



From the Minister of State for Industry

*BIF with comments
for colleagues* *CE/NO*
DEPARTMENT OF TRADE AND INDUSTRY *AT*
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Norman Lamont MP

CONFIDENTIAL

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

14 November 1984

Dr Rees

PRIVATISATION OF WARSHIP YARDS

We have now received from Mr Day his proposed strategy for the privatisation of warship yards. As I mentioned in my letter to Michael Heseltine of 12 November, the strategy is posited on the assumption that Swan Hunter wins the order for the two Type 22 frigates. He would obviously wish to rethink the strategy if there was a different result on the Type 22 orders.

He argues that in order to get some impetus behind the process while minimising the risk of BS being left with an unsaleable rump, Yarrow and Hall Russell (neither of which are affected by the Type 22 orders) should be put on the market as soon as possible, and that the rest should follow in the New Year when the Type 22 orders have been placed and the problems over the future funding of Vickers Shipbuilding and Engineering Limited's (VSEL) Submarine Facilities Project have been resolved. He plans to get at least two bids for Yarrow.

He points out that Swan Hunter may not be easy to sell even with the orders for two Type 22s and therefore suggests holding in reserve the possibility of floating VSEL and Swan Hunter together. This is very much a fall-back position. The yards have worked together in the past and the combination of the two would not reduce competition. He does not think that Vosper Thornycroft (UK) should prove too difficult to sell with or without the Type 22s or the Type 21 frigates for Pakistan for which they now hold a letter of intent.

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Cammell Laird is more problematical. If it does not gain work now, it will have to close early next year and could be sold as a facility. This would reduce, at least temporarily, the over-capacity problem for large surface warships although Mr Day judges it to be unrealistic to suppose that the Government would prevent the new owner from attempting to use it to build surface warships. I agree. We will have to consider further in due course precisely what is done with Cammell Laird.

BS do not have the management resources to be able to sell all the yards simultaneously (other than by a flotation) so, although the course he suggests is not without risks, I am prepared to endorse it subject to one point. The early sale of Yarrow will give a lift to the whole of our privatisation programme for the warship yards if it goes well. But if Yarrow does not attract a good price or if by the time BS come to us for consent, the prospects of selling Swan Hunter look poor, we may wish at that time to reconsider the possibility of a flotation for all the warship yards and not just of VSEL and Swan Hunter (with or without the assets of Cammell Laird). If we waited until it was obvious that buyers were not prepared to pay what we regarded as a reasonable price for VSEL and Swan Hunter, the flotation of that group would not be likely to be a resounding success.

I therefore propose to ask BS (from whom we expect a valuation of the yards shortly) to bear in mind the possibility that we may wish to revert to the flotation of all the remaining yards if the Yarrow sale price seems low or if the prospects of selling Swan Hunter look poor.

I would be grateful for your agreement and for the agreement of colleagues to this by 22 November.

I am copying this letter to the Prime Minister, Secretary of State for Defence, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Lamont', written in a cursive style.

NORMAN LAMONT

ECON POL: Privatisation : PE11.

15 NOV 1984

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From the Minister of State for Industry

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12 November 1984

Dear Sir

PRIVATISATION OF WARSHIPBUILDING

Thank you for your letter of 18 October. I am glad to know that you hope that it will be possible to clear up the Type 22 orders before the end of 1984. In this context you will not be surprised to learn that the Chairman of British Shipbuilders has expressed the view that if Swan Hunter do not win the order for two Type 22s (as he believes they should if the contracts are awarded on the basis of price) Swan Hunter would be very difficult to sell. This would of course be a major stumbling block to the privatisation programme. Swan Hunter already faces some 2000 redundancies irrespective of the further Type 22 orders.

More generally, while I agree that it is essential for our officials to keep closely in touch over the progress of individual tendering exercises, I remain concerned about the impact of individual tenders on the privatisation programme. If BS are successfully to give effect to the Government's decision to privatise all the yards in warshipbuilding and to do so in a way which preserves competition as far as possible, your Department will be the main beneficiary of the resultant increase in efficiency from the privatised yards. I think that this was recognised at the meeting I had with John Lee in March. I would therefore welcome the opportunity of a further meeting, perhaps with Adam Butler, to reassess the situation in the near future.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

Norman Lamont

NORMAN LAMONT

NRT IND : Piratisation
Pt II

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