



PRIME MINISTER

SEALINK

This minute is to inform you about the latest position on the Sealink sale, and the necessary timescale for decisions.

We decided last December to proceed by means of a trade-sale because a flotation could not be an early prospect in the light of the profit record of the company, and we believed that both the company itself, and BR, would be better off when it was privatised. BR and their advisers Morgan Grenfell have since been pursuing that path; it has taken longer than was originally envisaged because of the need for audited results, and problems of defining a satisfactory series of contractual relationships between BR and Sealink for the future.

BR have confirmed to potential purchasers that they would like to receive their competitive bids this Friday 6 July. Although that timescale is very short the bidders have been working on that assumption, and, as I shall explain, there are good reasons for avoiding any delay.

The Nature of the Bids

Although BR's aim has been to achieve a set of unqualified bids, which could be compared solely by their value, it has become increasingly evident that that will not be attainable. The performance of the company this year has been disappointing compared to the bullish forecasts that the management were making at the end of the year. Bidders attempting to form an



independent view of Sealink's potential have also found that the internal management information systems that were thought adequate between BR and its subsidiary, do not provide sufficiently reliable information about the current performance of the business for their purposes. As a result of these uncertainties, one potential bidder, Trafalgar House, has decided - in spite of having invested a great deal of time, effort and money - not to bid at all. Others have said that they will bid, but they have reservations about particular aspects of their future contractual relations with BR, and will want to qualify their bidding in that respect. I had already made it clear to BR that they must not impose on Sealink, in the last days of their ownership, contracts which would not reflect a reasonable balance between the interests of BR and the purchasers. But even with that limitation it has become clear that we and BR will face a need to make judgements between bids with differing qualifications attaching to them.

In the circumstances I have naturally given careful consideration to the possibility of deferring the sale. But I have concluded that we must now continue at least to the point of obtaining bids. I have been advised by my own merchant bank advisers, Hill Samuel, on the manner in which the bids are being invited, and they say that in their opinion nothing in the contractual terms themselves is of a nature that would deter an otherwise serious bidder from making a bid, or would result in a material lowering of the value.

There are strong financial arguments against any deferral. If it becomes public knowledge that Trafalgar House have decided not to bid this may well affect the attitude - and the bids - of other parties. Trafalgar agreed that they would keep their position confidential till the end of this



week, but felt that they could not do so thereafter. Another likely bidder, the Sealink Consortium, put together by Charterhouse J Rothschild, and involving the National Freight Company, have also made it clear that they will only be able to make a low and highly qualified bid, and this information too might emerge very soon.

We have always made it clear that if none of the bids comes up to scratch, there will be no sale. However if that happens we must recognise that it will have been because the company has been judged by competent bidders to have greater problems than they believe can readily be sorted out. We would therefore certainly be committed to an extended period - of at least two years or more - before a sale could be attempted again. Restructuring and rationalising would involve a good deal of public money, and diversion of BR management effort. Such a process would be far more effectively conducted in the private rather than the public sector, and if at all possible that should remain our aim.

For completeness in reviewing options, I should mention the one most recently suggested in the correspondence between European Ferries and Norman Tebbit - that the company should be sold in separate parts. That too is not in any way a short-term possibility. To sell the whole harbours business as an entity separate from the shipping would leave all the very difficult problems of establishing rights of access to the harbour slots. It is clear that none of the present bidders is willing to contemplate the purchase of the shipping side alone, without guaranteed rights to harbour places. Similarly the harbour business derives the great bulk of its income from Sealink ships and could prove extremely difficult to sell unless guarantees about the continuation of the shipping business could be given. I am advised that the sale



of individual harbours would probably require private legislation, or some alternative means of separating individual rights and duties from those of the present Harbour Company, and that would inevitably take a long time. It would, of course, also face intense opposition within Sealink itself and so would make desirable management changes more difficult, by providing a focus for discontent.

The Next Steps

The next steps are clearly the receipt of bids and any necessary clarification of the bidders' terms.

The remaining likely bidders are:

Sea Containers

Ellermans

Common Brothers (possibly)

The Sealink Consortium will submit only a heavily qualified bid.

Common Brothers entered the field late, and may well not turn out to be serious contenders, but they will be asked to give a price indication on 6 July, and will be told that they will be welcome to come forward with something firmer during the following two weeks, as discussions continue with the other contenders. Brief facts about these companies and Sealink itself are at Annex.

