

Conduct of the inquiry

1. On 7 December 1994 the DTI sent us the following reference:

Whereas, on 19 October and 26 October, Her Majesty's Government took measures under Article 223(1)(b) of the EC Treaty to the effect that British Aerospace plc should not notify the proposed transaction whereby it would acquire control of VSEL plc, in so far as that transaction relates to military activities, to the European Commission under Council Regulation 4064/89/EEC;

Whereas it appears to the Secretary of State that it is or may be the fact that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act') in that-

- (a) enterprises carried on by or under the control of VSEL plc (a body corporate incorporated in the United Kingdom) will cease to be distinct from enterprises carried on by or under the control of British Aerospace plc; and
- (b) the value of the assets to be taken over exceeds £70 million.

Now, therefore, the Secretary of State in exercise of his powers under sections 64, 69(2) and (4) and 75 of the Act hereby refers to the Monopolies and Mergers Commission ('the Commission') for investigation and report within a period ending 15 March 1995, the following questions:

- (i) whether arrangements are in progress or contemplation as described in paragraph (a) above which, if carried into effect, will result in the creation of a merger situation qualifying for investigation;
- (ii) if events so require, whether the actual result of those arrangements is the creation of such a situation; and
- (iii) if so, whether, in either case, the creation of that situation may be expected to operate or (if events so require) operates against the public interest.

In relation to the questions in paragraphs (i) and (ii) above the Commission shall exclude from consideration one of paragraphs (a) and (b) of section 64(1) of the Act if they find the other satisfied.

7 December 1994

(signed) A J PRYOR
An Under Secretary,
Department of Trade and Industry

2. The Secretary of State for Trade and Industry subsequently agreed that the period for reporting on the reference should be extended to 12 April 1995.
3. The names of the members responsible for our inquiry and report are indicated in the preface.
4. Notices inviting interested parties to submit evidence to us were placed in:
Barrow North West Evening Mail
Flight International
Lloyds List
5. We received written or oral evidence or both from VSEL, BAe, Government departments, shipbuilders

and shiprepairers, equipment suppliers, armament suppliers, Members of Parliament, trade union representatives and other representative organizations.

6. During our inquiry we visited BAe's establishments at Warton and Nottingham; VSEL's shipyard at Barrow-in-Furness; and VT's shipyard at Southampton.

7. We held one hearing with VSEL and two each with BAe and GEC. We held three hearings with the MoD; and one hearing each with David Brown Group plc, Loral ASIC, Racal Electronics plc, Rolls-Royce Nuclear Engineering Ltd, Siemens Plessey Electronic Systems Ltd, Thorn EMI Electronics Limited, Barrow-in-Furness Borough Council, Furness Enterprise Ltd, and CSEU representatives at VSEL.

8. Some of the evidence we received during our inquiry was of a commercially confidential nature and our report contains only such information as we consider necessary for a proper understanding of our conclusions.

9. We were assisted in our inquiry by Mr A J Creighton, CEng, FRINA, RCNC, formerly Chief Underwater Systems Executive of the MoD.

10. We wish to record our thanks to VSEL, BAe, and the MoD, on which we made considerable demands for evidence, and to all those who attended hearings, responded to information requests and otherwise helped us in our inquiry.