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PRIME MINISTER

LONRHO/HOUSE OF FRASER

Background

The Report by Mr. John Griffiths arises from Lonrho's wish to acquire Harrods in the belief that it would be more valuable after if it could be separated from the rest of House of Fraser. Lonrho had been prevented from acquiring the whole of the House of Fraser group by the MMC in 1981 and so in 1982 and 1983 they introduced resolutions at House of Fraser EGMs seeking the ^{de} merger of Harrods. Despite having 29.5% of the shares plus the support of the 5% controlled by the Fraser family they were unsuccessful. Out of these efforts arose the accusation that Lonrho may have organised a "concert party" in contravention of Section 67 of the 1981 Companies Act, ie that it put together a group of investors who would acquire shares and then vote for the Lonrho resolutions.

Suspicion was aroused by the fact that several investors acquired significant holdings while the dispute was going on and subsequently voted on the Lonrho side. Mr. Griffiths was appointed as an Inspector to investigate the circumstances behind these holdings. He also investigated several meetings at which Lonrho was claimed to have organised sympathetic investors or to have plotted Board room moves.

Mr. Griffiths concluded that there was no concert party and that, with one exception, all the investors, who included Mr. Jack Hayward, took their decisions independently. Nor did any of the meetings investigated produce anything illegal. DTI are not therefore seeking any prosecutions.

No. 10 Interest

(i) The Honours System

It was claimed that, at a meeting between Lonrho and Warburgs, acting for House of Fraser, one side or the other (each claimed it was the other) proposed that Professor Smith should be deposed as Chairman of House of Fraser and should be given a knighthood and the chairmanship of a minor nationalised industry as compensation. You will remember that this story was leaked to the Mail some time back. Mr. Griffiths concluded that, if such a proposition were made, it was not done so with any serious intent. He was reinforced in this view after he checked with FERB on the way the Honours system works. This convinced him that the safeguards were sufficiently strong for there to be no prospect of Honours being procured in this way. Thus the integrity of the Honours system is unimpaired - see paragraph 5.12 and 5.28 - though this will not stop Labour Party attempts to discredit it.

(ii) The telephone call to Mr. Gow

At a different meeting, it was alleged that Lonrho were trying to persuade Mr. Thornton of Debenhams to buy House of Fraser and then to sell Harrods to them. Mr. Griffiths reports that Mr. du Cann left the room to talk to Ian Gow about "urgent political matters" - the lunch taking place in the run-up to the election (see paragraph 5.41.). It appears that Mr. Rowland made the proposal while Mr. du Cann was away from the lunch table. Certainly Mr. du Cann denies any knowledge of it - see paragraph 5.43.

The difficulty for No. 10 is that questions might be asked about the nature of Mr. du Cann's conversation. The report clearly implies that it was related to the election.

It is irritating that Mr. Griffiths has referred to Ian Gow at all. There was no need to do so as the reason why Mr. du Cann left the lunch table is irrelevant. Elsewhere in the report Mr. Griffiths uses the technique of referring to "Mr. A (name given)" where there is no need to identify the person involved.

I have asked whether the reference could be removed. In reports of this kind sensitive matters of national interest can be cut out but it is made clear in the text that this has been done. My conclusion is that this would make matters worse; given the characters involved, the request for an excision would leak. In any case, it should be possible to defend the line taken in the report that the conversation was unconnected with the business of the day.

I have checked with DTI who advise that it would be in order to warn Ian Gow in advance of this reference so that he is able to remember what the call was about. I can do this tomorrow.

(iii) The role of Mr. du Cann

There is nothing specific in the report for which to criticise the behaviour of Mr. du Cann. But it cannot help to have the Chairman of the 1922 Committee mixing in such dubious company. In particular it is clear that Mr. Rowland is manipulative and deceitful and totally dominates the Lonrho Board. Although Mr. Griffiths concludes that no concert party was organised, a number of commentators are likely to think that it was a close run thing.

In order to avoid any accusations of discourtesy to Mr. du Cann, Mr. Tebbit plans to show him the report shortly before publication. He cannot do so very far in advance as anything said will soon get back to Mr. Rowland.

* There is a discrepancy since Mr du Cann says the conversation took 10 mins. (para 5.43) and Mr Rowland a minute and quarter (top of page 105).

(iv) Ethical standards in the City

The Labour Party will no doubt try to exploit the report as confirming their belief that the City is corrupt and in need of strong controls for investor protection. Although in the end the accusations of blackmail and funding of Sir Hugh Fraser's gambling debts are not substantiated, the atmosphere is pretty seedy. In fact, much of the City comes out rather well. At one point Mr. Griffiths interviewed a number of investment fund managers, all of whom had responsible procedures for taking investment decisions. What emerges is something many people have known since Mr. Heath's remarks about the unacceptable face of capitalism. It is Lonrho and a number of rich overseas investors, rather than the City generally, who come out badly.

Conclusions

- to note that accusations against the honours system are not sustained; Yes no
- agree no excision of reference to Ian Gow be sought?; Yes no
- to note the position of Mr. du Cann. Yes no

I will put in hand press briefing on this.

AT

6 August 1984