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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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The Rt Hon Michael Heseltine
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1A 2HB

29 February 1984

Dear Michael

SEALINK: PRIVATISATION AND DEFENCE

When I met John Stanley on February 6 to discuss this question I promised to consider sympathetically the possibility of restricting Sealink from "flagging out" any of its ships at any time, after privatisation, without Government approval. The proposition was that Sealink's Articles of Association would require its ships to continue on the UK register, except where express permission was given by the Government holder of a "special share".

I can confirm that the company will not go to a buyer we consider unsuitable on defence grounds, because the sale will require my consent, on which I will naturally consult you. However, compelling difficulties have arisen in the concept of a legal restriction on flagging out after privatisation.

I have just learned that the report of the Monopolies and Mergers Commission (MMC) on the bid by Trafalgar House for P&O is due to be published in mid-March, within days of the invitation of bids for Sealink. I think you will know that in October I agreed a statement on defence, cleared with the Ministry of Defence, as suitable for attributable publication in the MMC's report: the report now says:-

"It appeared to us that the Government must have formed some view of the effects of flagging out upon the requirements of national defence. We therefore consulted the Department of Transport, who are responsible for these matters, and the following reply was given with the authority of the Secretary of State:

The role that the Merchant Navy might play in support of defence forces in times of emergency or war is kept under review by the Government. The Merchant Navy continues to be able to meet foreseen defence needs. In these circumstances the Government does

not consider it necessary to place restrictions for defence reasons on the flagging out or sale abroad of ships registered in the United Kingdom.

This appears to us to cover the defence aspects of the issue".

There is a statutory procedure for Norman Tebbit to excise passages from MMC reports in the national interest before publication; but I think the importance of this passage to the MMC's conclusion is such that it could not be excised.

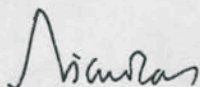
In this light I am afraid we could not defend special restrictions on flagging out of Sealink vessels. There is sustained pressure from the Maritime unions, and other interests, to stop flagging out by British shipowners. We should be challenged to justify the distinction we were seeking to make between Sealink on the one hand and P&O and other shipping companies on the other. We could not claim that Sealink makes a unique contribution to our contingency plans for cross-channel reinforcement, because the contribution of European Ferries is now as great, and that of P&O is also substantial. Our opponents would quickly seize on and exploit our giving one set of rules to the MMC for P&O, while ourselves playing by another over Sealink. We should be held to have abandoned the advice we gave the MMC and thereby invalidated their report. P&O themselves would press this point strongly.

I do not anyway think Sealink at all likely to register ships under a foreign flag once privatised. It has not sought to do so hitherto: nor have its British competitors already in the private sector. Even if it wished to do so, I am sure it would find the industrial difficulties insuperable. British shipowners take it for granted that it is not industrially practicable to flag a vessel out and continue to operate it into and out of British ports. The threat of "blacking" is too potent, above all for ferries, for which the confidence of a quick and troublefree turnaround in port is of course essential. Fortunately, cross-channel ferry traffic is growing; and the British flag share of it is high, and holding up well. Whether this continues however will naturally depend on the competitive success of our operators. Privatisation of Sealink will contribute to this; and will thus help our defence plans as well as our economic interests.

We recognised anyway that a "special share" restriction could be circumvented. Proposing it could therefore leave us dangerously exposed. Once our opponents had seized on its weaknesses we could find ourselves driven to impose more burdensome constraints on the company, however unnecessary, which could of course jeopardise its sale.

I hope therefore that you and the colleagues to whom I am copying this letter will agree that we should now proceed with the privatisation of Sealink to a buyer acceptable on defence grounds, without encumbering its subsequent commercial operations further than those of other ferry companies. If this is agreed I hope British Rail will publicly invite bids in mid-March.

I am copying this letter to the **Prime Minister**, the Chancellor, the Secretaries of State for Foreign Affairs, the Home Department, Trade and Industry, Northern Ireland, Scotland and Wales, to the other members of E(DL) and to Sir Robert Armstrong.



NICHOLAS RIDLEY

Exam No. 159

Privatisation

1 - MAR 1984



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NB PM

AT

2913

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

23 March 1984

Dear Nigel

SEALINK PRIVATISATION

Michael Heseltine and I disagree on one point about the privatisation of Sealink. It concerns flagging-out of Sealink vessels, and has been dealt with so far in correspondence (my letter of 29 February and Michael's of 19 March, both copied to you). We need to settle this quickly if the Sealink privatisation timetable is not to slip; the plan is for the prospectus to be with the printers by Friday 30 March at the latest, so that it can issue in the following week. I should therefore be grateful if you would chair a meeting with the two of us as soon as possible to resolve the issue. If you agree, my office will be in touch to arrange a time.

