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1

10 July 1984

PRIME MINISTER

SEALINK

The Department of Transport gave me the following verbal resumé prior to tomorrow's meeting on Sealink.

Trafalgar House and Ellerman Lines (now owned by a holding company chaired by Lord Matthews, Deputy Chairman of Trafalgars) have both decided not to bid. After extensive study, including an accountant's report, they have decided that the losses being incurred and the need for substantial redundancies rule out their interest in making any reasonable bid. I have recently seen Nigel Broackes, who has confirmed that he made this clear to the Secretary of State and will reaffirm it again publicly if necessary.

The consortium involving Charterhouse, J Rothschild, Globe Investment Trust, National Freight Company and James Fisher, produced a heavily conditional bid in the range of £25-35 million.

Common Brothers and a Mr Cardy (a would-be entrepreneur who does not seem to have a great deal of substance behind him) stated by 6 July - the deadline for bids - that they did wish to bid, but it would take them a few more days to mount their offer.

SECRET

This leaves the Department of Transport with the **Sea Container bid** which was in time and amounts to some £66 million.

The Conditions of the Sea Container Bid

£34 million is payable on completion, £6 million by the end of 1984, and £26 million in the form of repayment of loan stock over a period to be negotiated.

Sea Container are seeking 5-year British Rail contracts on five loss-making services. If they do not receive satisfactory BR contracts, up to £17 million would have to be deducted from their bid for closure of these services.

They are seeking the indexing of preserved pensions in the BR scheme to wages, not prices.

They wish BR to fund the cash loss for calendar 1984 - well over half this loss is down to the BR account anyway: this would amount to some £5 million.

They would like all passenger traffic through Kent to be routed to Dover, and all freight traffic to be routed to Folkestone. This would entail the closure of Folkestone Dock station, and some other consequential adjustments: the Secretary of State for Transport has made it clear to them that he has to act in a judicial capacity and he cannot guarantee this.

On the good side of their bid, they have signed the defence undertaking; they will offer a share option scheme for the management; and they intend to float the company later, having made it profitable, and at that stage will offer employees preferential share terms. Morgan Grenfell and Hill Samuel, BR and the Department of Transport's advisers respectively, recommend accepting the Sea Container bid; and the BR Board is in favour of it, subject to resolving the outstanding issues.

Possible Problems with the Sea Container Bid

1. We should determine promptly whether Common Bros. and/-or Mr Cardy do want to buy, and at what price. They are already out of time, but they should be given the opportunity to bid in the next day or two to avoid them using contacts with the PAC to allege that the competition was unfair. Although everybody had an opportunity to bid by 6 July, BR were late in producing some of the documentation.

2. The Sea Container bid is generous on an earnings basis. The company is currently loss-making and has been loss-making after interest in 4 of the 5 years 1980-84. However, it represents a substantial discount to the

asset value of £128 million. It will have to be explained to the press and public that assets are not worth their book value if they are loss-making and badly managed. The company has required £50 million of public cash in the last 4 years.

3. We are told that Sea Container does wish to run the main parts of the business and make them profitable, and is not interested in asset-stripping. It will be important to get this across as well.

Conclusion

We should welcome the Sea Container bid as our only hope. BR and Sealink between them have delayed for far too long, and have failed to deliver on their promises of improved performance and profitability, leading to a better sale price. The existing management has demonstrated its incompetence over the last 5 years, and should now be relieved of its task. Nicholas Ridley should be encouraged to get an early signature on a piece of paper committing both parties to this deal.

John Redwood

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