

SUBJECT
cc Master

CONFIDENTIAL

EL3BF00



10 DOWNING STREET

From the Private Secretary

17 June 1986

Dear John,

FLOTATION OF ROYAL ORDNANCE PLC

The Prime Minister this morning held a meeting to discuss the privatisation of Royal Ordnance plc. Present were the Lord President of the Council, Chancellor of the Exchequer, Secretary of State for Defence, Solicitor General, Financial Secretary, Minister of State for Defence Procurement, Minister of State (Department of Trade and Industry), Mr. Nicholas Bevan (Ministry of Defence) and ~~Sir Robert Armstrong~~.

Brian Urwin

The meeting had before it a minute from the Secretary of State for Defence of 13 June, and minutes by the Chancellor of the Duchy and the Solicitor General of 16 June.

In discussion it was recognised that there would be both advantages and disadvantages to a sale of Royal Ordnance at this stage. There was a risk that the sale might fail. The advice from Rothschilds was that it should be possible, though their views were hedged with qualifications and they would have advised against proceeding if the sale were being made on a commercial basis. The company was still very inefficient and a number of its present contracts had run into difficulties. On the other hand, RO was more likely to be turned round once it was in the private sector than if it remained in the public sector, and to sell the company in parts would probably leave the Government with the majority of the problem areas to sort out. There had also earlier been great opposition to selling the company in parts.

It was recognised that the order for the 7th Challenger Regiment presented special difficulties. It was likely that the order would go to Leeds whether or not RO were privatised now, in part because it could take six months to a year to run a competition. Vickers would be particularly critical of such a decision unless they were given an opportunity to bid to buy the Leeds factory plus the Challenger order. A contrast would also be drawn between the decision to place Challenger on a non-competitive basis and the Prime Minister's remarks in the House of Commons that BA should be free to take a decision about engine procurement on its merits.

CONFIDENTIAL

500

Attention was drawn to a letter dated 24 January from Mr. David Plastow of Vickers to the Secretary of State for Defence in which he claimed he had been given an assurance that future orders beyond the 5th Regiment would be awarded on the basis of open competition. Officials who had been present at the meeting denied that any such assurance had been given, but the position needed to be further studied in relation to the advice given in the Solicitor General's letter of 16 June.

Bringing this part of the discussion to a close, the Prime Minister concluded that the privatisation of RO could not go ahead in July. Your Secretary of State would need to inform Mr. Bryan Basset, Chairman of RO, and an announcement could then be made by Written Answer which would say simply that the privatisation had been deferred. The possibility of a later sale of the company as a whole should not be closed off in the announcement or in public statements. A full paper on options for the future of RO should be prepared by the Ministry of Defence, in consultation with the Treasury, for discussion at E(A). This would also need to consider the order for the 7th Challenger Regiment. It could be difficult to award this order non-competitively, though it might help if the decision were seen in the context of a rationalisation of UK tank production capacity. Your Secretary of State would need to see Mr. David Plastow. He might indicate the options which were now being considered by the Government for the future of RO, and particularly the Leeds and Nottingham factories, and seek an extension of the deadline which had been set by Vickers for their willingness to carry out the contract for production of ARRVs.

The meeting concluded with a brief discussion of future options for NIMROD. If a new airframe were needed the choice of engines would be a sensitive decision, though a suitable Rolls Royce engine was not now available for Boeing 707s. It was noted that the present GEC contract ran to the beginning of September. A paper should be brought to OD in September.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (H.M. Treasury), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Michael Saunders (Law Officers' Department), Vivien Life (Financial Secretary's office, H.M. Treasury), Simon Routh (Minister of State for Defence Procurement's office, MOD), Malcolm McHardy (Minister of State's office, DTI), Nicholas Bevan (Ministry of Defence) and Michael Stark (Cabinet Office).

John

David

DAVID NORGROVE

John Howe, Esq.,
Ministry of Defence