

BAE - VT merger July 26, 2007

David Robertson

BAE Systems and VT Group confirmed the long-awaited merger of their shipbuilding assets yesterday following the Government's decision to provide the Royal Navy with two new aircraft carriers.

The £1 billion company will effectively become the UK's last shipbuilder as famous names such as Harland & Wolff, Swan Hunter and Scott Lithgow have closed or dropped out of the business.

The joint venture will own dockyards at Portsmouth and on the Clyde at Govan and Scotstoun.

The Times first revealed that BAE and VT were in talks to merge their shipbuilding assets last October but negotiations were delayed as the companies waited for the Ministry of Defence to announce the £3.8 billion carrier deal.

* BAE and VT to create last big shipbuilder

<http://business.timesonline.co.uk/tol/business/industry_sectors/industrials/article600435.ece>

The MoD was unable to announce the carrier contract until it had completed a spending review, which ended last week.

The sensitive, military nature of the products being built means the joint venture is effectively a three-way partnership between the MoD, BAE and VT, formerly Vosper Thornycroft.

The MoD will guarantee the joint venture, dubbed jvco, shipbuilding and repair work for 15 years, including the two aircraft carriers.

In return, jvco will share cost savings from the merger with the Government. It will also be able to guarantee work for the 4,500 people directly employed by the dockyards and tens of thousands more workers at supplier companies.

VT will own 45 per cent of jvco while BAE will own the remainder. An independent chairman will be announced soon but it is expected to be Sir John Parker, chairman of National Grid Transco and a former shipbuilder himself.

VT will be able to sell its stake in jvco in three years for a minimum of £380 million and the company is expected to take this option in order to concentrate on its growing support services business.

Paul Lester, chief executive of VT, said: We will continue to put a lot of work into the joint venture but the merger will allow us to put more management time and release cash into our support services business.

The push to merge the BAE and VT shipbuilding assets started two years ago when the MoD published the Defence Industrial Strategy, its blueprint for future relationships with industry.

Lord Drayson, the defence procurement minister, wanted to move away from a culture where military equipment was delivered late and then not repaired when it broke down. The new system promotes a closer partnership between customer and supplier, with the MoD willing to pay more upfront to guarantee higher service levels throughout the equipment's life.

The National Audit Office has found that this through life concept has already saved the MoD more than £1 billion on just two aircraft contracts. It is also popular with industry as it guarantees long-term income beyond the initial supply of the equipment.

The Government is also optimistic that, by creating a single national shipbuilding champion, the company will be better placed to win export orders. Currently, VT and BAE compete against each other in international tenders.

Nigel Stewart, head of BAE's carrier division, said: The partnership agreement with the MoD gives us a level of stability in our home market that will allow us to look at the export market and compete from a position of strength.

Under the terms of the merger, jvco aims to generate total savings of £700 million over 15 years with 70 per cent of this going to the MoD.

In addition, VT will pay £75 million to buy BAE out of another joint venture the two companies run called Flagship, which provides training and support to the Royal Navy.

Last year BAE's shipbuilding division has sales of £501 million and VT's £254 million.