).

## **Note by the Department of Trade and Industry**

In accordance with section 83(3) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest. The omissions are indicated by a note in the text.

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# 1 Summary

## **The merger situation**

1.1. On 16 November 1988 GEC and Siemens announced their intention of launching a bid for Plessey. The offer was to be made through a jointly-held company, GEC Siemens plc, of which each owned 50 per cent of the share capital. On the same day they announced proposals (the original proposals) for the management and ownership of the businesses owned by Plessey.

1.2. On 11 January 1989 the Secretary of State for Trade and Industry referred this bid to the Commission (see Appendix 1.1) to determine whether it created two merger situations qualifying for investigation that of GEC in relation to Plessey, and that of Siemens in relation to Plessey and, if so, whether they would operate against the public interest.

## **Proposals for ownership and management of Plessey's businesses**

1.3. The original proposals contemplated that, if the bid were successful, GEC and Siemens would jointly own in equal proportion all Plessey's businesses with two exceptions. GPT (a company formed by GEC and Plessey in April 1988 into which they merged their telecommunications equipment activities) would be owned by GEC and Siemens in the ratio of 60:40. Plessey's North American subsidiaries would be owned by GEC and Siemens in the ratio of 51:49.

1.4. Early in our inquiry, on 6 February 1989, GEC and Siemens publicly announced revised proposals. The effect of the revised proposals was to place Plessey's radar and military communications businesses and traffic control equipment business under the ownership and management of Siemens, and Plessey's naval systems, avionics and cryptographic equipment businesses under the ownership and management of GEC. Apart from GPT and the North American businesses, the remaining businesses were to continue to be jointly owned and managed by GEC and Siemens, except that Siemens would have management control of Plessey's semiconductor business. The proposals for GPT were unaltered, while Plessey Electronics Corporation in the US was to be owned by GEC and Siemens in the ratio of 75:25 and the other North American businesses were to be wholly owned by GEC. The two proposals are illustrated in Appendices 2.3(a) and 2.3(b).

## **Public interest issues**

1.5. GEC and Plessey are strong competitors and sometimes the only current competitors in relation to many aspects of defence electronics business in the United Kingdom where the Ministry of Defence (MOD) is the only purchaser. They also compete in United Kingdom traffic control equipment.

1.6. In 1986 the Commission reported on a bid by GEC for Plessey, and concluded that the merger would be against the public interest primarily because of its adverse effect on competition in defence electronics as well as its effects on the supply of telecommunications and traffic control equipment. A further detriment was the potential loss of competitive R & D. The report recommended that the merger should not be allowed to proceed, and this recommendation was accepted.

1.7. This reference is not a re-run of 1986. The involvement of Siemens, the establishment of GPT in 1988, and the revised proposals to restructure the defence activities of Plessey present us with a very different situation today. Furthermore, there have been changes in the economic environment of the United Kingdom since 1986, with greater emphasis on the development of a more open European market and international collaboration in defence.

1.8. In this reference we have concluded that the merger situations would not give rise to adverse effects in relation to telecommunications equipment, semiconductors, R & D and generally in respect of Plessey's naval and avionics businesses.

1.9. Nevertheless, in respect of GEC the present merger situations raise some concerns that are similar to those in 1986, in relation to competition in defence radar, military communications and traffic control equipment. They also raise additional concerns as to competition in a large defence avionics project called JTIDS, and, having regard to the fact that Siemens is not a United Kingdom-owned company, potential conflicts with national security requirements. We have concluded that the merger situations may, therefore, be expected to operate against the public interest in these respects. Although the revised proposals address most of these concerns, they do not go far enough, nor are they legally binding for the purposes of the Fair Trading Act.

1.10. We have concluded that the adverse effects referred to in paragraph 1.9 can be remedied by appropriate undertakings under the Act by GEC and Siemens to give effect to the revised proposals and to meet the additional concerns. We have made recommendations that we consider would achieve this.

### **Conclusions and recommendations**

1.11. Our recommendations, in brief, are that the Secretary of State should obtain appropriate undertakings from GEC and Siemens that GEC will not acquire any interest in or influence or control over the management of Plessey's radar and military communications businesses and Plessey's traffic control activities; that they will ensure that access to technology and licences for production of JTIDS equipment are made available to any competitor nominated by the MOD; and that arrangements for the ownership and management of Plessey's defence, R & D and semiconductor businesses are made to the satisfaction of the Secretary of State in order to comply with national security requirements.

1.12. We have, accordingly, concluded that, while the merger situations, in the absence of binding undertakings, would raise competition and national security detriments, these would be remedied by the actions we have recommended.