We need to ensure that the Sealink fleet will continue to be available for defence purposes, and I have devised, in consultation with Michael Heseltine and Nigel Lawson, an arrangement to achieve this by means of a "special share", which I will hold. I will exchange undertakings with the



buyers that Government will not use the power of the special share to intervene in the commercial operation of the company except on grounds of national defence. I believe that all bidders are likely to be content with these arrangements, and if so we will have no reason to distinguish between them on defence grounds. All the potential bidders have also been cleared by the Office of Fair Trading as presenting no problems of competition policy.

All this obviously leaves a difficult problem of timing in reaching a conclusion on whether or not I should give my consent to a sale. Essentially BR as the sellers, and their advisers, Morgan Grenfell, will be conducting a negotiated sale at a time when it could well become increasingly clear to the party concerned that they are becoming the only serious contenders. In order to clinch a deal it may be necessary to act quickly. All the bidders have indicated that they will aim, subject to prudent commercial considerations, to continue to operate the business on the present lines, and the defence and competition aspects are safeguarded. I will report to colleagues when bids are in, but I hope you will feel that any decision needed can be settled with you and the Chancellor.

In view of the commercial sensitivity of the information contained above I am copying this only to Nigel Lawson and Sir Robert Armstrong.

A handwritten signature in black ink, consisting of stylized initials 'NR' followed by a long, sweeping flourish.

NICHOLAS RIDLEY

5 July 1984

SEA CONTAINERS LTD. (SCL)

President: James B. Sherwood

SCL is a Bermudan Company whose shares are quoted on the New York and London Stock Exchanges.

Activities

The Company's main business is the ownership and leasing of marine container assets worldwide particularly specialised containers but it also leases container ships and cranes. Its customers are mainly the liner ship operators. The company also manufactures container and refrigeration systems with factories in Yorkshire and Singapore. The administrative headquarters of the Group is in London.

SCL has an associated Company, SeaCo Inc. which has interests in property development, leisure and retailing. SeaCo owns the Venice Simplon Orient Express rail service and eight hotels five of which were acquired from British Rail in the 1983 privatisation programme.

SCL Financial Highlights 1983 -

Turnover £102m	Pre tax earnings £27.5m
Total assets £560m	

Shipping

SCL is active in the design, owning and operating of deep-sea container vessels but is not in the passenger shipping market.

ELLERMAN LINES PLC

Owners

Ellerman Lines was taken over in 1983 by hoteliers and caterers David and Frederick Barclay using a holding company now called Ellerman Holdings and chaired by Lord Matthews, Deputy Chairman of Trafalgar House.

Activities

Ellerman lines are British registered and engage in cargo shipping, brewing, travel and leisure. Their attempt to sell a brewing subsidiary J W Cameron to Scottish and Newcastle Breweries for around £56 million was recently blocked by the need for an MMC reference.

Turnover

£248.9 million (to 31 December 1982) of which
£86 million was in shipping, £70 million in travel and
leisure.

Shipping

Ellerman Lines PLC owns or operates 16 container ships; the company's subsidiaries are Domino Container Ships Ltd, Ellerman Harrison Container Lines Ltd, and HCL Shipping Ltd. Associates include Associated Container Transportation (Australian) Ltd in which Trafalgar House also has a minority holding.

THE SEALINK CONSORTIUM

Composition

Charterhouse J Rothschild have assembled a consortium consisting of themselves, Globe Investment Trust Plc, the National Freight Consortium Plc, James Fisher and Sons Plc and the executive directors of Sealink UK Ltd. The consortium has stated its intentions of offering 20% of Sealink's shares to employees following privatisation.

Charterhouse J Rothschild (CJR)

CJR is a banking, financial services and investment group created recently by the combination of the Charterhouse Group and Rothschild Investment Trust and Northern. It has no interests in any shipping or travel companies; and minority holdings is a UK transport and freight company and 3 French companies.

Globe Investment Trust

GIT is an investment trust chaired by Mr David Hardy, who has considerable experience in shipping and who would become non-executive chairman of a Sealink holding company. Globe had gross assets of £575 million at 1 April 1983 and pre-tax earnings of £20.7 million. The NCB pension funds own 24.8% of ordinary shares, other investors 5% or less. Its portfolio included, at 1 April 1983, £4.9 million in European Ferries Plc but this represented only 1% of Globe's portfolio and 2½% of EF's issued share capital.

