

PO-CH/NL/0187

PART E

Alex  
Lawson

PART E

**SECRET**

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PO -CH /NL/0187



PART E

DD: 25 years

Begin: 11/7/88

*[Signature]* 6/9/95

Ends: ~~11/9/88~~ 11/9/88 (CONTINUED)

CHANCELLOR'S 1988 PAPERS  
ON THE SHIPBUILDING  
INDUSTRY

PO -CH /NL/0187

PART E

july.31

CONFIDENTIAL  
AND COMMERCIAL IN CONFIDENCE

FROM: A M WHITE  
DATE: 11 JULY 1988

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Sir A Wilson  
Mr H Phillips  
Mr Monck  
Miss Peirson  
Mr Robson  
Mr Turnbull  
Mr Richardson  
Mr Barton  
Mr Call

E(A)(88)36: SHORT BROTHERS PLC

In his paper the Secretary of State outlines the sharply deteriorating position at Shorts, and promises a further paper on the forecast cash requirement for 1988-89 and on the way forward for the company. In so doing he indicates his loss of faith in the present management, including the newly appointed chairman, Mr Lund; he rejects their corporate strategy as set out in the Lund report, and in particular says he will not back the proposed FJX collaborative venture; and says that future actions should be aimed towards the company's early return to the private sector.

2. You should argue that the only acceptable course is early disposal of the company to the private sector. That will be costly but it will allow decisions on the future shape and scope of the business to be taken as a matter of commercial judgement. Only this approach would allow the Government to crystallise its losses in the sale contract.

Background

3. Poor trading performance has dogged Short's for years as one would expect of an undersized competitor in the aerospace business. Last financial year showed a marked deterioration and in rejecting the company's 1987 Corporate Plan, which argued that

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AND COMMERCIAL IN CONFIDENCE

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AND COMMERCIAL IN CONFIDENCE**

only by developing a new aircraft could the position be retrieved, the Secretary of State invited the new chairman, Mr Lund, to produce by the end of June his own view on the future direction and shape of the company.

4. Last year's performance turned out to be even worse than the Secretary of State had anticipated. The trading loss for the year, for a company with about a £250m turnover, turned out to be £46m. (Moreover, Mr Lund has now proposed provision against future losses of a further £88m - making the deficit for 1987-88 a staggering £134m). The cash requirement for the year, against an EFL of £52m has turned out to be £120m.

5. This alarming cash drain was no doubt compounded by the totally inadequate financial management control then existing within the company, which only became clear after the year end. Mr King reports that the company officials most directly involved (the Head of Finance and the Company Treasurer) have both been dismissed. But serious questions remain to be addressed about Board responsibility for such an awful state of affairs and, as Mr King notes, he is considering whether he should sue Price Waterhouse, the then auditors, and what legitimate complaint he may have against Touche Ross who were retained to monitor the company on his behalf.

6. The company's trading experience continues to be poor, with hoped for missile and aircraft orders receding later into the year, although the production required to meet them continues. The company's cash requirements have already reached £78m this year and are forecast to peak at £107m in the autumn, unless corrective action is taken.

7. Against this background, Mr King received the Lund report, the man thrust of which (described in my minute of 4 July to the Chief Secretary) was to advocate commitment to the FJX project, a new airliner to be developed in collaboration with as yet unsecured partners, plus a major restructuring of the balance sheet to enable the business to be readied for privatisation sometime in the 1990's.

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The present position

8. Mr King has rejected the Lund report and its £377m price tag. He has made it clear that he will not back the FJX and that he is not satisfied with the way the business is being managed. He has asked for an emergency cash conservation plan to staunch the current outflow of funds to be presented to him this Friday.

9. He proposes to invite Mr Gordon Dunlop, whose services Lord King has made available, to spend two weeks forming a view of what might best be done with Short's. I believe that Mr King may have it in mind to appoint an "administrator" to take responsibility for the company from the Board. As is clear from his paper, the Secretary of State sees the best prospect for continued employment at Shorts as the reshaping of the business as a missiles and aerostructures concern, and he may wish to do this restructuring before privatisation. But his objective is to maximise the number of jobs preserved in Belfast and that might hamper disposal.

10. In our view the best and probably least costly way to proceed is to dispose of the business as a whole as soon as possible. This would allow the private sector to form its own judgement of the best future shape of the business. Delay while attempts were made to restructure the business would be likely only to increase the costs of disposal - which will in any case be very appreciable. Sir Anthony Wilson, who is minuting you separately, shares this view.

11. We have no reason to quarrel with Mr King's ball park estimate of £300-400m as the likely cost of disposing of Shorts. While the missiles business may be worth £70m, and some of the aerostructures work and the Tucano contract may also be worth something, the company's liabilities and likely redundancy costs for outweigh such possible proceeds. If costs of this order must be addressed, it would be best to address them in the current year, rather than later. That points to an early move to dispose of the business.

