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~~MR POWELL~~

4 June 1986

PRIVATISATION OF THE ROYAL ORDNANCE

The Royal Ordnance was due to be privatised this summer. As with all such privatisations this has involved establishing new relationships and dividing lines between Government and the industry concerned. This has been particularly difficult for the Royal Ordnance and MOD because of their historically integrated structure. Nevertheless, there has been ample time and the MOD have approached the problem with a will. This is more than can be said for the RO who up to the eleventh hour and beyond have been turning up new issues or wishing to renegotiate old ones.

The RO have now presented a final list of demands and are insisting that the MOD concedes them in full if privatisation is to proceed. The list goes from the absurd (the unprivatised atomic weapons 'Royal Ordnance factories' must be renamed immediately) to the impossible (the MOD should settle a contract dispute between Royal Ordnance and Hunting). On the substantive issues they want legally binding agreements on access to MOD ranges and research establishments, to be effectively a sole supplier to the MOD in some equipment areas, and to renegotiate the arrangements on intellectual property. Although there may be some room for compromise, (MOD has already bent over backwards), it cannot possibly give way in toto.

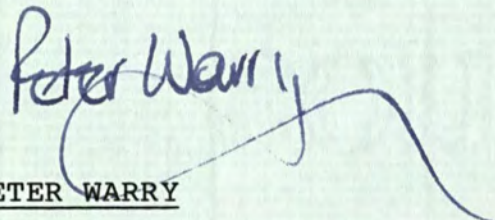
Unfortunately, the Royal Ordnance directors will not necessarily see sense - the Chairman is a weak, vacillating man and the Chief Executive an old style industrial hard man with a tendency to go through a wall rather than round it. George Younger is having his final crunch meeting with the RO (including Lord King who is a non-executive director) this evening. Short of a dramatic last minute change,



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George Younger seems certain to recommend that the privatisation be cancelled.

This must be right - the long term cost of conceding the RO terms must outweigh the proceeds from the sale, and in any event it would be an unfortunate precedent to give in to such naked blackmail. Against such a background, privatisation, even with a totally new management team, must be out until after the Election. Sale of parts - Vickers would be interested in the troublesome Leeds and Nottingham factories - would be possible and should be strongly pursued.

A handwritten signature in blue ink that reads "Peter Warry". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

PETER WARRY

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