MT

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~~16.6.81 30.1.84~~

CONFIDENTIAL FILING

PROPOSED MERGER OF BRITISH RAIL – HOVERCRAFT LTD AND HOVERLLOYD LTD.

TRANSPORT

S 810

JUNE 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~9.11.82.~~ ~~12.11.82~~ ~~21.12.82~~ 30-1-84.							

PREM 19/1398

CONFIDENTIAL

c. HMT.
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CO
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+ others
+ bc.

bc Nick Owen

10 DOWNING STREET

From the Private Secretary

30 January 1984

Hoverspeed

The Prime Minister has seen your Secretary of State's minute of 26 January warning colleagues that the Hoverspeed Ferry Company might shortly go into receivership. The Prime Minister agrees that, should this happen, there should be no extension of BR's temporary guarantee.

I am copying this letter to the Private Secretaries of members of E(NI), Roger Bone (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.

010

CONFIDENTIAL

cc DTO

Prime Minister (2)
To note.
Agree to Ridley's line?
AT 26/1

PRIME MINISTER

Yes MT

I should forewarn colleagues that it is a very real possibility that the Hoverspeed ferry company will shortly go into receivership - perhaps by as soon as tomorrow.

Colleagues will recall that Hoverspeed was created in 1981 as a private sector company by the merger of BR's Seaspeed and Hoverlloyd - a subsidiary of the Swedish group Brostroms. Each parent took a 50% shareholding.

The two companies had both previously been consistent loss makers - and unfortunately Hoverspeed has failed to live up to hopes at the time of this merger that rationalisation might be the means of allowing a single viable hovercraft operation to survive.

At the end of the company's first year we reluctantly allowed BR to repeat a temporary guarantee for a share of the company's borrowing; but we made it clear that that process was not to be repeated. To allow further support of that kind would be contrary to our shipping policy of free fair competition, since it would give Hoverspeed an advantage over their private sector competitors. It would also be directly counter to specific assurances.

Brostroms came to see David Mitchell yesterday. If the company closes there will, regretfully, be a loss of some 600 jobs, and the only example of a major sea-going hovercraft ferry service will terminate. He explained the Government's firm view that privatised companies must stand or fall by their own efforts and that we could not

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accept that BR should give further guarantees, or should commit further money to Hoverspeed. BR had previously also taken that stance in their own discussions with the company. They have made it clear to Brostroms that they would be ready to transfer all their equity to them, if Brostroms agreed to meet the full guarantee requirements of the bank. The problem therefore now lies with Brostrom's and Hoverspeed's bankers, who must decide whether they can provide further support or should bring in a Receiver.

I am copying this to E(NI) colleagues, to the Foreign Secretary, the Secretary of State for Defence, and to Sir Robert Armstrong.

NR

NICHOLAS RIDLEY
26 January 1984

cc JL
Transport

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister (2)

The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON SW1

MCS 21/12

21 December 1982

MT

Dear Arthur

You will recall that I wrote on 4 November to E(EA) colleagues explaining the cash flow problems of Hoverspeed. There was agreement that we should refuse to allow the £2½m guarantee of their borrowing by British Rail then proposed, on the grounds that such a guarantee would damage the credibility of the Government's stance on other privatisations. The Bank of England were subsequently asked if they could bring the parties together to try to devise a package which would avoid this problem.

I understand that they now feel that the best package we can expect would be one in which BR were allowed to repeat a temporary £¾m guarantee they gave last winter. Without this gesture, the Bank of England judge that the most likely outcome would be that the clearing bank (Nat West) would put in a receiver. Nat West would still need to increase their commitment substantially, and they would wish both shareholders (BR and the Swedish Company Brostroms) to demonstrate their commitment in some tangible fashion. Whether Brostroms would need to commit more than BR would depend on the extent of Nat West's contribution. Only if this was insufficient would it be necessary to look to Brostroms for more and in that case they could be compensated by BR by a transfer of securities in the company.

Transport, Dunk'k, Hovercraft Ltd Merger

I have concluded that in the circumstances the Government should not be seen to be the cause of early failure of this newly privatised company, which seems to have a prospect of achieving modest success, once its immediate cash difficulties are overcome. I therefore propose to agree to a repeat of BR's guarantee of last winter, but to specify that it should be similarly time limited, and that if any question of compensation to Brostroms arose it should take the form of equity in the company. This would have the advantage of placing Brostroms in a clear lead in any future problems of the company and should minimise the size of any future calls for BR guarantees. It would also emphasise the private sector nature of the company, by reducing the current 50% BR shareholding.

I am copying this to the Prime Minister, E(EA) colleagues, the Foreign Secretary, the Secretary of State for Defence, and to Sir Robert Armstrong and John Sparrow.