Recommendation

12. Accordingly, I recommend that you argue that not only should the business be returned to the private sector, but that this should be done as quickly as possible. This would point to negotiating a price for disposal of the whole business. As its worth in the market place is almost certainly going to be far exceeded by its liabilities you should recognise that this course will carry a heavy price in terms of public expenditure and indicate that you would be prepared to consider sympathetically a claim on the Reserve for such costs in the current year.

13. If Mr King argues that decisions on how and when to proceed to disposal should await a report from Gordon Dunlop, you should make it clear that you would expect that report to concentrate on how best the Government can quickly disengage from Shorts.

*Miss  
Abraham  
arrange*

*[Signature]*  
A M WHITE

*PWT in E(A) (added)*

FROM: M G RICHARDSON  
DATE: 11 July 1988

CHIEF SECRETARY

cc Chancellor  
Financial Secretary  
Mr Anson  
Sir A Wilson  
Mr H Phillips  
Mr Monck  
Mr Turnbull  
Miss Peirson  
Mr Robson  
Mr White  
Mr Baker  
Mr Barton  
Mr Call

**SHORT BROS**

Your Private Secretary's minute of 8 July asked for a note of the impact of the Northern Ireland Secretary's proposals on the 1988-89 Reserve.

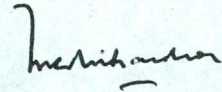
2. We have just started our July assessment of the Reserve position. Our June assessment was that the planning total outturn this year would be £155.8 billion; £1 billion below 1988 PEWP and FSBR plans. However, without the benefit of £1 billion extra privatisation proceeds and of  $£\frac{1}{2}$ - $£\frac{3}{4}$  billion extra LA capital receipts, the estimate would be for an overspend.

3. The only one of Mr King's problems to impact on the 1988-89 Reserve would be Shorts, with an estimated cost of £300-400 million. I understand that Mr King reckons to be able to absorb the cost of Harlands (£60 million) and Mackies (£20 million) within his block.

4. On current evidence therefore, a NI charge of £300-400 million this year ought not to jeopardise the planning total. In any case, as I said last week, if this order of cost had to be incurred it would be preferable for it to fall in the current year than in 1989-90.

5. The line to take at E(A) might be as follows:

"We already know of some large claims on 1988-89 Reserve of £3½ billion: local authority current (£1 billion for England); Rover (£0.65 billion); NHS pay (£0.75 billion); end-year flexibility (£0.75 billion) housing benefit (£0.1 billion); shipbuilding (£0.1 billion plus). Some offsetting underspending expected elsewhere, but Shorts costs can only make the overall position tighter. Nonetheless better to face up to bill this year than to postpone (higher) costs in the future".



M G RICHARDSON



july.29

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AND COMMERCIAL IN CONFIDENCE

BF 12/4  
FOR MEETING  
FOLDER

FROM: A M WHITE  
DATE: 11 JULY 1988

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Monck  
Miss Peirson  
Mr Robson  
Mr Burgner  
Mr Turnbull  
Mr Mountfield  
Mr Guy  
Mr Barton  
Mr Call

**E(A)(88)35: HARLAND AND WOLFF PLC**

In his paper the Secretary of State seeks colleagues agreement to attempt to negotiate a Govan-style disposal of Harlands to the private sector. He also seeks agreement to lifting the current ban on Harland's tendering for Ministry of Defence orders, to improve the prospects for such a privatisation.

2. Subject to further work by officials to refine the cost ceiling within which negotiations should be constrained, and to refine the other negotiating parameters sketched out in Mr King's letter to the Chief Secretary of 29 June, you can accept this. In so doing you should make clear that the alternative to disposal must be closure when present orders are completed - or earlier if the yard's performance deteriorates as the threat of closure grows.

### Background

3. At E(A) on 10 May, Mr King indicated that he wished to open negotiations with Mr Ravi Tikkoo to see if, as well as placing the P3000 (Ultimate Dream) liner contract with Harlands, he would be prepared to acquire the shipyard. It having been made clear to Mr Tikkoo that the only way in which the Government could

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contemplate the P300 being built would be if the yard were transferred to private hands, he has said he would only place the order if either he or Government owned the yard. He is not prepared to place the order with a yard owned by a third party. (Following the announcement on 30 June, a number of other parties have expressed some interest in the yard, but Mr King says it is too early to know if any of these expressions of interest will prove worth pursuing.)

4. No other orders are in prospect for the yard and closure would be inevitable following the completion of the present order book. The yard is currently working on a BP order for a single well production ship (SWOPS) due for completion at the end of the year, and on the first of class AOR for the MOD, due for completion in 1990.

**Parameters for Disposal**

5. Mr King's officials have produced a ball park figure of the costs of closure following completion of AOR of £240m. This estimate is based on the company's 1987 corporate plan and Northern Irish officials reading of developments in the yard since this. As I indicated in my note to PS/Chancellor of 6 July further work at official level is needed before that figure could be adopted, as Mr King proposes, as the ceiling within which the costs of disposing of Harlands to the private sector should be contained.

