

Confidential Filing

House of Fraser Report

GOVERNMENT
MACHINERY

August 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
3.8.84							
<p>PREM 19/1255</p>							

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Department of Trade and Industry: House of Fraser plc –
Investigation under Section 172 of the Companies Act 1948. Interim
report by John Griffiths, CMG QC. Published by Department of
Trade and Industry 1984

Signed

J. Gray

Date

20/9/2013

PREM Records Team

①
PRIME MINISTER

LONRHO/HOUSE OF FRASER

Background

The Report by Mr. John Griffiths arises from Lonrho's wish to acquire Harrods in the belief that it would be more valuable after if it could be separated from the rest of House of Fraser. Lonrho had been prevented from acquiring the whole of the House of Fraser group by the MMC in 1981 and so in 1982 and 1983 they introduced resolutions at House of Fraser EGMs seeking the ^{de} merger of Harrods. Despite having 29.5% of the shares plus the support of the 5% controlled by the Fraser family they were unsuccessful. Out of these efforts arose the accusation that Lonrho may have organised a "concert party" in contravention of Section 67 of the 1981 Companies Act, ie that it put together a group of investors who would acquire shares and then vote for the Lonrho resolutions.

Suspicion was aroused by the fact that several investors acquired significant holdings while the dispute was going on and subsequently voted on the Lonrho side. Mr. Griffiths was appointed as an Inspector to investigate the circumstances behind these holdings. He also investigated several meetings at which Lonrho was claimed to have organised sympathetic investors or to have plotted Board room moves.

Mr. Griffiths concluded that there was no concert party and that, with one exception, all the investors, who included Mr. Jack Hayward, took their decisions independently. Nor did any of the meetings investigated produce anything illegal. DTI are not therefore seeking any prosecutions.

No. 10 Interest

(i) The Honours System

It was claimed that, at a meeting between Lonrho and Warburgs, acting for House of Fraser, one side or the other (each claimed it was the other) proposed that Professor Smith should be deposed as Chairman of House of Fraser and should be given a knighthood and the chairmanship of a minor nationalised industry as compensation. You will remember that this story was leaked to the Mail some time back. Mr. Griffiths concluded that, if such a proposition were made, it was not done so with any serious intent. He was reinforced in this view after he checked with FERB on the way the Honours system works. This convinced him that the safeguards were sufficiently strong for there to be no prospect of Honours being procured in this way. Thus the integrity of the Honours system is unimpaired - see paragraph 5.12 and 5.28 - though this will not stop Labour Party attempts to discredit it.

(ii) The telephone call to Mr. Gow

At a different meeting, it was alleged that Lonrho were trying to persuade Mr. Thornton of Debenhams to buy House of Fraser and then to sell Harrods to them. Mr. Griffiths reports that Mr. du Cann left the room to talk to Ian Gow about "urgent political matters" - the lunch taking place in the run-up to the election (see paragraph 5.41.). It appears that Mr. Rowland made the proposal while Mr. du Cann was away from the lunch table. Certainly Mr. du Cann denies any knowledge of it - see paragraph 5.43.

The difficulty for No. 10 is that questions might be asked about the nature of Mr. du Cann's conversation. The report clearly implies that it was related to the election.

It is irritating that Mr. Griffiths has referred to Ian Gow at all. There was no need to do so as the reason why Mr. du Cann left the lunch table is irrelevant. Elsewhere in the report Mr. Griffiths uses the technique of referring to "Mr. A (name given)" where there is no need to identify the person involved.

I have asked whether the reference could be removed. In reports of this kind sensitive matters of national interest can be cut out but it is made clear in the text that this has been done. My conclusion is that this would make matters worse; given the characters involved, the request for an excision would leak. In any case, it should be possible to defend the line taken in the report that the conversation was unconnected with the business of the day.

I have checked with DTI who advise that it would be in order to warn Ian Gow in advance of this reference so that he is able to remember what the call was about. I can do this tomorrow.

Y. Ian can remember.

(iii) The role of Mr. du Cann

There is nothing specific in the report for which to criticise the behaviour of Mr. du Cann. But it cannot help to have the Chairman of the 1922 Committee mixing in such dubious company. In particular it is clear that Mr. Rowland is manipulative and deceitful and totally dominates the Lonrho Board. Although Mr. Griffiths concludes that no concert party was organised, a number of commentators are likely to think that it was a close run thing.

