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B/F with Treasury  
FCO + MOD comments  
A chase within a week. AT 21/9

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215  
SWITCHBOARD 01-215 787422

Secretary of State for Trade and Industry

20 September 1984

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Andrew,

BRITISH SHIPBUILDERS: DISPOSAL OF BROOKE MARINE

Following Cabinet's decision in July that British Shipbuilders (BS) should dispose of their warshipbuilding activities, the Corporation has begun to get on with the task. However, we have not yet decided what restrictions if any should be placed on purchases by overseas interests, although since the yards vary considerably in their degree of sophistication and in their importance to our defence interests, a case by case approach may well be appropriate.

2 But we need to decide very quickly what restrictions (if any) to place on foreign ownership of Brooke Marine. BS hope to sell this yard first. They are almost ready to issue the sales document, but do not wish to do so until we can give them a firm steer on foreign ownership.

3 Brooke Marine is situated in Lowestoft and employs about 700 people. It builds patrol vessels, landing craft and other naval craft mainly for export to the Governments of developing Middle Eastern countries, although the MOD is an occasional customer for small vessels such as the Coastal Survey Vessel now on order.

4 BS have told officials that there has been an expression of interest from an agent acting on behalf of an unspecified arm of the Omani Government. Apparently the Omani government would be interested in taking a large majority stake or perhaps even in buying Brooke Marine outright. The possibility of other overseas interest cannot be ruled out, but at present BS are not aware of any. As far as the Omanis are concerned, it appears that they wish to control their own shipbuilding and provide a shipbuilding service to fellow members of the Gulf Co-operation Council. They

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could achieve this either by building their own shipyard or by buying an existing yard, such as Brooke Marine, of whom they are recent customers.

5 There are three separate questions - foreign ownership, foreign and Government ownership, and ownership or part ownership by the Omani Government. Officials here have consulted their opposite numbers in the Foreign and Commonwealth Office and the Ministry of Defence.

6 Neither Department has objected in principle to the idea of foreign control of Brooke Marine, though obviously certain countries or individuals would be unacceptable. There are no security or defence reasons against allowing Brooke Marine to be sold to an acceptable purchaser from a friendly overseas country, though we intend to ask BS to keep us particularly closely informed of any overseas expressions of interest so that we may consider whether they are likely to prove unacceptable in the national interest.

7 Somewhat different considerations apply to the sale of Brooke Marine to another Government, and especially to the Omanis. On the one hand Omani involvement could increase the sale proceeds and lead to a more secure future for the yard. On the other hand it could be difficult to defend an outright sale to another Government. Such a sale would not appear to be compatible with the principle of privatisation. Furthermore, a sale to a Middle Eastern Government could give rise to difficulties in the future.

8 On balance, therefore, Ministers here are opposed to the outright sale of Brooke Marine or, by extension, of any other warship yard, to an overseas Government. It follows that they do not believe that the Omanis should be allowed to buy a controlling stake in Brooke Marine. Although this will be unwelcome to the Omanis, it can be explained that this is because the Government had decided in principle against sales to foreign Governments. On the other hand they do not think that the Government should object to the Omani Government acquiring a minority stake - perhaps in the range 30% - 40% - if they so wish. This could encourage them to place work in the yard.

9 Ministers have also considered whether any special restriction should be placed on onward sales. There is a slight risk that, without such a restriction, the Omanis (or other foreign interests) might acquire control of the yard soon after its privatisation. On the other hand, no such restrictions existed before nationalisation in 1977 and it is unlikely that the Omanis in particular would take a controlling stake against the wishes of HMG. Ministers here therefore consider that it will be sufficient that the Government is not responsible for a direct sale to a foreign Government and accordingly do not intend to retain special share or similar

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powers. But they do propose to ask British Shipbuilders to require the purchaser to confirm that it is not their intention to sell the company on to anyone else.

10 I would be grateful if you would confirm that the Prime Minister sees no objection to allowing BS to proceed with the privatisation of Brooke Marine in the way I have described.

11 I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth and Defence Secretaries and Sir Robert Armstrong.

*Yours ever,*

A handwritten signature in blue ink that reads "Ruth".

RUTH THOMPSON  
Private Secretary

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