



Department for
Business, Energy
& Industrial Strategy

The Rt Hon Greg Clark MP
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Dear Mr Peckham,

Thank you for meeting me on Thursday following the engagement you have had with officials in my Department and others across Government since our first conversation on 13 January, the day after you launched your bid for GKN.

As I explained, my quasi-judicial role requires me to treat all parties fairly and so I should disclose that I have had similar conversations with the Chief Executive of GKN and have also had a briefing from the Chief Executive of Dana Inc, which has been proposed as a partner in a transaction with GKN.

As you know, the Enterprise Act 2002 gives power to the Secretary of State, acting in a quasi-judicial role, to refer to the Competition and Markets Authority a takeover bid which gives rise to concerns over media plurality, national security and financial stability. In these matters I will be advised, as you will expect, by my colleagues at the Ministry of Defence and other expert bodies.

Broader stakeholder interests

In addition to this statutory role, as Business Secretary I have a wider concern that, where important businesses are involved, takeovers should not act against the interests of our economy, employees or the broader set of stakeholders. GKN is a valued employer – directly and through its supply chain – and plays an important role in Britain's automotive and aerospace sectors, and, through its research and development, has a vital part to play in our Industrial Strategy. It also benefits from Government-sponsored contracts and participates in sectors which enjoy active engagement from Government-sponsored research and development. It also carries responsibility for a large number of pensioner stakeholders who depend on GKN's prosperity to fund the pension scheme which is currently in deficit.

Section 172 of the Companies Act sets out a statutory requirement for directors to have regard to, amongst other things, the interests of the company's employees; the company's business relationships with suppliers, customers and others; and the impact on the community and the environment. In my view, this establishes the principle that we expect interests broader than pure shareholder value should be taken into account by Directors and in the attitude of the Government.

In the past, some takeovers have had consequences for these wider groups that were not only deleterious but also at odds with indications given during takeover bids.

For this reason, a new regime has been established in which bidding companies can make binding commitments as to their intended conduct in the event of the bid succeeding.

Having established this regime, I believe that it should be used in takeover bids where the interests of these stakeholders are engaged, as is clearly the case here, and I would expect such commitments given to be extensive and clear.

The need for a long-term approach

In this case I am also mindful of the business model which Melrose operates and its history of acquiring, improving and selling businesses. Whilst this approach can have an important and beneficial role to play, tensions could arise between this approach and the need for long-term investment and stability. The public should reasonably expect that companies that benefit directly or indirectly from long-term public sector contracts or indirectly from Government-supported long-term research and development should be willing and able to adopt appropriate time horizons on investment decisions.

Areas to be addressed

In our discussions and during the meetings with officials in my department over the last few weeks we have therefore raised a number of areas in which clear commitments will be important. These commitments, which would need to be binding in the event that your bid was successful, include:

- Operating as a UK business, headquartered and listed in the UK
- Maintaining a UK workforce and respecting the existing employment rights of that UK workforce, as well as closely engaging with their representatives
- Continuing to pay tax as a UK taxpayer
- Continuing to invest in research and development programmes, such as eDrive and the Wing of the Future, which are crucial to our Industrial Strategy
- Investing in the training and development of the workforce, including in apprenticeships
- Treating suppliers well, including prompt payment for suppliers
- Making arrangements for current and future pensioners which are to the satisfaction of trustees and the independent pensions regulator

You have indicated to me that you would be willing to respond to the points we have raised by addressing these issues by providing relevant undertakings and given the advanced state of the takeover timetable I feel it would be timely to now do so.

GKN's defence work

As is well known, GKN plc is a longstanding supplier of components and services directly, and through a chain of suppliers, to the British Armed Forces and to security bodies in some of our allies.

As the Defence Secretary said, in evidence to Parliament, we need clarity on the approach from Melrose, and on the duration of their intended period of ownership. I too believe it is important that security sensitive suppliers to Her Majesty's Government are able to make long-term commitments to supply and take a long-term view of investment decisions. I believe a stable ownership and financing structure is an important part of the underpinning for these trusted relationships. That stability is also important for research and development partnerships which by their nature endure over many years.

I recognise that any listed company may be subject to future takeover and so cannot guarantee its ownership indefinitely.

However, I am concerned that a short-term approach to ownership may not be compatible with maintaining the longer-term relationships which characterise the best interests of the defence field. In the light of this I would expect to see a commitment to continuity of ownership and strategic investment specific to the defence related business of GKN and to exclude the option of a short-term sale of this business without the consent of the Government. I am aware that you are separately discussing with the Ministry of Defence the terms of an agreement that would satisfy any concerns that the Defence Secretary may have.

Next steps

I want to be clear that the Government is committed to an open economy and to the belief that in most regards markets and shareholders should decide the outcome of takeover bids. Where however there are broader interests at play and in particular where public investment is directly or indirectly at stake I do expect potential acquirers to reflect these in their approach and the commitments they are prepared to make.

Whilst I am appreciative of the time you and your board have taken to engage with us on these matters I believe that it would now be in the general public interest to set out Melrose's preparedness to address these matters before the bid closes formally. This would help inform shareholders and the public as to the Company's intentions on the wider matters, and, for those aspects that are relevant to it, to inform my consideration of whether the bid gives rise to concerns relating to national security.

I await your early response.

*Yours sincerely
Greg Clark*

THE RT HON GREG CLARK MP
Secretary of State for Business, Energy & Industrial Strategy