In order to avoid any accusations of discourtesy to Mr. du Cann, Mr. Tebbit plans to show him the report shortly before publication. He cannot do so very far in advance as anything said will soon get back to Mr. Rowland.

* There is a discrepancy since Mr du Cann says the conversation took 10 mins. (para 5.43) and Mr Rowland a minute and quarter (top of page 105).

(iv) Ethical standards in the City

The Labour Party will no doubt try to exploit the report as confirming their belief that the City is corrupt and in need of strong controls for investor protection. Although in the end the accusations of blackmail and funding of Sir Hugh Fraser's gambling debts are not substantiated, the atmosphere is pretty seedy. In fact, much of the City comes out rather well. At one point Mr. Griffiths interviewed a number of investment fund managers, all of whom had responsible procedures for taking investment decisions. What emerges is something many people have known since Mr. Heath's remarks about the unacceptable face of capitalism. It is Lonrho and a number of rich overseas investors, rather than the City generally, who come out badly.

Conclusions

- to note that accusations against the honours system are not sustained; Yes no
- agree no excision of reference to Ian Gow be sought?; Yes no
- to note the position of Mr. du Cann. Yes no

I will put in hand press briefing on this.

AT

6 August 1984

IN CONFIDENCE

MR ANDREW TURNBULL

THE GRIFFITHS REPORT ON THE HOUSE
OF FRASER

Since it looks as if this Report will come out while I am away, this minute records one tangential aspect in which I was involved.

The Inspector, Mr Griffiths (whom I met when he was Attorney General in Hong Kong) asked if he could have an interview with me. When I called on him, he told me that he was conducting the enquiry and that allegations had been put forward that Mr Richardson of Rothschilds had said that he could persuade the Prime Minister to give Professor Roland Smith a Knighthood and appoint him to a nationalised industry. The implication was that this would be a compensation to Professor Smith for losing the Chairmanship of Harrods. There were also claims that the suggestion had been made not by Rothschilds but by the other side in the dispute.

Mr Griffiths asked me whether the honours system worked in such a way that the offer of a Knighthood could have been secured in this way.

I explained to him the safeguards in the honours system, namely that names were either put forward after scrutiny by committees run by the Head of the Civil Service or, if recommendations for Knighthoods were added by the Prime Minister, they were scrutinised by the Political Honours Scrutiny Committee, a committee of Privy Counsellors. Mr Griffiths pronounced himself satisfied that,

IN CONFIDENCE

whether or not such a claim had been made, there were safeguards against the honours system being used in this way.

The story subsequently was published in "The Daily Mail" by Andrew Alexander, allegedly drawn from a leaked document prepared by Lonrho. Mr Richardson was quoted as saying that there was no truth in it and he authorised me to advise the Prime Minister that if the matter was raised in the House she could quote him as denying it. Parliamentary Branch will probably have the briefing but, in the event, the matter did not come up in the House.

F.E.R.B.

F E R BUTLER

3 August 1984

- 2 -

IN CONFIDENCE



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

JF7095
PS / Secretary of State for Trade and Industry

3 August 1984

CONFIDENTIAL
COVERING CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

HOUSE OF FRASER REPORT

We discussed this morning the particular references in the Griffiths' Report on the House of Fraser which might cause
... embarrassment to No 10. I attach a copy of the Report,
... and a copy of a minute listing references to Mr Ian Gow;
to the Honours system; and to a claim of personal
friendship between the Prime Minister and Mr Richardson;
... I am also attaching a list of references to Mr Edward du
Cann and to Lord Duncan-Sands.

2 I shall arrange for our Information Division to keep in contact with the No 10 Press Office on the defensive briefing which will be used when the Report is published on 9 August. I should stress that, subject to resolution of the question raised by Lonrho's solicitors, it is not intended to send any copy of the Report to Lonrho until 9 August. I should be grateful if you could ensure that the confidentiality of the Report is carefully observed.

Yours ever

M C McCARTHY
Private Secretary

Encls

HOUSE OF FRASER REPORT

As requested, I enclose herewith an advance copy of the report.

