Railway sell-off chief decides to quit early

By Charles Batchelor, Transport Correspondent

Mr Roger Salmon, the government official in charge of selling passenger rail franchises, said yesterday he would quit in October, two years before his five-year contract ends.

His announcement was a further setback for rail privatisation after two years of turmoil and negative publicity. It came less than a week before publication of the pathfinder prospectus for the sell-off of Railtrack in May, and when only four of the 25 rail franchises have been sold.

Mr Salmon is understood to have wanted to announce his plans in January, weeks after the successful sale of the first two franchises. But he is believed to have come under intense government pressure to delay his announcement until the privatisation timetable was more advanced.

He said he was quitting early because he had set up the framework for franchising. "I have basically done the things that I was employed to do. The franchising office is a very efficient organisation and a lot more of the franchises will have been sold by October."

Officials involved in privatisation said Mr Salmon's job was particularly demanding. There had been frequent disagreements with government officials and ministers over details of the sell-off, although the officials stressed that no pressure had been on Mr Salmon to leave.

"These have been the most intensive four years I have ever spent," said Mr Salmon, who worked for Rothschild merchant bank for 17 years before taking on his present job.

Mr Clare Short, shadow transport secretary, said Mr Salmon had decided to resign in anticipation of a Labour victory at the next election, which would see the abolition of the office of franchising and of his job. Labour planned to hand responsibility for managing rail franchises to the state-owned British Rail.

Mr Salmon was appointed franchising director-designate in January 1993, and confirmed in the job when legislation authorising privatisation was passed in November of that year. His contract is due to expire in November 1998.

He has been responsible for selling off the 25 train operating companies formed after the break-up of BR. The sale of the first three franchises was finalised in December, marking a turning point in the privatisation programme, which up to then had attracted only criticism. One of the sales was subsequently halted following allegations of irregularities.

Two other franchise have since been sold and the franchising office believes that more than half will have been sold or will be under offer by the time Mr Salmon leaves.

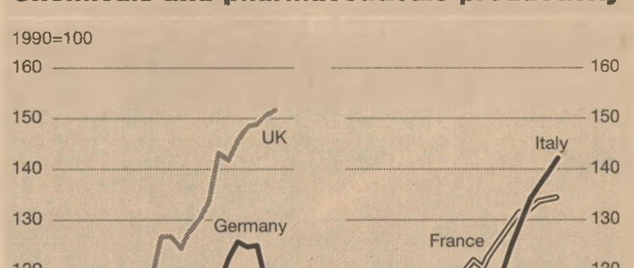
His term of office had previously been marked by controversy. In February, allegations of ticket fraud forced Mr Salmon to withdraw a franchise he had awarded to a management-employee buy-out team to run the second privatised rail line, the London, Tilbury and Southend Rail route.

Mr Chris Stokes, Mr Salmon's deputy and a long-term railman, is believed to be a strong contender to succeed Mr Salmon.

Productivity soars in drugs and chemicals

By Daniel Green in London

Chemicals and pharmaceuticals productivity



Source: OCS

Productivity at the UK's chemicals and pharmaceuticals industries has increased at twice the pace of their main international rivals and much of the rest of UK industry during the 1990s, official figures showed yesterday.

Productivity in the two UK sectors rose 51 per cent between 1990 and 1995. The productivity gains in the same industries in the US, France, Germany, Japan and Italy ranged from 9 per cent to 40 per cent.

Across the whole of UK manufacturing, productivity rose by 20 per cent over the period, according to the Office for National Statistics in the first of an 18-part series of sector reviews.

The figures cover a period of rapid change. BP, for example, built a petrochemicals plant in Scotland and shut one in Wales. The pharmaceuticals industry no longer includes Boots' drugs business, sold to Germany's BASF. During the period Glaxo bought Wellcome and opened a £700m ($1.1bn) research centre.

The rise in productivity in the UK chemicals and pharmaceuticals industries was driven partly by falling employment, down from 277,600 to 237,700. Unit wage costs fell by more than 10 per cent.