National Freight Company (NFC)

NFC is Britain's largest and most diverse road freight business with 5% of the market. Formerly the National Freight Corporation, it was privatised by means of a management/staff buy out in 1982. Through its subsidiaries it engages in road haulage, contract hire, parcels carriage, distribution, car transport, warehousing and storage, cold storage, and travel services. Turnover in the year to 1 October 1983 was £493.3 million and pre-tax profit £9.2 million. NFC chairman is Sir Peter Thompson who would become executive chairman of Sealink UK Ltd and board member of the holding company. The stated aim of Consortium is to float NFC and Sealink as a combined company once sustained profitability had been achieved.

Janes Fisher & Sons (JFS)

JFS are shipowners, ship managers, shipbrokers, freight forwarders and agents and are involved in various shipping-related activities. They operate 30 ships and manage 19 more; they own wharves and have facilities at several harbours. They have minority holdings in Manx line (85% owned by Sealink) and Red Funnel (which operates 2 services to the Isle of Wight).

SEALINK UK LTD FACT SHEET

<u>Fixed Assets</u>		<u>Net book value</u>
Operates 37 ships, of which owned	-	£43m
leased or chartered on		
long term	-	£78m

Owens and operates 7 main harbours:

Folkestone
 Parkeston Quay, Harwich
 Heysham
 Holyhead
 Newhaven
 Stranraer
 Fishguard
 and several small ports and piers

Net assets (excluding leased assets) £128m

Turnover

Profit/(Loss) £265m

	1979	1980	1981	1982	1983
Before interest	£13.6m	£6.6m	(£0.6m)	£2.9m	£12.8m
After interest	£4.7m	(£3.8m)	(£11.1m)	(£6.4m)	£4.1m

Routes

24 ferry routes between Britain and Holland, Belgium, France, Isle of Wight, Channel Islands, Isle of Man, Ireland and Northern Ireland. Virtually all services are multipurpose carrying foot passengers, accompanied cars and Ro/Ro freight.

Manpower

Seagoing 4,500 (National Union of Seamen, Merchant Navy and Airline Officers Association)

Shore staff 4,000 (National Union of Railwaymen, Confederation of Shipbuilding and Engineering Unions)

HQ/Sales 900 (Transport Salaried Staffs Association)
 9,400

COMMON BROTHERS PLC

Chairman J W Common

Chief Executive Kristian Siem

Activities

Ship owners, brokers and managers, marine consultants and insurance brokers.

Registered in UK but 57% owned by Norex Corporation in Bermuda in which Norwegian Kristian Siem and family have a majority of shares.

Turnover (to 1 June 1983) £40.1 million. Pre-tax profits £2.1 million

(to 1 June 1984). £30 million estimated. Pre-tax profits (£1.0 million)

Shipping

The Group engages in shipping of petroleum products, livestock and general cargo, and operates cruise liners and a drilling ship.

SA



10 DOWNING STREET

From the Private Secretary

6 July, 1984

Sealink

BT / The Prime Minister has seen your Secretary of State's minute of 5 July. She is concerned at the way the Sealink privatisation is developing. She would like to discuss it at a meeting already arranged for Wednesday, 11 July on the CAA Review. It would be helpful if your Secretary of State could circulate a note by Tuesday evening evaluating the bids which have been received for Sealink.

I am copying this letter to David Peretz (H.M. Treasury), Callum McCarthy (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Miss D. A. Nichols,
Department of Transport

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PRIME MINISTER

You will see from this that the Sealink privatisation is getting closer and closer to the rocks.

I suggest that this be put on the agenda of the meeting arranged for Wednesday with Mr. Ridley, Mr. Tebbit and the Chancellor to discuss CAA. By then, Mr. Ridley will have details of the bids (though the bidders now look a pretty motley crew). Mr. Tebbit has always favoured delaying sale to allow more time for position of P & O and European Ferries to be considered by MMC; Chancellor favoured early sale but may now be cautious, fearing damage a fiasco will do to privatisation programme as a whole.

Agree a meeting?

AT

Yes mh

5 July, 1984.

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