I am copying this letter to the Prime Minister, Michael Heseltine, and Sir Robert Armstrong.

Nicholas Ridley
AT

NICHOLAS RIDLEY

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 6169

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19th March 1984

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SEALINK

Thank you for your letter of 29th February.

I am sorry you have found it necessary to reconsider your earlier view about restricting Sealink from "flagging out" its ships without Government approval. The MOD has, of course, always known about the "open register" policy and agreed your Department's recent statement of the defence aspects of that policy to the Monopolies and Mergers Commission. However that statement was clearly made in the circumstances of the Trafalgar House bid for P&O. The sale of Sealink, which of course I strongly favour, has a significant defence dimension of its own.

As John Stanley explained at his meeting with you, the Sealink ships represent about one third of the total we need for our cross-channel reinforcement plans, the importance of which needs no stressing. Once these ships are in private ownership it is only by ensuring that these ships remain under the British flag, unless Government approval to flagging out is obtained, that we can keep them within the scope of our requisitioning legislation.

The Rt Hon Nicholas Ridley MP



We are I think now agreed that the inclusion of a restriction on Sealink from flagging out its ships without Government approval presents no legal difficulty. We also do not consider that it should materially affect the sale price given the fact that the new Company will of course still be free to sell its ships to whomever it wishes. This being the case, I must ask that we include a restriction on "flagging out" without Government approval.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Foreign Affairs, the Home Department, Trade and Industry, Northern Ireland, Scotland and Wales, to the other members of E(DL); and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

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19 MAR 1984

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL: MARKET SENSITIVE
The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
London SW1P 3EB

NBM

AT 8/3

8 March 1984

SEALINK: PRIVATISATION AND DEFENCE

In your letter of 29 February to Michael Heseltine you invited agreement to the proposition that we should now proceed with the privatisation of Sealink to a buyer acceptable on defence grounds but that we should not impose any further restrictions - especially as regards "flagging out".

My predecessor last wrote to yours on 20 May 1982 when he drew attention to our interest in the food side of re-supply and reinforcement in wartime. This is only a comparatively small part of the overall defence requirement and it will be for Michael Heseltine to respond on this. For my part, however, I think that the safeguard you propose of not approving the sale to a company considered unsuitable on defence grounds should safeguard our interests and I fully accept that for practical reasons "flagging out" seems to be a most unlikely development.

I am copying this letter to the Prime Minister, Geoffrey Howe, Leon Brittan, Jim Prior, Michael Heseltine, George Younger, Nick Edwards, other members of E(DL) and to Sir Robert Armstrong.

MICHAEL JOPLING

8 MAR 1984



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MINISTER OF STATE FOR
THE ARMED FORCES

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2216 (Direct Dialling)
01-218 9000 (Switchboard)

NRPM
AT 30/1

D/MIN(AF)/JS/1/5

26 January 1984

Rt Hon. Nicholas Ridley

SEALINK PRIVATISATION

You wrote to Nigel Lawson on 6 December about your plans for the privatisation of SEALINK, and there was a subsequent exchange of letters with John Lee and a further letter from Michael Heseltine's Private Secretary suggesting consultation between officials with the aim of providing a final view as early as possible. Our officials met on 5 January and we have since been considering the very real defence implications of the privatisation of SEALINK.

I can say straight away that we consider that there is no reason to hold up the sale of SEALINK, which I very much support. The only issue is whether the contingent defence needs for SEALINK's ships are such as to justify ensuring that the basis of the sale enables HMG to maintain a definite ability to requisition SEALINK's ferries for cross-Channel reinforcement. On present plans SEALINK provides the largest single component of the British-owned shipping that would be requisitioned for this purpose - about a third. Its loss from UK control would therefore be potentially extremely serious. I appreciate that it could be made good by other NATO countries but how quickly and how certainly is open to question and any doubt on either point increases the risk of delay to our planned reinforcement.

It seems to me therefore that we need to examine urgently what can be done to ensure that no SEALINK ship can be sold to a foreign owner or registered under a foreign flag without HMG approval and thus escape liability to be requisitioned under the royal prerogative. I understand that this would be possible legally and I should be grateful to know whether you would feel able to accommodate such a provision without detriment to the terms of sale.

I am copying this letter to recipients of yours.

John Stanley
JOHN STANLEY

Rt Hon Nicholas Ridley MP

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50 JAN 1984

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SECRETARY OF STATE FOR TRANSPORT

Sealink: Privatisation and Defence

1. Thank you for copying to me your letter of 29 February to Michael Heseltine.
2. I have no objection to privatisation proceeding on the terms you suggest.
3. I am copying this minute to recipients of yours.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office
16 March, 1984

ECON POC: Privatisation

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16 MAR 1984