Employment in these sectors has also fallen in the rest of Europe, although not in the US or Japan, says the report.

The figures cover man-made fibres, where the world centre of production is moving to Asia.

Companies in the chemicals and pharmaceuticals sector, ranging from Glaxo Wellcome to ICI and Courtaulds, appear to be spending much of the gains from extra productivity outside Britain. Outward investment rose from £2bn a year to more than £3bn a year.

About half of outward investment goes to the US. Inward investment was worth £588m in 1994, the best year since 1989.

UK production also rose sharply over the period, with sales increasing by 17 per cent, compared with 21 per cent in France, 15 per cent in the US, 13 per cent in Japan, and 4 per cent in Germany and Italy. The figures take inflation into account.

Production in UK manufacturing as a whole rose by 1.3 per cent. The UK performance came from a relatively low level. Chemicals and pharmaceuticals sales in 1993 were worth Ecu 49.6bn, ahead only of Italy. Sales in France were worth Ecu 60.1bn and in Germany, Ecu 97.2bn, with the US and Japan even further ahead.

Exports accounted for 54 per cent of sales by the chemicals and pharmaceuticals industries in the UK in 1991 and 62 per cent by 1995. The trade surplus rose from £3.3bn in 1991 to £4bn in 1995.

These figures come from 4,300 enterprises, of which 600 had turnover of more than £5m a year and another 600 turnover of less than £50,000. The biggest businesses are in pharmaceuticals and petrochemicals.

The south-east of England dominates the pharmaceuticals sector, while the north-west is the main location for basic chemicals production. The report divides the chemicals, pharmaceuticals and man-made fibres sectors into 24 subsectors.

Siemens wins big immigration data contract

By Stefan Wagstyl, Industrial Editor

Siemens, the German engineering combine, has won a contract to computerise and modernise the British government's immigration and nationality department. The award is one of the most politically sensitive extensions of the private finance initiative, the flagship programme for promoting private investment in the public sector.

Up to 100 experts from Siemens and its subcontractors will be seconded to the department to supervise the design, installation and operation of a computer-based system which will replace the current system of circulating files.

Siemens will be paid only from the savings its reforms generate over the seven years of the contract's life. It believes these could total £150m ($228m) including its share and the government's.

The reform is almost certain to bring job losses among the department's 5,400 staff. The Home Office said that 900 fewer posts would be required if the workload stayed unchanged.

The Home Office said the programme offered "a unique opportunity for the transformation of the immigration and nationality department". But the CPSA, the government officials' trade union, said it opposed bringing private companies, especially multinationals, into "very sensitive areas of work".

The department handles applications for visa extensions, asylum, naturalisation and passports. It has struggled to keep abreast of a growing volume of work and to cut a big backlog in paperwork. Nevertheless, it has sometimes been accused of long delays in decision-making, notably in the treatment of people seeking asylum, of whom there were 69,650 at the end of December. The department says its work requires it to carry out many complicated checks.

Siemens said a computer-based system would allow the department's workflow to be speeded up. Siemens' UK subsidiary won the contract ahead of EDS, the data-processing affiliate of General Motors, and Andersen Consulting, the management consulting arm of Arthur Andersen. Siemens' main sub-contractor is Perot Systems, the computer consulting company run by Mr Ross Perot, the US entrepreneur and former presidential candidate.

The UK contract includes the purchase of computer equipment, software development and training hundreds of staff.

Labour leader seeks to reassure NY financiers

FT Political Staff in New York and London

Mr Tony Blair, leader of the opposition Labour party, yesterday set out to sell the modernised Labour party to New York's financial establishment, vowing that a government headed by him would make the UK a "safe bet" for investment from other countries.

Mr Blair will today pledge that British citizens on middle incomes will not be penalised by a Labour government. His party has yet to finalise its tax plans, but it is understood that Mr Blair has already ruled out income tax rises for those earning up to £40,000 ($60,800) a year.

