4 Views of other parties

GOVERNMENT DEPARTMENTS AND BODIES

Department of Trade and Industry (DTI)

4.1. Three market divisions of the DTI, in consultation with colleagues elsewhere in the Department, gave evidence in writing and at a hearing: the Telecommunications and Posts Division, dealing with telecommunications aspects of the bid; the Information Technology Division, dealing with the capital electronics equipment and automated traffic control aspects; and the Information Engineering Directorate, dealing with the semiconductor aspects. Officials from Air Division and from Internal European Policy Division also attended the hearing. The divisions told us that the views expressed should not be taken to reflect the views of the Secretary of State or of the Department's officials concerned with competition policy.

4.2. The Department's officials took a positive approach. They said that the effect of a merger on competition in the United Kingdom would be very small in all the product areas concerned. With regard to telecommunications, the United Kingdom market was now wide open and GEC and Plessey had already merged their telecommunications businesses into one company, GPT. If GPT came under joint GEC/Siemens control the degree of competition in the United Kingdom market would change only marginally. On wider issues, such as sustained employment and a sustained R & D programme, it was difficult to reach judgment in the absence of firm proposals from GEC and Siemens about the way in which GPT would be managed. While there was a risk of an unfavourable outcome, the merger seemed potentially a step in the right direction. The progressive removal of barriers to trade in Europe pointed to the need for a pan-European telecommunications company, or companies, in which GPT, Siemens and companies from other countries could play a part. Some further restructuring of the telecommunications industry seemed inevitable.

4.3. The Department's officials said that the market for semiconductors was world-wide, and there was no shortage of competitors. According to Dataquest, Siemens ranked 16 in the world league in 1987 and the combined semiconductor resources of Siemens, Plessey and GEC would have changed this ranking only to 13. In general, therefore, the proposed merger would have little effect on competition. They saw benefits from the combination of Plessey's skills, particularly in the ASICs field, and Siemens' size and memory chip capability. Again, much would depend on GEC's and Siemens' plans for Plessey's activities. Plessey was strong in the United Kingdom market, and any rationalisation would have to take account of this if the interests of United Kingdom customers were not to be damaged. In the absence of any firm statement of intent, it was not possible fully to assess the consequences of the merger. The Department's officials gave us their comments on a report by Mackintosh Generics Ltd on the United Kingdom semiconductor industry (see paragraph 4.74).

4.4. The Department's officials told us that they did not fully share the Ministry of Defence's (MOD's) concern over joint ownership by GEC and Siemens of Plessey's defence activities. Nevertheless, they conceded that it would be difficult to maintain indefinitely the `Chinese walls' required under joint ownership. On the naval side, there was very little overlap between GEC and Plessey and to that extent the new proposal could be seen as advantageous: it could strengthen the position in the world market. With radar, a merger with Siemens could also strengthen the Plessey business, which was largely complementary to that of Siemens.

4.5. The Department's officials said that their views on the automated traffic control aspects had not changed since 1986. They still believed that market pressures must inevitably lead to a rationalisation of the United Kingdom industry. The market was too small to sustain three indigenous competitors. In this respect, the two sets of proposals for ownership were finely balanced, tipping slightly perhaps towards the revised proposals, under which Siemens would take over Plessey's traffic control interests. The officials added that they did not understand the concern expressed that R & D capacities would be adversely affected; it was equally likely that they would be strengthened. Nor did they understand the fear that smaller companies would be squeezed. Others were now entering the market and the Department saw no obvious reason why this should change except as a result of keener competition.

Department of Transport

4.6. The Department of Transport told us that its primary interest in the merger was as a direct procurer of highways-related equipment, and as sponsor of the procurement of such equipment by local highway authorities. The total size of the United Kingdom market for traffic control equipment and maintenance, the Department said, was of the order of £30 to £40 million, mostly in the local authority domain. The total value of contracts placed directly by the Department fluctuated from year to year, being just under £6 million in 1986 and 1987, and around £8 million in 1988.

4.7. In the Department's view, equal joint GEC/Siemens ownership of Plessey's traffic business as originally proposed would not benefit the market. The supply of traffic control equipment was dominated by GEC and Plessey, with a combined share of 70 per cent, and Ferranti with 20 per cent. The loss of competition between GEC and Plessey which would arise could have an adverse effect upon prices and performance. The maintenance market was also dominated by GEC and Plessey (70 to 80 per cent), with SERCO taking some 10 to 15 per cent; the rest was taken up by a number of smaller companies. There was a risk that these smaller companies would be squeezed by the dominant manufacturers, on whom they relied for spare parts. The Department also believed that R & D capacity in the United Kingdom would be reduced. The possibility that technological or efficiency benefits might emerge from a GEC/Siemens/Plessey combine, or that competition might be restored through the entry of foreign companies post-1992, was speculative and, on balance, the Department thought it unlikely that these possibilities would outweigh the detriments.

