

MR GRAY

ROWNTREE

This is to record my conversation today with Sir Michael Franklin, now a Director of Rowntree, about the article by Jeremy Warner in today's Independent (attached). Sir Michael said that there had been some dismay in Rowntree when they had read the comment that:-

"One source close to Downing Street thinking described the company as 'just a lot of pinkos'."

Sir Michael went on to say that that sort of comment derived, no doubt, from the activities of certain charitable trusts which had been established by members of the Rowntree family. But those trusts were quite independent of the company; indeed, one, which had financed certain SDP activities, no longer held any Rowntree shares.

I told Sir Michael that I was as certain as I could be that no such comment had emanated from No.10. The Prime Minister's firm rule was not to get involved in takeover matters, and to direct all enquiries to the Department of Trade and Industry. I was certain that she would take that line with this particular enquiry and would not wish to intervene.

Sir Michael expressed himself relieved.

N.L.W.

N.L. Wicks

28 April 1988

M.T.C.H.O.



RA

Prime Minister²

Your very obedient servant

RB

S/S

5 May 1988

CONFIDENTIAL

The Rt Hon Lord Young of Graffham
Secretary of State
for Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

Dear David,

The current bid by Nestle for Rowntree and the accompanying threat from Suchard raise an issue of considerable importance both to the food and drink industries, for which I am sponsoring Minister, and to industry generally.


My concern is with reciprocity. The circumstances and importance of the Rowntree case, and the growing political criticism to which it is giving rise, are such that we do now have to face up to this issue. The whole basis of our approach to mergers and acquisitions has been that, provided they do not have an adverse effect on competition, we should wherever possible leave it to market forces, operating freely, to determine the outcome. The bidding company and the target company have the opportunity to bid or counterbid and in the end the shareholders determine the outcome, as they should do. But it is clear that this kind of free operation of market forces is not possible in this case.

The position in Switzerland was described in yesterday's cable from Zurich of which your officials have a copy. The conclusion is clear that an unfriendly takeover of a Swiss Company a majority of whose shares are registered (and we understand that both Nestle and Suchard are in effect in this category) by a foreign company "is, for all intents and purposes, impossible". The essential pre-condition for the effective working of our policy is therefore missing and market forces are not permitted to work.

Although I would

Although I would have preferred this matter to be considered by Ministers, I suspect that under the legislation the courses open to us are more restricted. If that is the case, than I suggest that the Nestle bid for Rowntree should be referred to the Monopolies and Mergers Commission with a specific request to them to consider the question of reciprocity.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson and Sir Robin Butler.

Yours ever,


JOHN MacGREGOR

PRIME MINISTER

At present
Lord Young telephoned today to say that he was somewhat concerned about the report (Flag A) in today's Financial Times concerning a speech by Sir Geoffrey Howe on merger policy. In fact, Sir Geoffrey's comments (Flag B) were more innocuous than the newspaper report suggested, and the FT has given them, perhaps inevitably, an unhelpful twist. Sir Geoffrey will be telephoning Lord Young to set matters right.

Lord Young has suggested, and I agree, that I might send a letter to Private Secretaries to Cabinet Ministers saying that you think it important that Ministers should not make public comments which express, or could be construed as expressing, a view on any particular merger case, in advance of his decision to refer the matter to the MMC. A draft is at Flag C.

Agree that I should write in these terms (though I would replace the first paragraph suggested by the Department of Trade and Industry by the manuscript change)?

not

Yes

(N.L. WICKS)

12 May 1988

DALAG

RESTRICTED



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

12 May 1988

Dear Private Secretary,

MERGERS

The Prime Minister was questioned this afternoon in the House about the interest of Swiss companies in Rowntree Mackintosh. The Prime Minister refused to be drawn as she has refused in the past to be drawn on merger or potential merger cases.

The Prime Minister regards it as important that no Minister should make any public comment which expresses, or could be construed as expressing, a view on any particular merger case in advance of the Secretary of State for Trade and Industry's decision whether to refer the matter to the MMC. The line must be that it is for the Secretary of State for Trade and Industry to make his decision as to reference in accordance with his statutory responsibilities, and in the light of the Director General's advice; and that meanwhile any other comment is inappropriate. The Prime Minister would be grateful if Ministers would bear this in mind when giving speeches or interviews.

I am writing in similar terms to the Private Secretaries to the other members of the Cabinet, to the Private Secretaries to the Chief Whip and the Paymaster General and to Sir Robin Butler.

Yours sincerely
Nigel Wicks.

N. L. Wicks

The Private Secretary

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Extract from CC 88(22)
(23/6/1988)

AFFAIRS

tree

2. THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that an announcement was being made that day that Nestlé had increased their bid for Rowntree to £2.55 billion and the directors of Rowntree were recommending acceptance. That represented a huge increase on the original offer.

The Cabinet -

Took note.