Yours ever

David

DAVID HOWELL

2F

Transport

Prime Minister (2)

Mrs 12/11

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

CONFIDENTIAL

Qa 06139

12 November 1982

The Rt Hon David Howell MP
Department of Transport
2 Marsham Street
LONDON S W 1

Dear David,

Hoverspeed

Thank you for sending me a copy of your letter of 4 November to Arthur Cockfield.

I agree with you that the credibility of other privatisation moves would be damaged if British Rail were to give a guarantee of Hoverspeed's borrowings, and that such an unfortunate precedent should be avoided. It is, however, worth considering whether or not there are alternatives to a British Rail guarantee.

This will obviously depend on a more informed analysis of the commercial prospects of Hoverspeed than I am in a position to make, and it may be that cross-Channel services generally are in over-supply, and need to be reduced. In the private sector, some holding companies refuse as a matter of principle to guarantee their associated companies, although rarely their subsidiaries; it is nonetheless much more likely that a private sector company standing in BR's shoes would decide whether or not to guarantee simply by reference to the perceived chances of ending up with a successful (and unguaranteed) investment.

In the present case, I understand that Brostrums are prepared to guarantee the proportion of borrowings attributable to their shareholding. One possibility might therefore be for Brostrums

(or anyone else) to be invited to make an offer for BR's shares, at a price which reflects the prospects for success. Another possibility might be for Hoverspeed to seek a third party guarantor - perhaps in the financial sector - to stand in BR's place for a fee which would presumably reflect the degree of perceived risk. There may well be other ways of meeting the problem.

In short, the Hoverspeed case raises issues of wider relevance. On the one hand, guarantees effectively from Government are damaging to the whole privatisation programme and for that reason should not be given. On the other hand, it would also be damaging if privatised companies fell by the wayside immediately after privatisation or if it appears (as the Brostrum position might indicate) that a truly viable operation is being denied support which is only temporarily required. The need therefore is to seek acceptable alternatives to the unacceptable suggestion of a guarantee.

I am sending copies of this letter to the recipients of yours.

Yours sincerely,

John Sparrow

TRANSPORT
cc JV

Prime Minister (2)

MCS 9/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

9 November 1982

Dear David

HOVERSPEED

I have seen a copy of your letter of 4 November to Arthur Cockfield. It is, as you say, most unfortunate that Hoverspeed have had such a bad first year and I hope that every effort can be made to encourage the interest of the banks or other investors, given the unusual position of British Rail as a parent company. I agree with you, however, that we should not allow British Rail to override the disclaimers it made and issue a guarantee. To do so would call into question the credibility of the privatisation programme as a whole.

I am copying this letter to the Prime Minister, the Foreign Secretary, members of E(EA) and to Sir Robert Armstrong and Mr Sparrow.

Yours

LEON BRITTAN

Presently on Parliament PMs Question in HC July 79

CONFIDENTIAL

Parliament
cc JV

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

(2)

Prime Minister

A conundrum - but I think the right answer emerges.

MTS 4/11

The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
SW1H OET

4 November 1982

Dear Arthur

You, and colleagues, will recall that a year ago we agreed to a merger between the two loss making hovercraft operators Hoverlloyd (owned by a Swedish Company Brostrums) and Seaspeed (owned by British Rail). The merger had been the subject of an investigation by the Monopolies and Mergers Commission who had concluded that it should be accepted, since otherwise it seemed likely that this form of transport would disappear from the Channel.

Although both companies took a 50% shareholding in the new venture (Hoverspeed) - we agreed that to give the company the best prospect of future success it should sever its public sector links. BR therefore gave public undertakings, which I repeated to Parliament, and in contacts with the shipping industry, that they would not intervene in the management of the company, and that they had no intention of providing any additional financial support once the company was launched. As a result of these undertakings the company was recognised as being in the private sector - and sponsorship responsibility for this private ferry company passed from my Department to yours.

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Unfortunately I now hear from British Rail that the company have had a very bad first year, with a result some £5m worse than budget. A substantial part of this can be attributed to specific management failures which have been remedied and would not be repeated, and the two shareholders believe the company should be given at least one more season to prove itself. But this would require an overdraft limit of some £9m during the winter, and their bankers have said they are unwilling to go beyond the current limit of £4m without some guarantee from the shareholders.

The chances of the guarantee being called are small since the company's trading pattern is cyclical, and so if it continues to trade through the winter its financial position will then improve progressively throughout the summer. The company's current overdraft is about £2m. Brostrums have said that they would be prepared to give a guarantee, but on condition that it is matched by BR and, if called, is drawn down in parallel with BR's.

