

cc Nat Ind, June 79,
Shipbuilding
Blitz

bec Mr. Wolfson

HLS



Top Copy

: Prime Minister, Aug 79,
Call on PM by Sir David
Brown

Nat Ind

10 DOWNING STREET

From the Private Secretary

16 October 1979

COMMERCIAL - IN CONFIDENCE

Sir David Brown called on the Prime Minister at 1100 this morning. He told the Prime Minister that he was very dissatisfied with the compensation which the Department of Industry were offering for the nationalisation of Vosper's: their offer amounted only to £4.5 million, whereas the market valued the company at £35 million based on its performance right up to vesting day. Although he understood that the Department's offer had been worked out on the basis of the compensation terms in the Nationalisation Act, he still thought that the offer was totally unfair; he had also been advised that the Secretary of State could, if he so wished, offer compensation outside the terms of the Act. If the offer was not improved, the shareholders might well appeal to the European Court: he had been advised that they might well win such an appeal.

Sir David went on to say that he was concerned that the Government appeared to have no plans to sell the warshipbuilders back to the private sector. Since nationalisation, British shipbuilders had not received a single warship contract. If there was too much delay, the warshipbuilders would go into decline. He hoped that Sir Keith Joseph would bring forward plans for denationalisation in the near future.

The Prime Minister said that she noted the points which Sir David had made. Although she thought it would be difficult to offer compensation outside the terms of the Nationalisation Act, she was sure that Sir Keith Joseph would look into the issues which Sir David had raised; in addition, he would no doubt be considering the possibilities of selling the warshipbuilders back to the private sector, though the first priority must be to slim down and rationalise the merchant-shipbuilders.

Sir David handed over the enclosed note, which the Prime Minister has asked me to draw to your Secretary of State's attention.

T. P. LANKESTER

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Ian Ellison, Esq.,
Department of Industry.

VOSPER LIMITED - Compensation
covering the Nationalisation of
Vosper Thornycroft (UK) Limited
Vosper Shiprepairers Limited

1. It is now more than two years since Vosper Limited was deprived of its U.K. Shipbuilding and Shiprepairing businesses in consequence of the Labour Government's controversial Aircraft and Shipbuilding Industries Act 1977. To date only £1,350,000 has been received as payments on account and the highest offer of further compensation so far put forward amounts to £3,150,000. This is quite unacceptable since the total compensation would amount to little more than half the annual rate of profits being earned before nationalisation.
2. The record of the nationalised Vosper companies in the 5 to 6 years up to Vesting day was one of rapid and substantial growth.

Turnover and profits before taxation were :

		Turnover £M	Profits £M	Profit Margin %
Year ended	31.10.72	36.0	1.3	3.6
	31.10.73	39.5	1.7	4.3
	31.10.74	53.5	3.3	6.1
	31.10.75	76.0	4.1	5.3
	31.10.76	85.0	5.5	6.4
8 months to	30. 6.77	69.5	5.2	7.4

The turnover and profits for the last period before vesting day were thus at rates of approximately £100 million and £8 million per annum respectively.

3. The nationalised Vosper companies have been fairly valued by the Stockholders' representative, merchant bankers and stockbrokers at £35.4 million.

Nett tangible assets were £25 million. Goodwill is therefore £10 million. (Price/earnings ratio 8.5)

4. Since nationalisation Vosper Thornycroft (UK) Limited has continued to make substantial profits (British Shipbuilders' Accounts) thus confirming continuing success from contracts negotiated prior to nationalisation.

9 months to March 1978	£4,511,000.
12 months to March 1979	£10,730,000.

5. Orders in hand at Vesting day £267 million.

6. Vosper Shiprepairers was profitable prior to nationalisation but has sustained losses since from contracts negotiated since nationalisation.

9 months to March 1978	£3,733,000. loss
12 months to March 1979	£2,490,000. loss.

7. Members of the present Government when in Opposition agreed in debate that the compensation should be fair.
8. If no agreement can be reached with the Secretary of State, the matter will be taken to arbitration.

If the result of arbitration is unsatisfactory it is Vosper's intention to make application to the European Commission and Court of Human Rights at Strasbourg.

