



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

COMMERCIAL IN CONFIDENCE

at the top

T P Lankester Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

*Ami M...
For information*

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[Handwritten signature]

19/11/80

19 November 1980

Dear Tim,

I am writing to let you know that British Railways Board and Brostroms are announcing this evening that they are discussing arrangements to bring together their companies, British Rail Hovercraft Limited, and the privately owned Hoverlloyd with a view to establishing a joint operating company for cross-Channel hovercraft services. This follows failure by French interests to follow through negotiations involving Hoverlloyd, the French hovercraft operator and two French banks.

If the talks succeed, that should be a helpful step towards privatisation. No commitments will be entered into by BRB until my Minister has considered a worked-up proposal. I attach a background note.

I am copying this letter to Private Secretaries in interested Departments: John Wiggins, Treasury, Stuart Hampson, Trade, Ian Ellison, Industry, George Walden, FCO and Brian Norbury, Defence.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

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MERGER OF CROSS CHANNEL HOVERCRAFT COMPANIES

BACKGROUND NOTE

The Railways Board's wholly owned subsidiary, British Rail Hovercraft Ltd (BRHL), is beginning merger negotiations with the rival hovercraft operator Hoverlloyd which has been on the market for over a year. The intention is to establish a joint operating company for cross-Channel hovercraft services. At present there is no intention to include the third operator, the French Railways, in the new company.

Separately the prospects of the two companies are poor. In 1979 they both made a loss before interest and tax. Joint operation offers considerable economies of scale and is the best hope for continued operation on the Channel of British hovercraft. Without a merger, closure of both services is a real possibility.

This proposal does not affect the Board's and Government's intention of introducing private capital into BRHL (enabling powers will be contained in the forthcoming Transport Bill). On the contrary, if negotiations are successful and are accepted by Ministers the Board's interest in the resulting company should be more attractive to private risk capital than is BRHL itself.

The Railways Board have been told that no public money will be made available ^{to Council} for the proposed company, and that it must not constitute an extension of the public sector.

The British Hovercraft Corporation are known to favour the rationalisation of hovercraft services, since this is expected to generate future orders. They have been informed of this proposal by BR who hope that they will be prepared to take a share in the new company. This would reduce public sector involvement.

Finally, there are monopolies implications, and if negotiations are successful the Director General of Fair Trading will have to decide whether to recommend referral to the Monopolies and Mergers Commission

Department of Transport

17 November 1980

Commercial in Confidence ANNEX

FACT SHEET

	<u>BRHL</u>	<u>Hoverlloyd</u>
Owner	British Railways Board (100%)	Brostrums, Sweden (100%)
Routes	Dover - Calais Dover - Boulogne	Ramsgate - Calais
Fleet	Stretched Super 4s x2	SRN4 MkII x 4
Capacity (each craft)	416 passengers 55 vehicles	280 passengers 37 vehicles
<u>Financial Results</u>		
Operating Profit £m (before interest & tax)		
1978	(2.2)	0.6
1979	(0.8)	(0.4)

Brackets denote loss.

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