BR think it would be in their commercial interest to give the guarantee. They have a commitment to the Dover Harbour Board, and they derive appreciable extra rail income from hovercraft passengers. The BR unions would undoubtedly use the failure of this privatised company to encourage resistance to further privatisations. On the other hand, the closure of hovercraft operations would provide a substantial additional slice of traffic, which should improve the profitability of other ferry operators, including Sealink.

In the normal course such a decision could be left to the judgement of the shareholder concerned. But here the shareholder is BR, who require my consent to give any guarantee, and who did give implied commitments that they would not stand behind the borrowing of Hoverspeed. It would, I think, attack the credibility of Government statements in other privatisation

cases - particularly those where we are retaining 51% - if BR, with our agreement, now went back on that stance of non-intervention.

I conclude therefore that in spite of the unusual circumstances we must make it clear that on a point of principle the Government is not prepared to see BR guarantee this borrowing. One would hope that the bank could be brought to see the significance of this stance in the wider context, and that they would decide whether to assist the company on its merits, without the Government/BR guarantee. But I think we will have to face a real possibility that the bank will not continue on those terms and that the company will cease trading. Whether anyone else would attempt to take over the assets and run a channel hovercraft service is difficult to predict. But the operational problems are considerable, and so we might see the end of this form of transport on this route. Moreover it may be said that this is the Government's fault since we would not even allow the public sector partner to match the private sector partner's decision.

I understand that in the next day or two British Rail will be formally requesting my approval for a guarantee. If you and other colleagues agree with the approach outlined above, I will make it clear to BR that the company must seek any support entirely from private sector sources.

I am copying this to the Prime Minister, the Foreign Secretary, colleagues on E(EA), and to Sir Robert Armstrong and Mr Sparrow.

Yours ever

David

DAVID HOWELL

3F

JS

Parliament. c. Trade Trans.

CF

10 DOWNING STREET

THE PRIME MINISTER

3 July 1981

Dear Jonathan,

You asked me in the House on 16 June if, now that the Monopolies and Mergers Commission had reported on the proposed merger between British Rail Hovercraft and Hoverlloyd, I would use my influence to ensure that the merger was delayed no further by Government intervention. I understand that you have explained to Sally Oppenheim your particular concern that the Government's decision should be announced before new timetable arrangements came into effect on 4 July.

At the time you raised the matter, the Government had, of course, only just received the Commission's report. We have, however, taken steps to publish it as early as possible and, as you may be aware, Sally Oppenheim announced publication on Friday 26 June. She has, I understand, made arrangements for you to receive a copy of the Press Notice. As you will note, the Commission have concluded that the merger may not be expected to operate against the public interest provided Hoverspeed reviews certain undertakings currently given to the Government by British Rail Hovercraft Limited. Provided the necessary undertaking is forthcoming, the companies are therefore free to proceed with their negotiations.

Because British Rail Hovercraft Limited is a subsidiary of the British Railways Board, the merger will need the consent of the Secretary of State for Transport under the Transport Acts. For that, Norman Fowler will need to see detailed

/ proposals

Jonathan

proposals from the Railways Board, setting out the structure of the company and the way it is intended that it will interact commercially with the Board itself, and with others. I know that he recognises the urgency of finding a satisfactory solution for the problems that both these companies have recently been facing. I am sure, too, that he will be seeking, if at all possible, to obtain a structure that would place the new company firmly in the private sector so that it would benefit from the freedoms and stimulus that that would provide.

Yours sincerely,

MT

Jonathan Aitken, Esq., MP.

DEPARTMENT OF TRADE

1 Victoria Street, London SW1H 0ET
Press Office: 01-215 5061
Out of hours: 01-215 7877

Ref 310

Press notice

June 26 1981

BRITISH RAIL-HOVERCRAFT LIMITED/HOVERLLOYD LIMITED

MONOPOLIES AND MERGERS COMMISSION REPORT

Mrs Sally Oppenheim, Minister for Consumer Affairs, today announced publication of the Monopolies and Mergers Commission report* on the proposed merger between British Rail Hovercraft Limited and Hoverlloyd Limited.

The Commission have concluded that the merger may be expected not to operate against the public interest provided that an undertaking on certain matters is given by the new company, Hoverspeed.

Mrs Oppenheim said that in the light of the Commission's conclusions British Rail Hovercraft Limited and Hoverlloyd Limited would be free to resume negotiations on a possible merger of their cross-channel hovercraft services.