2. Reference to Mr Ian Gow is made in para 5.41 (page 101) and para 5.43 (page 104).
3. The reference to the Honours system is in para 5.12 (page 78) and arises from the arranged knighthood proposal (see para 5.9 page 75, para 5.10 page 75, para 5.13 page 79 and para 5.28 page 90).
4. Para 5.12 (page 78) also makes mention of Mr Richardson's personal friendship with the Prime Minister.

JR Liesching

Miss J R Liesching
FSC2 CIB
R.103 B/R
GTN 2509 Ext 538
3 August 1984

CONFIDENTIAL

HOUSE OF FRASER REPORT

The relevant references are as follows:

Volume 1: Pages 47, 78, 80-82, 101, 103, 105, 175

Volume 2: Pages 233, 236, 237, 271, 272, 273, 332, 348, 362 and 396

2 The submission to the Prime Minister has to be cleared in draft with the Solicitor and will be submitted in my absence by Mr Caines next week.

[Handwritten signature]
B J G HILTON
FSC
Rm 502 SB
215 5962

27 July 1984

[Handwritten note]
References to Lord Duncan-Sandys (who didn't give evidence)

[Handwritten list]
p. 8
* p. 78
p. 200
p. 318
p. 332
p. 396

[Handwritten letter]
R.

070

CC 2/0



JF7052

CONFIDENTIAL

PRIME MINISTER ^① AT 6/18

HOUSE OF FRASER REPORT

You will wish to know that I have received the report by the Inspector, Mr Griffiths, on his enquiry (set up in August last year under Section 172 of the Companies Act 1948) into whether there was any agreement among shareholders of the House of Fraser PLC to act in concert. Such undisclosed 'concert parties' are criminal offences.

2 There has already been substantial publicity about the enquiry, notably in the Daily Mail on 12 June, which referred in particular to Lord Rothschild's involvement. It concerns such colourful characters as Mr 'Tiny' Rowland, Sir Hugh Fraser, Mr Rupert Murdoch and Professor Roland Smith. Lord Duncan Sandys and Edward du Cann are also mentioned in the Inspector's report, and I have looked at these passages with special care since they involve Parliamentary colleagues.

3 The Inspector does not find that there was a concert party organised either by Lonrho or by the House of Fraser. Accordingly there is no case for prosecution. Nor is there any evidence of a breach of the undertakings given by Lonrho following the Monopolies and Mergers Commission report of 1981.



4 I am making plans to be in a position to publish the report on 9 August, subject to the consideration I describe in para 7 below. We normally publish reports on public companies. I also consider, as you know, that maximum disclosure of information is an important part of our new policy initiative on investor protection.

5 The report is a long one but meticulous, well-balanced and well written. It will undoubtedly attract much publicity. The popular press will concentrate on the personalities and on the light the report throws on how big business is carried on by these companies. All the signs are that Lonrho will want to react vigorously to what they will seek to argue are prejudiced and unwarranted comments by the Inspector.

6 The more serious press is likely to concentrate on the relevance of the report to investor protection, in particular the extent to which, on the detailed evidence of the report, the merchant banks, brokers, investment trusts and other financial institutions satisfactorily deal with conflicts of interest. Although the report does not identify specific failure to deal with such conflicts, some of what is recounted will undoubtedly raise eyebrows.



7 The report is, of course, Mr Griffiths'. Once appointed an inspector is independent of the executive and his job is to establish the facts. My responsibility is to consider the report and, if there is no case for prosecution, to publish it. The parties could seek to persuade me not to publish on the grounds that the inquiry has not been fairly conducted. Indeed Lonrho has done just this. I am considering their representations but at first sight I doubt whether there is any real substance in them.

8 I am copying this letter to George Younger (since a Scottish company is involved) and to Sir Robert Armstrong.

NT

N T

2 August 1984

- 2 AUG 1984



KODAK Q-60 Color Input Target



IT8.7/2-1993
2007:03

[FTP://FTP.KODAK.COM/GASTDS/Q60DATA](ftp://ftp.kodak.com/gastds/q60data)

Q-60R2 Target for
KODAK
Professional Papers

