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CCB/S  
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Chancellor of the Duchy of Lancaster

PRIME MINISTER

FLOTATION OF ROYAL ORDNANCE PLC

I have seen a copy of George Younger's minute to you of 13 June. Unfortunately, I shall not be able to be present tomorrow when discussion is to be continued.

As a result of decisions and actions taken last Autumn and before, we have been put in the position of having to make an invidious choice. I sympathise with George's position. However, I cannot agree that we can now proceed with the flotation as planned. Desirable as it is to see ROF in the private sector, to do so under these circumstances would be grossly unfair to Vickers and constitute a travesty of our commitment to competition in defence procurement.

If we were to proceed, I have no doubt of the way in which this affair would be portrayed. Disgraceful neglect of the implications of the transfer of IPR to ROF; open-ended non-competitive contracts for the 5th and 6th Regiments of Challenger having to be clawed back by a further order; the 7th Regiment order was given to ROF to make it a desirable commodity for privatisation; the manipulation of contracts and IPR, handed to them on a plate by MOD, are used by ROF to exclude Vickers and to exert pressure on HMG, their only shareholder. No amount of effective presentation can make this story palatable.

The point we have reached now is such that I believe that we have no choice but to cancel the flotation, place a contract with ROF and sell the assets concerned to Vickers.

We should then, I suggest, be able to argue the case for our action on three main grounds:

- the need for privatisation candidates to be fully ready for the market;
- the need to ensure a satisfactory return to the taxpayer;
- the need to leave the industry concerned stronger in international competition as a result of privatisation.

I am sending a copy of this minute to the Lord President, Chancellor of the Exchequer, Secretaries of State for Defence and Trade and Industry, the Attorney General and to Sir Robert Armstrong.

  
NORMAN TEBBIT

16 June 1986

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UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C.

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