In due course the British Rail Board would need to bring forward specific proposals for appropriate consents from the Secretary of State for Transport under the Transport Acts. However, before the Government could consider such an application it would be necessary for Hoverspeed to give an undertaking to take such action as the Secretary of State for Trade considered requisite to remedy the adverse effect of the merger specified by the Commission in their report. This adverse effect was that the existing undertaking by British Rail Hovercraft Limited, not to agree or discuss with other operators fares for car accompanied passengers or related matters, would cease to have effect when that company ceased to exist as a

* British Rail Hovercraft Limited and Hoverlloyd Limited. A report on the Proposed Merger. HoC No 374, ISBN 0 10 237481 3. Available from HM Stationery Office, price £3.60.

separate operator, and that this would reduce the measures at present available to the Director General of Fair Trading to deal with any matters to which the undertaking by British Rail Hovercraft Limited was relevant.

The Commission had been concerned to guard against the adverse consequences of this undertaking ceasing to exist and had accordingly recommended that Hoverspeed should be required to give a similar undertaking. The Secretary of State for Trade was therefore asking the Director General to seek to negotiate suitable undertakings for this purpose.

Mrs Oppenheim said that the Commission's main conclusions were that the merger afforded the best prospect of maintaining effective competition from Hovercraft on the short-sea routes, and that the maintenance of such competition was the more important in a market which had until recently not been noticeably competitive. The Commission had been concerned that, should the situation arise that the parent companies might need to provide further finance for Hoverspeed, the means by which British Railways Board, as a public corporation, provided finance to the new company should be published and readily identifiable.

The Commission had obtained from British Railways Board a written assurance that the amounts, terms and conditions of any loans, advances, guarantees or financial support which it might make available in future to Hoverspeed would be published in a readily identifiable manner in British Railways Board's own accounts. Brostroms Rederi AB, the parent company of Hoverlloyd Limited, had acquiesced in British Railways Board's assurance.

Notes for Editors

1. The Secretary of State for Trade referred the proposed merger between British Rail Hovercraft and Hoverlloyd Limited to the Commission on March 5 1981. The Commission were required to report within three months. The reference was made under the assets criterion of the Fair Trading Act 1973. The Secretary of State received the report on June 4 1981. Sir Godfray Le Quesne QC, Chairman of the Commission, led the group of six members carrying out the investigation.

2. Under Section 88 of the Fair Trading Act, where a report from the Commission concludes that a merger operates or may be expected to operate against the public interest, the Secretary of State may request the Director General of Fair Trading to consult the relevant parties in order to obtain undertakings with a view to remedying or preventing the adverse effects specified in the report.

3. The Secretary of State may exercise the order-making powers provided by Section 73 of the Fair Trading Act 1973 only where the Commission have concluded that the merger operates, or may be expected to operate, against the public interest.

4. The consent of the Secretary of State for Transport is needed because British Rail Hovercraft Limited is a subsidiary of the British Rail Board.

5. Copies of the report are available, price £3.60, from HM Stationery Office, 49 High Holborn, London WC1V 6HB, and branches, or by post from HM Stationery Office, PO Box 569, London SE1.

REPORT OF THE PROPOSED MERGER BETWEEN BRITISH RAIL HOVERCRAFT LIMITED (BRHL) AND HOVERLLOYD LIMITED (HOVERLLOYD)

Summary

BACKGROUND

The Secretary of State for Trade referred the proposed merger between BRHL and Hoverlloyd to the MMC on 5 March 1981 and asked the Commission to report within three months. (A second reference was sent to the Commission on 6 April 1981 enabling them to encompass certain other enterprises under the control of Brostroms Rederi AB (Brostroms), the parent company of Hoverlloyd.) In deciding whether a qualifying merger would be created, the Commission were asked to consider only the assets criterion of the Fair Trading Act 1973 (the Act), as amended (that is whether the total value of the assets to be taken over exceeded £15 million), and not whether the merger would create or intensify a monopoly situation. The reference followed the announcement in November 1980 that discussions were taking place between BRHL and Hoverlloyd on the possibility of merging their cross-channel hovercraft services: these arrangements came within the scope of section 75 of the Act, wherein provision is made for reference in anticipation of a merger. The Commission sent their report to the Secretary of State on 4 June and, as the Act requires, a copy was sent to the Director General of Fair Trading.