4.8. The Department said that its concerns would not be as great if Plessey's traffic control business were wholly-owned by Siemens, assuming that GEC remained in the market. In some respects, there would be no change in the competitive situation, but doubts regarding performance centred on the lack of any previous Siemens involvement in the United Kingdom traffic control market, and the long-term future of Plessey's R & D base in the United Kingdom. Later in the inquiry, the Department also pointed out that with the expected harmonisation of European Standards, it would be important to secure healthy competition on a European scale, and to preserve the United Kingdom's technical competence in this field. It felt that the potential expansion of Siemens' already dominant position should be considered in this light.

Ministry of Defence

4.9. The MOD provided written evidence approved by the Secretary of State for Defence, and also attended hearings. The MOD told us that spending on defence equipment in 1988/89 is likely to be approximately £8.2 billion, representing around 43 per cent of the total defence budget. The MOD provided information on trends in the United Kingdom defence electronics market and on the MOD's expenditure with the major suppliers, including GEC and Plessey. The MOD also explained its procurement philosophy. This information is summarised in the first part of Chapter 3.

4.10. The MOD said that under the original proposals for joint ownership of Plessey by GEC and Siemens, the main areas where competition would have been lost or curtailed would correspond with those it had identified in 1986. GEC and Plessey, taken together, were dominant in torpedoes, other underwater weapons, land communications, airborne communications, and airborne and air defence radars, and their combined activities would allow them to increase market share in these and other product areas. The MOD was not convinced that Plessey's and GEC's activities would be operated as completely separate entities if Plessey came under the joint ownership of GEC/Siemens. In respect of the original proposals put forward by GEC and Siemens, the MOD could therefore only assume that competition in key product areas would be lost.

4.11. With regard to the revised proposals, the MOD said that it would have no competition worries if Plessey Radar and Plessey Defence Systems were wholly owned by Siemens, provided that they were not operated with reference to, or in co-operation with, GEC or wholly-owned GEC subsidiaries. The MOD said that although GEC and Plessey specialised in different types of radar there were some categories of equipment which were supplied by both companies to compete in certain radar markets and, as alternative competition was limited, it would view with concern any erosion of this position. It took the same view with military radio and communications equipment. For the most part, Plessey's and Siemens' activities in radar and communications were complementary and there would therefore be no reduction in competitive sources of supply if these activities were kept quite separate from those of GEC.

4.12. However, the MOD believed it would still be faced with loss of competition if Plessey Aerospace and Naval Systems came under the sole ownership of GEC. The MOD's greatest worry would be over the loss of Plessey as a competitor for the production phase of the Spearfish torpedo. While Plessey had not produced torpedoes for a number of years, the company, through its sonar and torpedo-launching equipment activities, was experienced in underwater defence and attack systems. The company had declared an intention to bid for the Spearfish contract in co-operation with a European partner, and the MOD regarded it as a credible competitor to GEC: indeed the main competitor to GEC. [

Details omitted. See note on page iv.

] For this reason, the MOD said that the sole ownership of Plessey Naval Systems by GEC would substantially reduce competition in torpedoes, and would not be in the public interest.

4.13. We questioned the MOD about the estimated saving through competition, pointing out that much of the Spearfish production work would be sub-contracted. The MOD told us that in its experience, average savings of 10 to 15 per cent through competition were obtained on the overall costs of projects and not just on the main contractor's share of the work.

4.14. With sonar, the proposed ownership of Plessey Naval Systems by GEC was less worrying to the MOD. Plessey dominated the market at present, although GEC had frequently competed with some success. Other companies such as Dowty, Ferranti and BAe were showing an interest in the market. Nevertheless concentration of the sonar capabilities of Plessey and GEC in one company would, the MOD believed, lead to some reduction in competitive choice, but not sufficient in this area to make the acquisition against the public interest.

4.15. With regard to the proposal that Plessey Avionics would be wholly owned by GEC, the MOD said that while there was adequate United Kingdom competition available from other United Kingdom companies for many of the products, it was very concerned over the proposed merging of GEC's and Plessey's interests in the JTIDS project. JTIDS had been developed in the United States by Singer, the relevant division of which was now owned by Plessey. For development of the United Kingdom version, GEC was the lead United Kingdom contractor as the major sub- contractor, using the `leader-follower' principle, with Plessey (as `follower') having a guaranteed 50 per cent share by value of the work. If the merger went ahead as proposed, design, development and manufacture of JTIDS would be completely in the hands of GEC. This loss of `leader-follower' arrangement, which was designed to ensure that more than one United Kingdom company would have the capability to bid for production work against Singer, should be avoided if at all possible. It would be very difficult for another company to step in to maintain such an arrangement.