At this stage, Labour has not made a decision about whether there will be a new, higher rate of income tax. But Mr Blair has decided that those on middle incomes – by which he means people earning around £30,000 to £40,000 a year – will be protected.

Mr Blair arrived in New York yesterday for meetings with Mr George Soros and other international investors and he will meet President Bill Clinton in Washington on Friday.

In a speech to the UK-US Chamber of Commerce, he will say that he values wealth creators and entrepreneurs and has no intention of imposing penal tax rates on them. Mr Blair will pour scorn on Labour leftwingers' traditional view of tax rises.

He will also say that his preference will be to reduce taxes in general and attack the government for bringing teachers, policemen and others on middle incomes into the upper rate tax bracket.

"He wants to tell them that "new Labour" is real and that it has changed fundamentally since the last time they knew the party in power," said a Blair aide. "We are moderate, realistic and committed to long-term macro-economic stability."

Last night Mr Blair held a private meeting with US investors. The meeting was organised by BZW, the investment bank, and Mr Blair told the 24 bankers and fund managers, including representatives from Morgan Stanley, Lazard Frères and Merrill Lynch, that UK "tax rates must be competitive internationally to help attract international business investment".

His main message was that he had ditched Labour's previous attachment to high levels of public spending and protectionism. "I am a passionate free trader and unashamed anti-protectionist," he said.

At tomorrow's meeting with Mr Clinton the Labour leader is expected to explain why he has adopted a policy of backing Britain's Conservative government in its approach to the Northern Ireland peace process.

The twin aims of the trip are to persuade international investors that their money would be safe in the UK under a Labour government and also to discuss with senior White House staff common problems facing left-of-centre parties in the UK and US.

Minister faces pressure over entry to new ERM

By Gillian Tett and James Harding

Mr Kenneth Clarke, the chancellor of the exchequer, came under renewed pressure yesterday from within the governing Conservative party to rule out any UK re-entry into a new European exchange rate mechanism.

Mr John Redwood, a senior Eurosceptic Conservative and challenger for the party leadership last summer, insisted that Mr Clarke should instead "warn Europe . . . that the single currency project is destined to split the European Union."

Mr Clarke is due to fly to Verona in Italy tomorrow for a meeting of European Union finance ministers, to discuss the relationship between those inside and outside any future single currency.

The meeting is likely to present Mr Clarke with a difficult battle, since the UK is now virtually isolated over how a new exchange rate mechanism would operate if a single currency proceeds, as planned, in 1999.

Most EU countries, led by France and Belgium, want countries outside a single currency linked to the single currency area through a new ERM system. Even Denmark – which, like the UK, has indicated that it will not join a single currency – has voiced its support for this idea. However, UK officials fiercely oppose any UK re-entry into a new ERM.

Mr John Major, UK prime minister, has flatly ruled out the possibility. And although Mr Clarke has not quite followed suit, he insisted there was "no case for a new ERM" in a letter to Mr Lamberto Dini, the Italian prime minister, earlier this year.

Instead, the UK is proposing that the European Union should adopt inflation targets for countries outside a single currency. Nevertheless, some officials in mainland European countries still believe that the UK will eventually soften its stance.

One European Commission official said: "What people are really doing now is staking out their negotiating position."

But some Conservative MPs warned that Mr Clarke would face pressure to resign if he gave any signal in Verona that he would yield over the issue.

Farmers may sue over BSE

By Deborah Hargreaves in London

Farmers are considering suing animal feed companies for negligence over the outbreak of the bovine spongiform encephalopathy epidemic. BSE, or "mad cow disease," is believed to have been caused by contaminated feed given to cattle in the early 1980s.

"Farmers are looking at all possible options for redress, but there are a number of potentially important legal hurdles to overcome before they can go to court," said a legal adviser at the National Farmers' Union.

Until 1988, protein-rich cattle cake contained meat and bone meal made from the remains of sheep and cattle, some of which was contaminated with scrapie, a sheep disease similar to BSE. Scientists believe that changes in rendering processes allowed the BSE agent to pass into feed.