THE PARTIES TO THE PROPOSED MERGER

2. The report is about the proposed merger between BRHL and Hoverlloyd. BRHL, which was formed in April 1966 to develop and operate hovercraft services, is a wholly-owned subsidiary of the British Railways Board (BRB) and carries passengers and cars on two routes (Dover/Calais and Dover/Boulogne). It operates these services under the trade name "Seaspeed", in association with French Railways - Societe Nationale des Chemins de Fer Francais (SNCF). In the year ended 31 December 1980, BRHL had a turnover of £13.1 million and a pre-tax loss of £2.9 million. At that time, it had fixed assets of £15.1 million, current assets of £1.6 million and current liabilities of £3.9 million. The amount due to its parent, BRB, was £20.1 million, and accumulated revenue losses totalled £8.9 million. BRHL has about 475 permanent employees, and some 225 additional staff in the Summer. Hoverlloyd was registered as a UK company in 1965 under the name Cross-Channel Hover Services Ltd; its name was changed to Hoverlloyd in 1966, and it became a wholly-owned subsidiary of Brostroms in 1976. It carries passengers and cars between Ramsgate and Calais, and its operations are carried on in association with two other UK companies (International Hoverports Ltd, which operates the Pegwell Bay hoverport, and Hoverlloyd Hirings Ltd which owns one of the hovercraft used by Hoverlloyd), both of which are subsidiaries of Brostroms. In the year to 31 December 1980, Hoverlloyd had a turnover of £17.2 million and a pre-tax loss of £686,000. It had fixed assets of £14.4 million, current assets of £3.4 million and current liabilities of £5.8 million. Its capital structure includes a loan of £2 million from Brostroms, £1 million outstanding in

respect of the lease/purchase of one of its hovercraft and a bank overdraft of £2.1 million. Hoverlloyd employed an average of 623 people, with 279 others in the Summer.

THE COMMISSION'S INVESTIGATION

3. The investigation was carried out by a group of six members of the Commission under the Chairmanship of Mr J D Eccles, a Deputy Chairman of the Commission. Written evidence was received from the parties involved (and their parent companies), the Departments of Industry, Trade and Transport, and many other interested parties, including the Trades Union Congress and three unions. Four hearings were held. The Commission have pointed out that some of the evidence obtained in the course of their inquiry was of a confidential nature, and that their report contained only such information as they considered necessary for an understanding of their conclusions.

THE COMMISSION'S CONCLUSION ON THE MERGER SITUATION

4. The Commission concluded that a merger situation qualifying for investigation would be created if BRHL merged with Hoverlloyd, in that BRHL's assets exceeded £15 million.

THE COMMISSION'S CONSIDERATION OF THE ISSUES OF PUBLIC INTEREST

5. The Commission considered the merger and possible alternatives to it. They noted that, if BRHL and Hoverlloyd were to be merged, competition between their hovercraft services would cease, but that competition between hovercraft and other suppliers of cross-Channel services would remain. The Commission thought that, if the merger did not take place, Hoverlloyd was likely to end its operations at an early stage, and that subsequently, there was the possibility of the BRHL also ceasing to exist, which would mean the disappearance of hovercraft competition by British operators as it existed in the cross-Channel market. The Commission considered the possibility that another person or persons might then purchase one or both of the present hovercraft businesses but concluded that these possibilities were slight, bearing in mind the recent financial performance of both BRHL and Hoverlloyd, the parties' poor view of their future prospects as separate organisations, and the failure of Brostroms' efforts to sell Hoverlloyd.

6. The Commission then considered the possible effects on competition of the various likely alternatives. The first of these was that the current operations of BRHL and Hoverlloyd were merged which would remove competition within the hovercraft sector itself. The Commission noted that, while the companies operated the same basic type of hovercraft and service, there were differences in some aspects of the services offered, and that it could be argued that a merger might reduce enterprise and initiative in the future conduct and development of the business. However, they saw no reason why the lessons learnt by both companies in the past should not be fully heeded; they also commented that competition from ships and aircraft would keep the new management under heavy pressure to achieve cost savings and increases in efficiency. The Commission said that the merger would have the detrimental effect of removing price competition between the two hovercraft companies, but competition between the ship ferries would continue to be the

decisive factor in determining the structure and levels of prices. The Commission noted that it was likely that there would be fewer services from Ramsgate, but more from Dover, and concluded that the changes under contemplation would not effectively reduce the range of hovercraft services available to the public.

7. On the question of the effects of the merger on competition within the cross-Channel market as a whole, the Commission considered that the merger should improve the financial performance of hovercraft operations, that the potential improvements offered the prospect of short-term viability to the merger company, and might go further than that. The Commission concluded that the merger might bring some improvement in the financial position of the hovercraft companies but, bearing in mind the very limited period of hovercraft operations on the present scale, they accepted that such improvement did not provide a basis for deciding on the long-term future in the cross-Channel market. In view of the increasing strength of the competition, the Commission did not expect the merger to alter the generally reactive position of the hovercraft operator in setting fares.

