

CONFIDENTIAL

ed JV



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)

MUS 5/11

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

5 November 1982

Dee Patrick

DISPUTE BETWEEN THE BRITISH STEEL CORPORATION  
AND THE BRITISH TRANSPORT DOCKS BOARD

As we agreed when we discussed this matter on 1 November I have again been over the issues with the Chairman of BTDB to see whether there was any further ground which might be given by BTDB as a basis for a quick settlement out of court. But there clearly is not - at least as far as the Docks Board and their City advisers are concerned. And the City advisers, Kleinwort Benson and Cazenove, are unequivocal in their view that there can be no successful flotation until the issue is settled.

The Board are also quite clear that, in their present offer, they have already gone as far as they responsibly can. It has meant offering concessions on a long-standing contract (based on Treasury requirements for capital investment at the time) which will significantly reduce the value of the Board's business and hence its sale price. They defend having moved this far on the grounds that the changes involve a re-scheduling rather than a re-negotiation of the contract. But they feel, quite rightly in my view, that they have now stretched to the limit the bounds of both financial propriety and business prudence; and they have gone this far only to assist the Government in achieving its political objective of an early privatisation, not in response to the special pleading of BSC. To give way to BSC on this contract would have serious "knock-on" consequences for the Board's many other similar long-term contracts. Our independent advice is that these would cast a shadow of uncertainty over future revenues from contract-based operations which would effectively prevent a successful flotation.

# CONFIDENTIAL

Of course I fully recognise that BSC's single-minded aim in all this is to reduce their costs. That is wholly commendable. It is their approach that is worrying. To withhold substantial payments under a long-standing contract as a means of bringing pressure to bear on the much smaller BTDB to re-negotiate the contract is not the right way to do business. To condone that approach would be to undermine business confidence in contractual relationships with the nationalised industries which are in difficulties.

From the Government's point of view the question is one of political priorities. If we agree, as surely we must, that the privatisation of BTDB is the immediate political priority in this case, then Ian MacGregor must be persuaded to accept the existing contract as a business reality, however unpalatable, and settle on the basis of BTDB's concessionary offer. If he is not - and, as you know, the Government has no powers to intervene - then BTDB will withdraw their present offer, which has been put forward explicitly "without prejudice", and the matter will go before the court at the earliest on 12 January. The Board are confident of the strength of their case, and BSC will have to face the prospect of an adverse decision on the basis of the contract without the concessions at present on the table. It is difficult to see how the game can be worth the candle from their point of view other than as a convenient delaying device.

It goes without saying that it should be quite unnecessary for two state Corporations to go to such lengths over an issue of this kind. But it would be really intolerable if what must be a relatively small matter for BSC were to be allowed to frustrate our privatisation policy in this case by recourse to tactical delaying devices of this kind. I hope you can now persuade Ian MacGregor to accept the concessions BSC have already obtained and settle this business quickly so that this sale can go ahead in January as we want. A settlement on these terms would be an improvement from BSC's point of view

# CONFIDENTIAL

CONFIDENTIAL

and of course there will be nothing to prevent BSC from pursuing their cost-reducing objectives with a privatised BTDB in the normal course of business.

Unless you can get Ian MacGregor's agreement to settle within the next few days I see no alternative but to tell our merchant bank that a January sale is off. We cannot have them stimulating interest in the City only to cancel the sale at the last moment. Before taking this step I would of course want to discuss the situation with our colleagues.

I am copying this to the Prime Minister, Geoffrey Howe, Nicholas Edwards, Nicholas Ridley, Norman Lamont and to Sir Robert Armstrong.

*You are*

*David*

DAVID HOWELL

CONFIDENTIAL

Econ MR Act

Pub Sector Assets

9 10 11 12  
B  
7  
6  
5  
4  
3

NOV 1982

CONFIDENTIAL

Exec Pol  
Dist Prod A  
Public Sub  
Arrest  
P.S

cc JV  
Exec Pol



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Prime Minister (2)

MS 22/10

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

20 October 1982

Dear Patrick

DISPUTE BETWEEN THE BRITISH STEEL CORPORATION AND THE  
BRITISH TRANSPORT DOCKS BOARD

I wrote to you about this on 24 June, and there have since been discussions between our officials. BTDB have been attempting to resolve the deadlock with the BSC, but so far with a total lack of success. In addition, as your people know, the BTDB commissioned a report from Price Waterhouse, jointly with my Department, to examine the figures and assess their implications for the successful flotation of BTDB, and your people have had a summary of the conclusions of that report. This has also gone to Treasury officials.

I recognise that BSC have many more difficult and apparently pressing issues to deal with, and that this is making great demands on your time. But it has now become extremely urgent to settle the dispute if flotation is to be practicable in January next as we plan. The purpose of this letter is to suggest that, despite all the other difficulties, we really must have an early talk, and then quickly see Ian MacGregor thereafter.

CONFIDENTIAL

CONFIDENTIAL

BTDB are convinced that they have right on their side. They take the view that there is a legal agreement on which they are entitled to rely. But in an attempt to get a solution they have already made an offer of substantial concessions to BSC which would, as I am advised, reduce the likely value of the BTDB business, overall, by at least £5m. Price Waterhouse have confirmed that the concessions which BTDB have offered are substantial. However, BSC are pressing for a radically different agreement which would, in the view of the merchant bank advising me on the flotation, reduce the total value of the business to an extent that would put the possibility of any flotation at all at risk.

Put simply, Kleinworts advise me that we cannot hope to proceed with a successful flotation until this dispute has been resolved. Furthermore, flotation will be endangered if BTDB are forced to make concessions going beyond the offer they have already made. The amount at issue for the BSC may seem small in their terms, but the results are crucial if we are to float half the shares in BTDB, which is of course a very much smaller commercial undertaking.

In my view, and despite all the other graver issues facing the BSC, it has now become a political priority that Ian MacGregor should be persuaded to settle this matter, more or less on the basis already offered by BTDB. If the matter goes to the Courts, BTDB are confident that they will win. But the delay involved will make flotation impossible in January, and it is far from clear that flotation will be practicable this Parliament. That seems to me an intolerable prospect.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nicholas Edwards, Nicholas Ridley and Norman Lamont.

*Gans*  
*David*

DAVID HOWELL

CONFIDENTIAL

20 OCT 1982

9 8 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31