4.16. The MOD pointed out that, under both sets of proposals, Plessey's research facilities at Roke Manor and Caswell would come under the joint ownership of GEC and Siemens. This would lead to the loss of competing capability in some areas and the consequential phasing out of alternative solutions at too early a stage. It would also involve GEC and Siemens sharing the research in the radar and communications field, notwithstanding the separate operation of the Siemens-owned

Plessey subsidiaries. Offsetting these disadvantages, however, would be the avoidance of duplication of high-cost research on components and systems and a greater concentration of effort on specific problems. Some advantage would also be gained if the jointly- owned facilities had access to Siemens' technology.

4.17. The MOD said that the involvement of Siemens in the merger did raise questions of security, but there were precedents for MOD procurement from companies which were wholly-owned, or partly-owned, subsidiaries of foreign parents, and there were established procedures which could be applied. However, the companies would be required to give undertakings in respect of specialised areas of work and on the composition of the companies' Boards. On a more positive note, the Siemens involvement in the United Kingdom could be seen as relevant in the context of a move towards a more open European market in defence equipment which was consistent with MOD policy. The combined complementary regional strengths of GEC and Plessey could give a better world-wide platform from which to compete for overseas orders.

4.18. From all this, the MOD concluded that:

(a) for those parts of Plessey's defence business which would be wholly owned by Siemens, namely defence systems and radar systems, a competitive alternative source of supply would be maintained;

(b) for those parts of Plessey's defence businesses which would be wholly owned by GEC, namely avionics and naval systems, the loss of competitive sources of supply would occur, and this would be sufficiently severe in the case of torpedoes and JTIDS to be against the public interest;

(c) the proposals that GEC should acquire a stake of up to 35 per cent in Siemens' defence business recreated the problems of reduced competition which were present in the original offer. Any such shareholding in excess of 10 per cent would be completely unacceptable to the MOD;

(d) a number of security reservations over Siemens' ownership of United Kingdom defence companies would need to be resolved by way of undertakings;

(e) the revised proposals would allow for more effective sales promotion activity; and

(f) the Siemens involvement could be seen as in tune with the impetus towards a more open and efficient European defence market.

4.19. We discussed with the MOD, on a hypothetical basis, the arrangements that might be made by way of undertakings to remove the detriments perceived in (b), (c) and (d). The MOD's suggested undertakings in respect of (d) are included in Appendix 6.1.

Other Government departments

4.20. The Government departments which are customers of GEC and Plessey for cryptographic products told us that for reasons of national security it was essential that an industrial capability to design, develop and produce cryptographic components and equipment should continue to be vested in a firm or firms based in the United Kingdom and under United Kingdom ownership and management. At present, work on the design and fabrication of components and on cryptographic equipment itself was carried out by subsidiaries of both GEC and Plessey (see Appendix 4.1).

4.21. The departments said that they were concerned about the implications for the proposed acquisition of Plessey by GEC and Siemens and, indeed, about the implications for the GEC subsidiaries involved in this work. Although the latter would not be directly affected by the acquisition of Plessey, any rationalisation of the activities of GEC and Siemens would call into question the continued United Kingdom ownership, management and locations of these subsidiaries.

4.22. The departments told us that although GEC and Siemens had clarified their intentions for the ownership, management and operation of these companies in respect of cryptography and had offered them certain assurances on security and on continuity of supply, these did not go all the way to meet their concerns. The customer departments said that they would therefore regard the proposed merger as against the public interest unless suitable safeguards, by way of enforceable undertakings, were available to protect the Government's cryptographic interests. Undertakings proposed by the departments are included in Appendix 6.1.

The Director General of Telecommunications

4.23. The Director General gave views on the telecommunications aspects of the proposed merger. Referring back to the evidence he gave in the course of the Commission's investigation of the proposed merger of GEC and Plessey in 1986, the Director General said that he had then supported the merger of the two companies' public switching businesses and was pleased when the companies entered into the GPT joint venture. It was, he believed, a necessary step towards maintaining the international competitiveness of the System X public exchange. Although the integration of the two powerful PABX businesses into GPT had had its worrying aspects the risk had been worth taking, especially as the PABX market was opening up.

4.24. The proposed acquisition of Plessey by GEC and Siemens would take this process of restructuring a stage further. In the short term there might be some further diminution of competition but the Director General believed that, so far as public switching was concerned, there was widespread acceptance that some further concentration of production and research was needed. He was keen that United Kingdom-based manufacturers should continue to play a part in international markets, and the proposed merger seemed to provide a foundation for this. Whether the merger was the best way of achieving this was not for him to judge, but the pooling of GEC/Plessey and Siemens research facilities, in particular, might prove beneficial.