8. The Commission also considered two other aspects of competition. Firstly, the argument that competition had been distorted through BRB's financing for many years of the increasing losses suffered by BRHL, that neither hovercraft operator could expect to be profitable in future and that a continuing BRB subsidy would bring about an even more serious distortion of competition. In this connection, BRB had told the Commission of its firm intention to find a solution to the problem of BRHL's losses and had said that the financial arrangements for current business between the new company and itself would be on a strictly commercial basis. The Commission considered the possibility that the parent companies might need to provide further finance for the new company (to be named Hoverspeed) beyond the initial funding. They thought it important that any such finance provided by BRB to Hoverspeed should be publicly and readily identifiable, and obtained from BRB a written assurance that the amounts, terms and conditions of any loans, advances, guarantees or financial support which it might make available in future to Hoverspeed would be published in a readily identifiable manner in BRB's own accounts.

9. The other aspect of competition which the Commission considered was whether the merger, by reducing the number of independent operators on the short sea routes, might make it easier for them to agree or to co-ordinate fares with each other. The Commission recalled the undertakings which, as a result of their Report on Cross-Channel Car Ferry Services in 1974, several operators (including BRHL) gave that, inter alia, they would not participate in any agreements relating to rates on fares for accompanied car business. They noted that, if the merger took place, BRHL's undertaking would cease to have effect and they concluded that such a development would be against the public interest. They therefore recommended that an undertaking should be sought from Hoverspeed similar to BRHL's undertaking and incorporating any changes to that undertaking acceptable to the Director General of Fair Trading. The Commission decided not to recommend a similar undertaking for foot passengers, because the undertakings which followed the Commission's 1974 Report dealt only with car ferry services.

10. The Commission then considered the alternatives to the merger. The first of these was that British hovercraft operations would cease on the cross-Channel routes, sooner or later. The Commission noted that there would thus be a reduction of competition, which would reduce the pressure on the ship ferry companies to maintain and improve the standard and variety of service they offer. They said that the disappearance of hovercraft from the market could be the more serious because of the uncertainty as to whether a substantial new ferry operator could enter the market. They also noted that it would deprive people of an alternative choice to ships. The second alternative was that one or both of the existing hovercraft operations might be acquired and run by another person or persons. The Commission, regarding such a possibility as slight, considered that there would be much more uncertainty as to whether such alternatives would provide effective and continuing competition to the other cross-Channel operators, as compared with the competition that might be provided by the merged company. They also addressed the question whether large hovercraft might emerge at some stage as more formidable competitors on the short-sea routes, and considered that the proposed merger held out the best hope of continued use of hovercraft which might lead to improvements in the present craft and provide a basis for the introduction of a new generation of hovercraft.

11. The Commission's general conclusion on competition was that the merger afforded the prospect of maintaining competition from hovercraft on the short-sea routes. It was only within the past two years that a noticeable increase in effective competition had emerged, and it was therefore even more important to maintain the movement towards increased competition.

EMPLOYMENT

12. The Commission regretted the projected loss of about 250 jobs, but noted that the merger would protect the rest - about 850 permanent and some temporary in the Summer.

BRITISH DEVELOPMENT AND PRODUCTION OF LARGE HOVERCRAFT

13. The Commission accepted the view of the British Hovercraft Corporation that the merger would provide a potential benefit to manufacturing industry in the UK, both for the introduction of a new type of large hovercraft and for improving the prospects of re-engining the existing craft.

THE INTERESTS OF CONSUMERS

14. The Commission believed that the merger, when compared with the alternative, would on balance be beneficial to consumers.

OTHER ISSUES OF PUBLIC INTEREST

15. The Commission did not consider that any other issues of public interest arose from the merger.

CHANNEL TUNNEL

16. The Commission understood that the earliest time by which a fixed rail link to France could be operational was about the end of the decade, and concluded that the Channel Tunnel was not a factor to be taken into account in reaching a decision on the proposed merger.

SUMMARY

17. The Commission's main conclusions were that the merger afforded the best prospect of maintaining effective competition from hovercraft on the short-sea routes, and that the maintenance of such competition was the more important in a market which had until recently not been noticeably competitive. They were concerned that the means by which BRB provided finance to the new company should be published and readily identifiable, and, in this respect, had obtained an assurance from BRB. They were also concerned to guard against the adverse consequences of the present undertaking (on fares for accompanied cars) by BRHL ceasing to have effect, and had therefore recommended that Hoverspeed should be required to renew BRHL's undertaking.

CONCLUSION

18. The Commission concluded that, if the enterprises carried on by or under the control of BRHL ceased to be distinct from enterprises carried on by or under the control of Hoverlloyd, that fact might not be expected to operate against the public interest, provided that an undertaking was given by Hoverspeed in respect of fares for accompanied cars under section 88 of the Fair Trading Act 1973.

Parliament

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

G.R.

Turn these two offerings into one letter pl, as indicated on DoT draft.

MJP 29/VI.