Farmers can try to prove negligence on the part of feed companies for providing contaminated feed or they can sue companies under contract law for selling products which had a deleterious effect on their animals. However, there are usually six-year time limits in place for cases to be brought.

"Many farmers are making substantial losses and are looking for compensation from any source," the NFU said.

Farmers are angry that they are being blamed for something over which they had no control. "People say to me, 'why were you feeding cows to cows,' but I had no idea that was in the feed," said Mr Marshall Taylor, a west of England dairy farmer.

The feed companies maintain that they were not negligent in using meat and bone meal. "We originally thought the rendering process took place at a high enough temperature to sterilise the meal. When it was first possible that this might not be so, we excluded it," said Mr George Paul, chief executive of BOCM Pauls, a UK animal feed company.

The government banned the use of meat and bone meal in cattle and sheep feed in 1988 and more recently for pig and poultry feed.

Accountancy thrives in the climate of privatisation

By Jim Kelly, Accountancy Correspondent

The Big Six British-based accountancy firms dream of identifying new business skills which they can sell to clients. In the very best of these dreams, they imagine that by developing such expertise they establish a long-term advantage on their competitors.

But even in their dreams they hardly dare imagine that the skill they have discovered will not only generate a stream of revenue in itself, but will provide the ideal base from which to sell a range of other services to the same client.

One example is Coopers & Lybrand's lead in privatisation work, particularly in the area of the privatisation of state telecommunications. This is a client service which appears to have delivered the dream in all three phases: an initial advantage, a long-term lead and a platform for diversification.

League of privatisation advice by UK's 'Big Six' accountancy firms

Firm	Assignments total 1994	Assignments total 1995	Worldwide value ($m)
Coopers & Lybrand	379	397	21,511
KPMG	208	99	15,548
Arthur Andersen	155	n/a	n/a
Price Waterhouse	137	344	11,623
DTTI	118	130	1,511
Ernst & Young	-	75	9,783

Source: Privatisation International

The latest survey by *Privatisation International*, the industry magazine, tells a remarkable story. More than a decade after heading up the trail-blazing privatisation of British Telecommunications, Coopers & Lybrand were involved in privatisation assignments in 1995 worth $22bn worldwide – with KPMG the nearest rival on $16bn.

Financial advisers outside the accountancy and law sectors with assignments of greater value from privatisation than Coopers' were the merchant banks SBC Warburg, Goldman Sachs, and CS First Boston – at, respectively, $27bn, $23bn and $22bn.

In 1995, Coopers took on 397 assignments in the sector compared with Price Waterhouse in second place among the accountancy firms with 344. Coopers worked in 77 countries on these projects. So did the initial advantage of the BT project help it gain a global advantage?

"We were terribly lucky – we were the incumbent auditors at BT at the time," admitted Mr Peter Benson, head of Coopers & Lybrand's International Privatisation Group. More to the point, Mr Benson was the incumbent auditor. "I ended up here simply because I was the audit partner at BT – I was a computer auditor – the feeling was that they had to get themselves better organised. As I came in Mrs Thatcher came to power. The whole thing rolled from there."

The advantages of privatisation as a line of business were immediately apparent: "It's profitable, much better than audit work in that you are able to charge what it costs you to do. We don't take success fees – very rarely. We don't make super profits out of it, but we are able to turn an honest penny."

As Thatcherism became associated with privatisation around the world, so Coopers & Lybrand was able to become associated with what it sees as a highly successful large-scale example of the policy in action. "It was a model," said Mr Benson. As a result, even competitors concede that Coopers still picks up about half of all such projects offered around the world.

Coopers was also able to boast that it had unrivalled experience. "We found that we got a head start both as a country and as a business because of the great swathe of projects in the 1980s. We found that building on that expertise we could take it substantially out into the world," said Mr Benson.