4.25. On the PABX side, the Director General said that GPT and Siemens would at first maintain their existing production lines, though they intended to collaborate on new products and in markets outside the United Kingdom. This suggested that there may be some reasons for worrying about the impact of the proposed merger on competition in PABX markets, if only in the future, although the opportunities for entry into this market by other overseas suppliers would seem to allay such concerns. In any case, the Director General added, the key to the PABX market was in distribution rather than manufacture, and in the open United Kingdom market BT was such a powerful force that a merged company would be unable to behave monopolistically. The Director General kept a close watch on developments in apparatus equipment markets and would pay particular attention to the activities of GEC and Siemens should the proposed merger go ahead.

4.26. The Director General concluded that, in his view, there need be no serious concerns about the impact of the proposed merger on competition either in the public switching or PABX markets. If the merger was acceptable to the capital markets, he would not wish to oppose it.

C0MPETITORS, SUPPLIERS AND CUSTOMERS

British Aerospace plc

4.27. BAe expressed the view that further rationalisation within the European defence industry was both inevitable and generally desirable in terms of maintaining and improving its competitive position in world markets, and in terms of optimising the resources required to this end including adequate funding, particularly for R & D. BAe refrained from commenting on the merits of the proposed merger but it drew attention to the need for the Commission to examine any possible monopoly implications in the field of underwater weapons.

British Railways Board (BRB)

4.28. BRB told us that the only area of its procurement in which both GEC and Plessey were involved was in the supply of digital telephone exchanges. Over the previous 12 months, 50 per cent of that requirement had come from GPT, the remainder being from three other suppliers. BRB said it had no evidence to suggest that the proposed merger would have an adverse effect on this or any other area of its activities.

British Telecommunications PLC (BT)

4.29. BT gave views in writing and at a hearing on the effects of the proposed merger on the telecommunications sector in the United Kingdom. BT said that it had two areas of concern: public switch products and PABXs. BT's analysis of GPT suggested that approximately 50 per cent of GPT's revenues were derived from sales to BT and that GPT's System X, which was BT's main digital public switch, accounted for well over 40 per cent of GPT's total profit. As one of BT's key suppliers, GPT had a profound influence on the effectiveness and efficiency of BT's telecommunications network.

4.30. BT told us that it had faced major supply constraints in respect of digital switches: manufacture was limited to about eight major suppliers world-wide, and the need for technical compatibility severely limited the scope for substituting one switch type for another. BT was already highly committed to GPT's System X. This provided a high-quality cost-effective telephone system but it currently lacked several key features which were important in meeting customer needsmost notably, Freephone, Centrex, cellular and international switch capability.

4.31. BT took the view that GPT's ability to support the development of the United Kingdom network depended on GPT securing appropriate international alliances to share development costs, to gain access to leading edge technology and to broaden its sales base. BT had some concerns that the proposed GEC/Siemens alliance might not meet these requirements. First, GEC/Siemens would be faced with supporting three major switch products (Siemens' EWSD, GPT's System X and Stromberg Carlson's DCO)more than is considered viable by any other major switch manufacturerand some rationalisation of the product range and development effort was therefore likely. It was probable that the emphasis would be placed on Siemens' EWSD switch rather than System X, as EWSD had already gained international sales and possessed some advanced features. This would be detrimental to the development of the United Kingdom network. Secondly, the development path which had been proposed by GEC Siemens in the Offer Document could limit access to North American technology which, BT believed, offered the quickest low- cost route to providing certain of the advanced features and services demanded by customers. Finally, there could be an adverse impact on costs. BT said that the proposed merger offered little prospects of economies of scale or of greater international sales; the United Kingdom would therefore continue to bear all development costs on System X. BT said that Siemens' reputation on price was not reassuring.

4.32. BT told us that it had considered whether or not some form of undertakings concerning future prices and support levels for System X might be devised which would overcome these mis-givings. It found it difficult to see the form that an effective set of undertakings might take, and therefore believed that the proposed merger could be expected to operate against the public interest.

4.33. On the second important area of concern, PABXs, BT pointed out that GPT was in a dominant position in the manufacture of medium and large systems in the United Kingdom. It made 75 per cent of the products sold in the United Kingdom market, whilst Siemens' share was 5 per cent, and in addition Siemens had now acquired ROLM from IBM. As a result of the undertakings BT had given to the British Government when it had acquired a 51 per cent share of Mitel, BT and Mitel had been unable to compete effectively in the market. A Siemens link with GPT would worsen BT/Mitel's competitive position. BT said that it was having discussions with the OFT about a relaxation of the undertakings, but until a favourable conclusion had been reached it believed that the proposed merger would operate against the public interest.

