



From the Minister of State for Industry

BIF  
Department of Trade and Industry  
DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215

(Switchboard) 215 7877

CC/NO  
AT 29/4  
5186

Norman Lamont MP

RESTRICTED

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

29 November 1984

*Don Pat*

I wrote to you on 14 November about the general strategy which BS propose to follow to privatise the warship yards. I am now writing to inform you how I propose to handle the question of restrictions on the foreign ownership of the various yards. We do not in fact know of any firm foreign interest in the yards other than Brooke Marine, and I think it unlikely that there will be any potential purchasers from overseas, but we need nevertheless to be prepared for that eventuality.

We made it clear during the passage of the British Shipbuilders Act 1983, that we would not permit the major warship yards to come under foreign control.

While we would not wish Swan Hunter, Vosper Thornycroft and Yarrow to come under foreign control, I do not think that a non-controlling foreign holding from acceptable countries should be ruled out. An increase in the number of bidders could well increase total sale proceeds and such bids, if successful, could result in the yards being exposed to modern overseas technology and good working practices. I doubt however whether it is appropriate at this stage, to draw up hard and fast rules, and I would propose to deal with any foreign interest that may emerge for these yards on a case by case basis in close consultation with MOD.

In the case of Vickers Shipbuilding and Engineering Ltd which builds the Royal Navy's nuclear powered submarines, I accept MOD's views that we should rule out any foreign involvement other than from the US because of the US/UK bilateral agreement. Equally, US

1TUAHL



control would be unacceptable, but I do not think we should at this stage rule out any US non-controlling interests. A link with an American yard could well give VSEL access to US production techniques. On the other hand, information could also flow the other way, to the detriment of our industry. I would propose therefore to deal with any US interest in close consultation in the Ministry of Defence.

Of the two small warship yards, Brooke Marine and Hall Russell which sell ships to MOD, neither are vital components of our defence industry. We have already agreed in the case of Brooke Marine that there was no overriding objection to the sale of a controlling interest to a purchaser from a friendly overseas country, that overseas Governments were to be restricted to non-controlling interests and that there were to be no "special share" arrangements. I believe that we should follow the same course for Hall Russell.

The future of Cammell Laird is still far from clear. At this stage therefore, I cannot make firm recommendations.

I have also considered for those yards for which I have proposed restrictions on foreign ownership whether we should take specific power to control subsequent transfers of ownership. In practice, an effective practical limitation on foreign ownership of the warship yards is created by the fact that the MOD will only order heavily armed ships from yards which have full security clearance. Although arrangements can be and are made to keep sensitive information away from senior managers or owners who lack the necessary security clearance, the lack of control which this could mean would be a serious deterrent to foreign buyers. In addition, statutory controls are available in the form of the merger provisions of the Fair Trading Act 1973 and in the Industry Act 1975, although I would be very reluctant to make use of either of these for this purpose.

The alternative to relying on these existing restrictions would be to introduce a special restriction, most obviously through the use of special shares. But the case for special restrictions is not strong. First, the absence of special restrictions before nationalisation in 1977 caused no problems; second, there is no sign of serious foreign interest in any of the major yards; third, at this stage we propose to sell the yards to individual purchasers and not to float the companies on the Stock Exchange. In these circumstances, BS will be establishing the intentions of the potential purchasers towards the yards and it should become clear at that stage whether they intend to retain control. Furthermore it is quite possible that the major yards will become subsidiaries



of large companies such as GEC. Not only would a Government-owned special share sit rather awkwardly in any group structure, but it could be difficult to persuade a company like GEC which already has major defence industry interests that a special share was necessary for this particular industry. Indeed a special share could have some adverse impact on the purchase price.

I do not therefore think it would be appropriate to institute special share arrangements unless we eventually decide to float the yards.

I would be grateful for your agreement, and the agreement of colleagues, to these proposals by 30 November.'

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

A handwritten signature in dark ink, appearing to read 'Norman Lamont', with a large, sweeping flourish at the end.

NORMAN LAMONT

Econ PD PT 11

Privatization

ST. LOUIS, MO  
NOV 20 1984

20 NOV 1984



NBPM

AT

4/12

CCNO

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 26/3/3

3rd December 1984

PRIVATISATION OF WARSHIPBUILDING: FOREIGN OWNERSHIP

Thank you for sending me a copy of your letter of 29th November to Peter Rees. I am sorry that my absence in Paris with the Prime Minister has meant that I was unable to meet your (rather short) deadline for reply on 30th November.

Our officials have, of course, been in correspondence on this matter, and I have been kept in touch. What you propose in respect of Swan Hunter, Vosper Thornycroft, Yarrows and Vickers Shipbuilding and Engineering gives me no problems, although any bid from overseas for a part share in the ownership of any of these yards will clearly have to go under the closest scrutiny as you acknowledge. It will not surprise you to read that I see no reason why Cammell Laird should not be treated similarly: the yard either will or will not remain a major warshipbuilder, and in the former case it would be invidious to apply different rules. As regards Hall Russell, I am content that that yard should be treated in the same way as Brooke Marine if it is to be sold separately; if, on the other hand, Hall Russell and Yarrows are to be sold together, it will be necessary to apply the same conditions to Hall Russell and Yarrows as to the other major warshipbuilders.



In your letter, you also raise the issue of whether restrictions on foreign ownership should apply beyond the initial transfer to the private sector. It appears to me from the second paragraph of your letter that we as a Government are committed to preventing the ownership of major warshipbuilding yards going under foreign control. I find it difficult to reconcile this with the argumentation later in your letter. You say that you would be reluctant to make use of the powers under the Fair Trading Act 1973 and the Industry Act 1975 for this purpose. In effect, therefore, you would be relying on the security procedures operated by my Department to prevent a foreigner from subsequently taking control of one of the yards. I should be grateful for confirmation that this will be sufficient to ensure that our commitment is honoured.

I am copying this letter to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs, the Chief Secretary, Treasury and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

Econ Pol: Privatisation: Pt 11

1984  
DEC 4

4 DEC 1984