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

26 June 1981

Dear Mike,

Thank you for sending me a copy of your letter of 17 June to Peter McCarthy at Trade following up the exchange between the Prime Minister and Mr Jonathan Aitken, MP, at Question Time on 16 June. I have seen Peter McCarthy's letter to you of 26 June.

Mr Aitken's interest in the proposed merger between British Rail Hovercraft Ltd and Hoverlloyd Ltd no doubt stems from the fact he is Hoverlloyd's local MP. Since British Rail Hovercraft Ltd is a wholly owned subsidiary of the British Railways Board the consent of my Secretary of State will be needed under the Transport Acts before the merger can take place.

The Railways Board have not yet submitted detailed proposals but when they do Mr Fowler will consider them urgently. One of his aims will be to ensure the merged company is part of the private sector and so has the best possible chance of reversing the losses which - despite Mr Aitken's implication - both companies are suffering at present.

I attach a draft paragraph which picks up these points and which might be included in the reply to Mr Aitken.

A copy of this letter and enclosure goes to Peter McCarthy.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

DRAFT PARAGRAPH FOR LETTER TO MR AITKEN

"Because British Rail Hovercraft Ltd is a subsidiary of the British Railways Board the merger will need the consent of the Secretary of State for Transport under the Transport Acts. For that Norman Fowler will need to see detailed proposals from the Railways Board, setting out the structure of the company and the way it is intended that it will interact commercially with the Board itself, and with others. I know that he recognises the urgency of finding a satisfactory solution for the problems that both these companies have recently been facing. I am sure too that he will be seeking, if at all possible, to obtain a structure that would place the new company firmly in the private sector so that it would benefit from the freedoms and stimulus that that would provide."

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET
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From the
Minister of State
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

Mike Pattison Esq
Private Secretary
Prime Minister's Office
10 Downing Street
London SW1

26 June 1981

Dear Mike,

Your letter of 17 June requested a draft letter for the Prime Minister to send to Mr Jonathan Aitken MP following an exchange during Question Time about the Monopolies & Mergers Commission's report on the proposed merger of the British Rail Hovercraft operation with Hoverlloyd Limited. Mr Aitken has been in touch with Mrs Oppenheim about the MMC's investigation pressing for an early decision on whether the merger should be allowed to proceed. The report is being published today and I enclose a self-explanatory letter for the Prime Minister to send to Mr Aitken. I understand that the Department of Transport will be submitting to you direct an additional paragraph dealing with Mr Fowler's likely response to the proposed merger when the parties are ready to go to him for consent under the Transport Act.

I am sending a copy of this letter and enclosure to Anthony Mayer at the Department of Transport.

Yours ever,

Peter McCarthy

PETER McCARTHY
Private Secretary

DRAFT

File No.

Addressed to:

Jonathan Aitken Esq MP
House of Commons
London
SW1A OAA

Copies to:

Originated by:
(Initials and date)

H P N S
24.6.81

Seen by:
(Initials and date)

Enclosures:

Type for signature of

Prime Minister
(Initials and date)

DEPARTMENT OF

You asked me in the House on 16 June if, now that the Monopolies and Mergers Commision had reported on the proposed merger between British Rail Hovercraft and Hoverlloyd, I would use my influence to ensure that the merger was delayed no further by Government intervention. I understand that you have explained to Sally Oppenheim your particular concern that the Government's decision should be announced before new timetable arrangements came into effect on 4 July.

At the time you raised the matter the Government had, of course, only just received the Commission's report. We have, however, taken steps to publish it as early as possible, and ,as you may be aware, Sally Oppenheim announced publication on Friday 26 June. She has, I understand, made arrangements for you to receive a copy of the Press Notice. As you will note, the Commission have concluded that the merger may not be expected to operate against the public interest provided Hoverspeed reviews certain undertakings currently given to the Government by British Rail Hovercraft Limited. Provided the necessary undertaking is forthcoming the companies

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File No.

are therefore free to proceed with their negotiations. ~~with a view to submitting~~ specific proposal for appropriate consents by the Secretary of State ~~for Transport~~ as required under the Transport Acts.

Add O/Trans para.

B/F 26/6

Parliament

10 DOWNING STREET

From the Private Secretary

17 June 1981

I enclose an extract from Hansard (Col. 856) reporting an exchange between Mr. Jonathan Aitken, M.P., and the Prime Minister at Question Time yesterday. You will see that the Prime Minister undertook to look into the state of play on the proposed merger of the British Rail hovercraft operation with Hoverlloyd.

I should be grateful if you could let me have a draft letter for the Prime Minister to send, following up the point raised in this exchange, together with any background information of which she should be aware. It would be helpful if this could reach me by 28 June.