Cossor Electronics Ltd (Cossor)

4.34. Cossor expressed concern about the effect of the merger in three areas of its activities: radar (military and civil), defence communications and avionics.

4.35. In the radar field, Plessey and Cossor jointly market to military and civil authorities world-wide. On the military side, the acquisition of Plessey's business by Siemens would provide an outlet for its IFF equipment to the exclusion of Cossor. On the civil side, where Plessey and Cossor also had a successful collaborative partnership, joint GEC/Siemens commercial interest, rather than market forces, would dictate the supplanting of Cossor's secondary radar capability by that of GEC Marconi.

4.36. Cossor said that it and Plessey Avionics were the two United Kingdom prime suppliers for the NATO identification system (NIS) (United Kingdom participation approximately £500 million), and Siemens was the sole appointed contractor for the German part (approximately £500 to £600 million). The placing of Plessey's avionic businesses with GEC could lead to a joint dominant position for GEC and Siemens, both of which would then have national interests in the NIS programme. If Plessey's lead contractorship also passed to GEC, and GEC had a share of up to 35 per cent in Siemens' defence activities, this could well lead to unfair competition in European joint ventures involving both the United Kingdom and Germany. If the merger were to be allowed for other reasons, it would be vital to ensure that Plessey's NIS business was transferred en bloc to Siemens and that a new lead contractor for NIS was appointed in the United Kingdom.

4.37. Cossor also expressed the fear that the merger would have a detrimental effect upon its joint investment with Plessey in the Australian army Raven communications project with Plessey. For all these reasons, Cossor opposed the proposed merger as being detrimental to its own interests and to the interests of the consumer at home and abroad.

Dowty Group PLC (Dowty)

4.38. Dowty said that it was opposed to an acquisition based on the revised proposals. Specifically, it was concerned that the acquisition would enhance the competitive position of GEC in the naval underwater systems area and make competition more difficult. Dowty pointed out that the Public Accounts Committee had made numerous references to the difficulties companies already faced in competing with GEC in this area. The proposed merger would only exacerbate the situation.

4.39. Dowty proposed that, to safeguard the public interest, the creation of a monopoly in underwater weapons should be prevented by the divestment of either Plessey or GEC activities if the merger were to be allowed.

Elequip Ltd

4.40. Elequip submitted evidence on three segments of the road traffic industry where GEC and Plessey had traditionally participated: installation and maintenance, products such as signals and controllers, and traffic control systems. Elequip said that although new companies had entered the road traffic business in recent years, GEC and Plessey combined had more than 75 per cent of the United Kingdom market in all three sectors, significantly more in the case of signals and controllers. Only three companies, GEC, Plessey and Ferranti, supplied urban traffic control systems and these three companies alone were permitted by the Department of Transport to market the SCOOT traffic adaptive technology. If the proposed merger went ahead only two companies would have access to SCOOT. Furthermore, if the Siemens traffic businesses became part of the merger then Siemens would have access, while other United Kingdom companies would be denied it.

4.41. In Elequip's view a merger under the original proposals would create a monopoly. Although other smaller companies were developing their ability to compete, they were not strong enough at present to do so effectively. A merger of GEC and Plessey's traffic business would not therefore be in the best interests of the industry.

Kingston Communications (Hull) plc (Kingston)

4.42. Kingston said that it was concerned with the impact that the proposed merger might have on telecommunications. It would provide Siemens with the prospect of removing GPT as a competitor prior to the opening up of the European market from 1992. In the short term, the bid was already having a detrimental effect on the export prospects of System X and raised the possibility that it would be replaced in the United Kingdom with Siemens' dominated technology.

4.43. Kingston told us that it was committed exclusively to System X and from a provincial viewpoint it was concerned at the prospect of higher prices should Siemens dominate the United Kingdom switching market. On a broader front, it seemed to it a matter of national concern that fundamental R & D facilities and capabilities in telecommunications and related technologies should remain with the United Kingdom.

The Metropolitan Police (Met)

4.44. The Met wrote to the Commission as an interested customer of Plessey and GEC. The Met said that it was a substantial purchaser of telephone systems from GPT and it would be concerned at the loss of Plessey's innovative drive if the GPT partnership were broken up. Although Siemens' involvement might be beneficial, it was unlikely that the same close relationship between customer and innovator would remain. However, the PABX market in the United Kingdom would still be competitive after the proposed merger. The Met, as a purchaser of data communications, would also be disturbed by any move which brought Plessey Telenet under GEC control, especially if it weakened the Telenet link. The Met added, however, that, in view of Siemens' considerable commitment to OSI standards (and to ISDN), it would welcome the strengthening of Siemens' data communications product marketing in this country if that were an outcome of the merger.