9. Counsel has advised that Vosper has good prospects of success at Strasbourg.
10. In the event that the Conservative Government were successful at Strasbourg, it would be setting a most undesirable precedent for a future Labour Government.
11. The Act provides for compensation to be based on the Parent Company's average share price during the reference period (1973/4) which has been rigidly adhered to in negotiation by the Department of Industry while disregarding Section 38(1) which provides that the compensation

"....shall be such as may be determined by agreement between the Secretary of State and the stockholders' representative...."

Queen's Counsel have confirmed that this gives the Secretary of State power to agree a fair figure.

12. It had been understood that it was the present Government's intention to de-nationalise certain elements of the Shipbuilding Industry and in particular, the warshipbuilders. Could we be advised as to why this was reversed and whether it is still the intention to de-nationalise at some stage.
13. It being in the interests of all concerned, not least the Conservative Government to resolve this problem without recourse to Arbitration and Strasbourg, would the Prime Minister ask Sir Keith Joseph or Mr. Butler to meet our Chairman and Stockholders representative (Mr. Richards of Deloitte) in an attempt to resolve this matter on a fair basis.

16th October 1979.

ment in subsidiary companies

Company	Where registered	Turnover	1979 Profit/(loss) before tax	Turnover	1978 Profit/(loss) before tax
Barclay Curie & Co. Ltd	Scotland (in 1979 a subsidiary of Vickers Shipbuilding Group Ltd.)	2,439	(1,379)	2,284	(778)
Benton Nominees Ltd	England	-	-	-	-
British Shipbuilders Pension Trust Ltd	England	-	-	-	-
Brooke Marine Ltd	England	15,128	1,721	12,808	758
Cammell Laird Shipbuilders Ltd	England	46,804	2,343	11,705	(26,233)
Clark Hawthorn Ltd	England	-	-	-	-
George Clark & NES Ltd	England	11,387	(1,471)	10,010	(695)
Falmouth Shiprepair Ltd	England	7,704	(3,138)	5,567	(871)
The Goole Shipbuilding & Repairing Co. Ltd	England	10,402	(1,435)	7,845	97
Govan Shipbuilders Ltd	Scotland	33,933	(13,539)	53,056	(9,951)
Hall Russel & Co. Ltd.	Scotland	14,754	160	3,030	229
Hawthorn Leslie (Engineers) Ltd	England	5,401	(787)	4,558	132
*John Kincaid & Co Ltd	Scotland	12,267	24	6,749	(2,910)
River Thames Shiprepairs Ltd	England	7,089	(5,214)	4,852	(2,702)
Robb Caledon Shipbuilders Ltd	Scotland	12,439	(11,725)	12,914	(7,616)
Scott Lithgow Ltd	Scotland	56,614	(12,473)	22,328	(23,809)
Scott Lithgow Drydocks Ltd	Scotland	1,461	(918)	9,599	(345)
Shipbuilding Publications Ltd	England	-	-	-	-
Smith's Dock Company Ltd	England	46,743	(6,032)	22,224	(6,500)
Sunderland Shipbuilding & Engineering Co. Ltd	England	95,117	3,642	66,407	3,699
Swan Hunter Shipbuilders Ltd	England	106,942	(15,761)	100,705	(11,366)
Swan Hunter Training & Safety Co.	England	1,031	94	637	60
Tyne Shiprepair Group Ltd	England	32,063	(8,373)	16,399	(3,919)
Vickers Offshore (Projects & Developments) Ltd	England	636	(5)	Not a subsidiary 19	
Vickers Shipbuilding Group Ltd	England	147,297	9,025	93,121	4,887
Vosper Shiprepairers Ltd	England	7,810	(2,490)	8,056	(3,733)
Vosper Thornycroft (UK) Ltd	England	99,434	10,730	63,180	4,511

Investment in subsidiary companies (continued)

	where registered	Turnover	1979 Profit/ (loss) before tax	Turnover	1978 Profit/ (loss) before tax
Arrow Shipbuilders Ltd	England	52,582	3,099	29,654	1,789
Arrow (Training) Ltd	Scotland	244	-	163	-