This process has been managed from London. The privatisation group advises Coopers' local national firms and can parachute in expertise when required.

Privatisation is, of course, destroying its own market. It is estimated that more than 10,000 enterprises have been transferred to the private sector worldwide. But Mr Benson sees privatisation as the beginning of a relationship with the client, not the end.

Each privatisation involves two potential clients: the state and the entity itself. "We would much rather advise the enterprise than the government," said Mr Benson. The enterprises live on, requiring advice on tax, audit, systems, management, regulation, employee benefits, pensions and much more.

What is more, the market is a long way from being exhausted. While the front-runners like the UK, Thailand and Mexico may present fewer opportunities, newcomers like India, Portugal, Argentina and Indonesia offer new business. There is still potential in Europe – particularly in Spain and Italy. Furthermore, privatisation is itself developing to embrace contracting out, state joint ventures, and infrastructure financing such as the UK government's Public Finance Initiative.

In spite of Coopers' history it is not alone in this market and other members of the Big Six would claim to be catching up quickly.

But there is little doubt that Coopers has successfully preserved an initial advantage in telecommunications and nurtured skills and expertise to keep the lead in a market which provides an open door to future growth.

UK NEWS DIGEST

Bondholders keen to open lawsuits

Investors who bought bonds from the Barings merchant banking group a year before its 1995 collapse applied to the Companies Court in London for leave to sue the bank, its directors and the three brokers involved in the £100m ($152m) bond issue. The Barings 9¼ per cent Perpetual Noteholders Action Group plans to start proceedings against Barings plc and Bishopscourt Ltd, the former Baring Brothers & Co, both of which are now in administration.

The investors plan to include all Barings' directors in the suit. In addition, the suits will target Hoare Govett Corporate Finance, the UK equities arm of ABN Amro of the Netherlands; Barclays de Zoete Wedd, the investment banking arm of Barclays Bank; and Cazenove, the independent brokerage house.

The bondholders allege a combination of omissions and untrue or misleading statements in the listing particulars for the perpetual notes. As holders of subordinated loan notes, the bondholders rank close to last among Barings' creditors. Last year, they attempted to sue Mr Nick Leeson, the trader whose dealing losses in Singapore led to Barings' collapse. The suit was taken over and abandoned by the Serious Fraud Office.

● Mrs Lisa Leeson, the wife of jailed Barings trader Mr Nick Leeson, has been appointed a flight attendant with Mr Richard Branson's Virgin Atlantic airline.

George Graham, Banking Correspondent

HK governor meets Major

Mr Chris Patten, the Hong Kong governor and former Conservative party chairman, sought last night to dispel speculation that he intended to return to Westminster politics shortly after the transfer of the colony to China next year. Speaking after talks at Downing Street with Mr John Major, the prime minister, Mr Patten said the question of a role for himself in the party had not arisen. Suggestions that a safe by-election seat might be found for Mr Patten following the handover intensified last month after a visit to Hong Kong by the prime minister. Several Conservative rightwingers reacted furiously to the possibility that Mr Major regarded Mr Patten as a possible centrist "heir apparent". Mr Patten masterminded the Conservatives' 1992 election victory but lost his own seat in the House of Commons. *John Kampfner, Westminster*

Personal View, Page 8

Cash for Maxwell creditors

Administrators to the collapsed business empire of Robert Maxwell yesterday announced that they are to pay a fourth dividend to creditors of 3.5 per cent on April 18 – increasing the total dividend so far paid to 34.5 per cent or £725m ($1.1bn). Price Waterhouse, the administrators to Maxwell Communication Corporation, said their previous estimate of the final dividend was unchanged at between 38 per cent and 43 per cent. In addition creditors may benefit from outstanding legal actions being taken on their behalf. Mr Mark Homan, for Price Waterhouse, said the latest dividend had been paid after the settlement of a series of disputes with creditors. As a result the administrators had been able to release funds reserved to meet potential claims. *Jim Kelly, Accountancy Correspondent*