Mitel Telecom Ltd (Mitel)

4.45. Mitel told us that it was a wholly-owned subsidiary of Mitel Corporation of Canada, in which BT had a 51 per cent share. Mitel's PABX activities accounted for 80 per cent of the company's turnover.

4.46. Mitel said that GPT had, overall, at least 50 per cent of the United Kingdom PABX market and an even more dominant position for PABXs above 100 lines. GPT was the largest supplier, and the major part of BT's PABX distribution business arose out of the sale of GPT equipment. Siemens, via its subsidiary Norton, accounted for a further 10 per cent.

4.47. Mitel's operations in the United Kingdom were restricted by the undertakings given by BT to the DTI, which placed a quota on sales and a prohibition on joint marketing of the kind BT operated with other suppliers. The opportunity to take advantage of other distribution outlets had been severely reduced by the decline of independent distributors, through mergers, in the past few years. Mitel took the view that any combination of Siemen's PABX interests in the United Kingdom with those of GEC and Plessey would enhance the already dominant market position of GPT; that the most likely result of the proposed merger would be a rationalisation of product range, thus reducing consumer choice; and that the existence of the undertakings had already placed Mitel at a serious competitive disadvantage which would be made even worse by the merger.

4.48. For all these reasons, Mitel opposed the proposed merger.

Philips Electronics

4.49. Philips Electronics submitted views in respect of two business areas. First, as a manufacturer of specialist defence equipment, it questioned whether sufficient safeguards would exist for companies like itself, if a large vertically-integrated defence manufacturer resulted from the proposed merger. Secondly, it suggested that the large combined Siemens/ GEC/Plessey share of supplies to the United Kingdom market for PABXs (around 75 per cent) would have a detrimental effect on competition. Safeguards should therefore be imposed to avoid any anti-competitive consequences of the proposed merger.

Westland Group plc (Westland)

4.50. Westland told us that its views remained unchanged from those expressed in respect of the GEC/Plessey merger proposal in 1986. Electronics continued to be of increasing importance to Westland's business and the need for competitive sources of supply remained vital. Where one supplier was dominant the record of competitive tendering was not encouraging. Furthermore, GEC was already too large for Westland to exert any effective commercial pressure on it.

4.51. Westland also still had some concern for the future of Plessey's radar establishment on the Isle of Wight, where its own Aerospace Division was located. If the proposed merger were to lead to the closure of the Plessey establishment, the island's technological base and pool of skilled labour would be reduced.

Weighing machine manufacturer

4.52. A weighing machine manufacturer expressed concern about the proposed acquisition of Plessey by GEC and Siemens. The company pointed out that GEC owned Avery, one of the largest weighing machine manufacturers in the world, and it was the company's understanding that GEC's group policy obliged its subsidiaries to purchase products from within the group, rather than from competitors. If this was so, the company, as a supplier (or potential supplier) of weighing machines to Plessey, would be unfairly denied access to an important customer.

TRADE UNIONS

Association of Professional, Executive, Clerical and Computer Staff (APEX)/General Municipal, Boilermakers and Allied Trades Union (GMB)

4.53. APEX and GMB amalgamated on 1 March 1989. They therefore made a joint submission. The two unions said that the GEC/Siemens bid was part of a trend towards multinational alliances accelerated by the planned European market of 1992. In present circumstances, the bid offered some potential for the future development of the industries concerned and they did not therefore oppose it. GEC and Siemens had assured the unions that there would be no loss of jobs directly resulting from the proposed merger.

4.54. APEX/GMB believed that although GPT dominated the United Kingdom telecommunications business, there was still a need for an overseas partner to share development costs and help GPT break into other markets. With the additional support of Siemens a much greater investment in R & D would be possible. Siemens' marketing outlets could be a considerable advantage to GPT, which might also benefit from the transfer of R & D work from Germany where costs were higher.

4.55. In relation to Plessey's defence businesses, APEX/GMB said that the revised proposals, unlike the original proposals, would create overlapping, as opposed to competing, areas within the same company and some rationalisation and loss of jobs in those parts of the companies could therefore be expected. Nevertheless, they had to recognise that the changes had been made to accommodate the views of the MOD. Looking at the whole thrust of the strategy APEX/GMB still believed that the disadvantages and possible loss of competition in defence equipment in the United

Kingdom had to be set against the likely development of more European defence competition and the overall need to compete in all sectors of business with the giant multinational electronics firms. If the bid were not allowed, Plessey might well end up under 100 per cent foreign control.