I am sending a copy of this letter and enclosure to Anthony Mayer (Department of Transport).

M. A. PATTISON

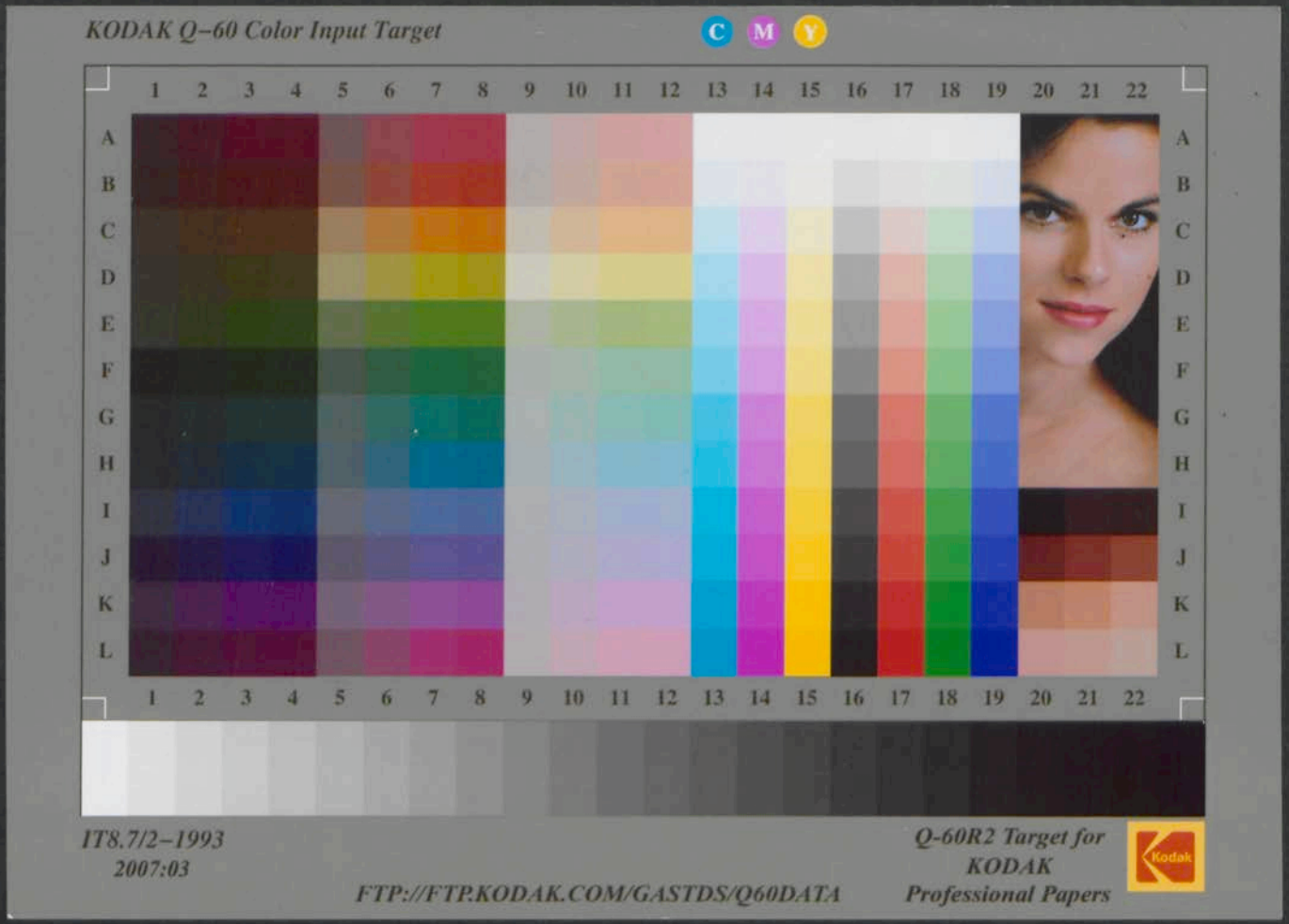
Peter McCarthy Esq
Department of Trade

HANSARD - 16 June 1981

Column 856

Mr. Aitken: Is my right hon. Friend aware that, far from needing a Royal Commission, many of the channel ports have already suffered from an exhaustive inquiry by the Monopolies and Mergers Commission, which has delayed the merger of the loss-making British Rail hovercraft operation with the succesful private enterprise operation, Hoverlloyd? Now that the Monopolies and Mergers Commission has reported, will she use her influence to ensure that the merger is delayed no further by Government intervention?

The Prime Minister: I shall see what I can do. I am anxious that all private enterprise ventures that would create new wealth and new jobs for Britain should be allowed to go ahead as soon as possible.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