China orders save steel jobs

Cleveland Structural Engineering has announced 30 redundancies but averted the threatened loss of a further 120 jobs thanks to orders for two Chinese power stations and for fabrication work from British Steel. The north-east England steel fabricator, part of Trafalgar House, expects its present workload including UK road bridge contracts to provide job continuity for its remaining 733 employees for the rest of 1996. The company completed work on the Tsing Ma Bridge in Hong Kong 15 months ago. *Chris Tighe, Newcastle upon Tyne*

Truck sales 'reach plateau'

A two-year recovery in the UK's truck market has reached a plateau likely to extend to at least the end of this year, said Iveco-Ford, the market leader. Total truck sales this year are expected to be little changed from last year's 52,000, said the company in a comment on statistics from the Society of Motor Manufacturers and Traders. The market stagnation threatens a further increase in the intensity of a sales war which has already caused sharp changes of fortune for some of the industry's major players this year. Leyland Daf and ERF have both come under pressure from Iveco-Ford and Scania. However, both Scania and Iveco Ford have begun to feel the full benefit of investments in new models now reaching the UK market. *John Griffiths, Industrial Staff*

Registrations of trucks (Jan-Mar '96)

	Volume (Units)	Volume Change (%)	Share (%) J-M '96	Share (%) J-M '95
Trucks (over 3.5 tonnes)				
Total	12,823	-2.8	100.0	100.0
Imports	7,840	-0.6	61.1	59.8
Iveco group**(Fiat)	3,029	+17.4	23.6	19.6
Leyland DAF (DAF Trucks)	2,238	-19.6	17.5	21.1
Mercedes-Benz Benz)	2,177	-7.1	17.0	17.8
Scania (Investor)	1,731	+18.3	13.5	11.1
Volvo	1,512	-7.3	11.8	12.4
MAN	673	+2.9	5.2	5.0
ERF	545	-28.1	4.3	5.7
Renault	453	-0.4	3.5	3.5
Of which Heavy Trucks (over 15 tonnes)				
Total	7,897	-5.9	100.0	100.0
Scania (Investor)	1,731	+18.3	21.9	17.4
Volvo	1,419	-5.7	18.0	17.9
Leyland DAF (DAF Trucks)	1,190	-20.7	15.1	17.9
Iveco group**(Fiat)	858	+27.5	10.9	8.0
Mercedes-Benz Benz)	841	-23.7	10.7	13.1
ERF	545	-28.1	6.9	9.0
MAN	400	+6.4	5.1	4.5
Renault	331	+11.5	4.2	3.5

(names in brackets indicate ownership)
*includes buses and light four wheel drive utility vehicles.
**includes Iveco Ford and Seddon Atkinson.
Source: Society of Motor Manufacturers and Traders and industry estimates

Rover to shed dealers

Rover Group, an offshoot of BMW, is to cut its dealer numbers in Britain by up to 30 per cent as part of a restructuring expected to require heavy investment by companies wishing to stay with the franchise. The restructuring, which could result in up to 150 of the current 511 dealers leaving, is to be completed within two years. "The whole thrust of this reorganisation is to create a business in which premium-positioned cars are sold through premium outlets seeking lifetime relationships with customers," said Rover.

Rover and BMW have made clear that Rover's forthcoming cars are to be positioned ever more firmly up-market, and that a reduction in UK market share – to between 9 and 10 per cent from 13 per cent a year ago – is an inevitable part of the process. *John Griffiths*

By-election threat to PM

Voters from the Midlands constituency of Staffordshire South East go to the polls today in a by-election which Conservative and Labour strategists see as the most significant test of their public support in the run-up to the general election. Victory for the opposition Labour party – which is widely expected to overturn a Conservative lead of almost 7,200 – would reduce the government's Commons majority to one. Today's by-election is a test of Labour's claim that under Mr Tony Blair, the party leader, it can win votes directly from the Conservatives among relatively prosperous communities. *Richard Wolffe, Birmingham*

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