4.56. APEX/GMB suggested that the Commission should decide that one condition for the merger should be that the United Kingdom GEC/Siemens defence workers should have the same rights to consultation and participation as the West German GEC/Siemens defence workers.

Electrical Electronic Telecommunication & Plumbing Union (EETPU)

4.57. The EETPU said that it recognised the pressures on the European electronics industry in the run-up to 1992 and that the GEC/Siemens bid for Plessey was originally framed very much with the single market in mind. The EETPU had no principled opposition to the bid, but it recognised the concerns of its members in Plessey about their future in the event of a take- over. In this context the EETPU raised a number of issues which it thought the Commission should take into account in the course of the inquiry.

4.58. First, although Siemens would have an incentive to invest further in GPT, and would bring to it financial resources and world-wide distribution channels, economies of scale would take time to materialise. This would place pressures on the merged company and, with three public switching systems in production, there might be a temptation for it to dispose of those GPT assets which overlapped with Siemens, and to use GPT as a United Kingdom distribution channel for Siemens' products. Competition implications apart this would be a matter of great concern to EETPU members in GPT. Secondly, the union said that although it recognised the advantages of a properly organised semiconductor business and noted that the new grouping would still be behind only Philips and Thomson in Europe, Siemens' semiconductor activities were much larger than those of Plessey and the union was concerned about potential rationalisation and movements of production away from the United Kingdom. It would therefore seek assurances that the United Kingdom semiconductor industry would be maintained in the event of a take-over. Thirdly, the EETPU drew attention to the revised proposals, which would split Plessey's defence activities between GEC and Siemens. The union said that it accepted that these proposals were intended to overcome one of the key competition concerns in the defence area: the close fit between Plessey's and GEC's radar and military communications activities. However, GEC would be acquiring Plessey's United Kingdom naval and avionics businesses and would then control 75 per cent of the market in those areas. This had obvious implications for competition and some clarification of GEC's intentions was needed, particularly in relation to torpedoes. Nevertheless, the arrangement was preferable to any separate selling off of the Plessey activities in these areas, which would open up the prospect of a foreign take-over. The merger, if it were allowed to go ahead under the revised proposals, would also mean that significant parts of Plessey's defence interests would go directly into the ownership of Siemens. The union was concerned that this would open up the possibility of Siemens' selling on all or part of these interests in the future, particularly as Siemens' primary interest seemed to be in GPT.

Manufacturing Science Finance (MSF)

4.59. MSF said that it neither opposed nor supported the GEC/Siemens bid for Plessey. There were a number of points, however, which the union wished to draw to the attention of the Commission.

4.60. MSF pointed out that since the Commission had rejected the previous GEC bid for Plessey, GPT had been formed, competition from abroad had intensified, and multinational companies had embarked upon a policy of merger at a pace never before experienced. The formation of the single European market by 1992 accelerated this process, leaving smaller companies, such as Plessey and even GEC, vulnerable.

4.61. MSF said that in considering the present bid due regard should be paid to the need to ensure that the acquisition would contribute to the development of a strong wealth-creating electronics industry in European industry in which the United Kingdom was a major influential partner and in which employees' interests were properly protected. To meet these objectives, MSF believed that any merger in the electronics industry, whether agreed or not, should only go ahead if it contributed to the expansion of the electronics industry generally and was not aimed at undermining or eliminating other companies; was accompanied by guarantees, as far as possible, of support for the expansion and development of all activities of the merging companies, and the maintenance of existing employment levels; included commitments to devote substantial additional resources to the development of new products and services; and led to a strengthening of the new company's ability to seek out and compete on a world basis.

The Plessey United Kingdom Joint Union Committee (the Committee)

4.62. The Committee submitted evidence on behalf of Plessey United Kingdom employees at all Plessey sites. The Committee told us that it opposed the proposed merger and said that if it went ahead, rationalisation of activities and sites would lead to job losses. Assurances to the contrary should be treated with scepticism. The Committee pointed out that Plessey was a successful company with a strong commitment to investment and with foresight in giving a substantial part of its profits back to the companies that produced the results. It should be allowed to run its own business. The merger would have adverse effects in all areas of Plessey's activities: defence and aerospace, telecommunications and traffic, semiconductors, plastics, and R & D. The Committee failed to see how fair competition would be maintained under either the original, or the revised, proposals put forward by GEC/Siemens.

Plessey employees' local committees

4.63. We also received submissions from the combined union committee at Poole (Plessey Environmental Systems, Plessey Traffic Controls, GPT lodger unit, and some Hoskyns staff); from employees at Plessey Aerospace, Titchfield; from the Joint Union Committees of Plessey Defence sites at Havant, Cowes (Isle of Wight), Towcester and Newport (Gwent); from employees of Plessey Semiconductors at Oldham, Swindon and Towcester; from Birkby's Plastics' joint shop stewards committee; and from the Joint Union Committee at Plessey Radar, Cowes; and from Plessey workers' Redbridge Trade Union Council. These all supported the Plessey United Kingdom Joint Union Committee's opposition to the merger.

4.64. The committees pointed to Plessey's success in the markets; to the moves it had made to co-operate with friendly companies in preparation for the European market in 1992; and to the high level of commitment by its employees. These advantages would be lost to the country if the merger went ahead.

4.65. Employees at all sites expressed a fear that rationalisation following a merger would lead to job losses and even to the closure of some sites. This, they believed, would have repercussions for Plessey's many suppliers and sub-contractors, and for the local communities.

OTHER BODIES

The Isle of Wight Development Board

4.66. The Isle of Wight Development Board said that the proposed merger might well lead to a reduction in the scale of operations at Plessey Radar on the Isle of Wight: it was not aware of any assurances to the contrary. The dominance of the Plessey plant was such that closure would be disastrous for the island's economy and social fabric, perhaps necessitating Government aid. Evidence to support that fear was submitted by its economic consultants.

4.67. The Board explained that Plessey's position in high technology encouraged other like companies to the island. It purchased services and supplies from over 60 island firms and its presence was vital to the structure of courses now provided by the Isle of Wight College of Arts and Technology. It also made other contributions to the well-being of the island. The consequences of the proposed merger would seriously disturb the balance of industry and employment, and in so far as manufacturing activity on the present scale would be impossible to replace the local economy might never recover. The Board therefore opposed the merger.

Medina Borough Council (Isle of Wight)

4.68. The Medina Borough Council on the Isle of Wight told us that it fully supported the views put forward by the Isle of Wight Development Board. The potential loss of Plessey to the island would add to the high unemployment level and severely damage for many years its already fragile economy.

The Lord Mottistone

4.69. The Lord Mottistone wrote in his capacity as Lord Lieutenant of the Isle of Wight to support the Isle of Wight Development Board in its opposition to the merger. He emphasised the potential damage to the balance of the community in the Isle of Wight, if the Plessey factory there were to be closed, and the added risk of such a closure with a new owner unaware of the importance of the Plessey establishment and its employees to the island.

The London Borough of Lewisham

4.70. The London Borough of Lewisham expressed concern about the effect the merger might have on Plessey Controls Ltd which was one of the largest employers in the borough. It pointed out that there was already a considerable level of unemployment in Lewisham and that the situation would greatly worsen if the Plessey subsidiary was taken over and its employees made redundant.

County Surveyors' Society (CSS)

4.71. The CSS said that some of its members were involved in the installation and maintenance of traffic signals and other related apparatus. The CSS, while not wishing to indicate support or opposition to the proposed merger, submitted for the Commission's information a report concerning the proposed take-over in relation to traffic signals and associated activities. The report referred to the likelihood that any take-over of Plessey by GEC would result in the installation and maintenance of traffic signals being conducted by one company in the United Kingdom, thus leaving county surveyors in a position where competitive tendering could not be achieved.

Members of Parliament

4.72. We received letters from 21 Members of Parliament. Mr Simon Burns, Mr Tim Rathbone and Mr Jerry Wiggin supported the merger; Mr Robert Adley, Mr David Alton, Mr Nicholas Baker, Mr Vivian Bendall, Mr Julian Brazier, Mr William Cash, Mr Simon Coombs, Mr Geoffrey Dickens, Mr Barry Field, Mr Peter Lloyd, Mr Neil Thorne, Mr Michael Meacher, Mrs Elizabeth Peacock, Mr Tom Pendry, Mrs Joan Ruddock, Mr Anthony Steen, Mr Richard Tracey and Mr John Ward either opposed the proposed merger outright or expressed great concern about some of the consequences.

Members of the public

4.73. We received ten letters from members of the public all opposing the proposed merger.

Reports received

4.74. During the inquiry we received a report from the Centre for Information and Communication Technologies, University of Sussex, which considered the wider European issues of the proposed merger. We also received an economic evaluation of the proposed acquisition, as prepared by Dr George Yarrow of Hertford College, Oxford, on behalf of Plessey, and a report, also commissioned by Plessey, giving the views of Mackintosh Generics Ltd on the United Kingdom semiconductor industry. We also paid attention to the National Economic Development Office's 1988 report on the performance and competitive success of the United Kingdom electronics industry. Late in the inquiry, we received a report of a survey conducted on behalf of the Small Business Bureau which examined the implications of the proposed merger for Plessey's key suppliers and concluded that a large number of small firms and hence employment would be put at risk.