6. The attached table sets out the make up of the £240m. You will wish to note that while Mr King has, helpfully, committed himself to meet disposal costs of £60m a year from his block, closure costs could amount to some £82m in the peak year. So if closure becomes inevitable it is likely that Mr King will bid for part at least of the costs of closure and will also seek assistance by way of a claim on the Reserve to fund remedial measures in East Belfast.

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AND COMMERCIAL IN CONFIDENCE**

P3000

7. Harland's have submitted an application for intervention assistance. Mr King's officials are examining it with the assistance of Touche Ross, but we have not yet been consulted on it and can give no views on its realism. Mr King reports the estimated contract price at a massive \$535 million (£297m at the \$1.80 convention rate used by the company). He says that the eligible costs of construction would, at the 28% ceiling rate permitted by the Sixth Directive, result in intervention assistance of £100m to be spread over a four year construction period.

8. These are opening bid figures, and are likely to change as Mr King's officials, and me when we are consulted probe them. I have no reason to believe that they will not prove to suffer from the same notorious underestimation of labour costs that has characterised Harland's past performance in quoting construction costs. Even if they prove accurate, you will wish to note that DTI have never committed as much to a single order, still less a single hull.

9. It may be that disposal of Harlands to the private sector will prove the best option, but on this evidence it will nevertheless be extremely costly. At the least this points to no decision in favour of a sale to Mr Tikkoo until there is enough confidence in Harland's costings of P3000 for Government to believe that there is no risk of his seeking to reopen the deal on the basis of escalating construction costs. The first step towards that is the evaluation of those costs by officials and agreement to negotiation with Mr Tikkoo must be conditional on the P3000 standing up to appraisal.

10. The order is also dependant on Mr Tikkoo obtaining ECGD cover. As I understand it, on application has now been made to ECGD, who are aware of our concerns over the viability of P3000.

Tendering for MOD work

11. As Mr King says, the prospects for privatisation - to Mr Tikkoo or to others - would be marginally improved if the present ban on Harland's tendering for MOD work was lifted. Mr King asks for this, and inclusion of Harlands in the list of companies to be invited to tender for the ASS contract. Neither we nor DM see any objection to this (the prospect of Harland's securing the ASS contract are remote). However, you will recall that the ban was imposed because of the Prime Minister's and other colleagues dissatisfaction over the basis on which Harlands was the AOR contract in competition with the private sector. You should get Mr King to confirm, as he states in his paper, that Harlands would in fact only be allowed to bid for MOD work as a privatised company.

Is disposal a realistic option?

12. In my view, closure of Harlands would be the best economic solution. However, Mr King has argued that he could only follow that course if the P3000 proved to be an impractical uneconomic proposition. Even if it does, and Mr Tikkoo therefore drops out of the reckoning, Mr King will wish to see if a third party would take the yard without the P3000 but with a Govan-style dowry. That possibility cannot as yet be ruled out, given that the massive costs of closing Harlands set the 'envelope' for negotiation as high as £240m. It will therefore be very important to seek to constrain disposal costs so that at worst they do not go beyond the Govan model. To help achieve this you should ask that we and DTI officials should examine and refine the conditions for negotiation set out in Mr King's letter of 29 June to the Chief Secretary. (behind E(A) 8835)

13. You should also press Mr King to agree that if disposal to the private sector on these terms cannot be achieved he will accept and plan for the inevitable closure of the yard.

Recommendation

14. The economics of Harland's position point firmly to closure. But for political and social reasons Mr King will wish to avoid that if at all possible, and can <sup>argue</sup> ~~agree~~ the precedent of Govan to justify a public expenditure "dowry" to dispose of the yard to Mr Tikkoo or others. Accordingly, I recommend that you accept that negotiations with Mr Tikkoo, and, if necessary, others should be pursued as Mr King suggests, providing that:-

- (a) officials refine the £240m ball park cost of closure;
- (b) officials examine the other parameters for negotiation to ensure they are on all fours with Govan;
- (c) that commitment to the P3000 will only be considered if the costings provided by Harland's stand up to appraisal;
- (d) that if disposal to Mr Tikkoo or others cannot be achieved on this basis Mr King will plan for closure either following completion of AOR or earlier if the yard's performance deteriorates.

  
A M WHITE

## ANNEX

## CONFIDENTIAL

## HARLAND AND WOLFF : ESTIMATE OF CLOSURE COSTS

	fm
Trading support until 1991/92 (including contract losses)	114
Specific closure costs	
Terminal bonuses	20
Other including demolition etc	18
Redundancies	88
TOTAL	<u>240</u>

## Notes:

1. The above is an estimate of the total cost of supporting the company from now until closure.
2. The estimates were prepared by DED without consultation with the company.
3. H&W are due to produce shortly revised cash flow forecasts for the next four years. The above estimates may require to be revised in the light of these figures.
4. Terminal bonuses have been assumed as a means of minimising delays in completing SWOPS and AOR following an announcement of closure. It is also assumed, however, that a limited amount of operational/trading support would be needed in 1991/92 until the run-down was completed.

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## DEPARTMENT OF FINANCE &amp; PERSONNEL

Stormont Belfast BT4 3SW

Telephone Belfast 63210 Ext .

Mr A White  
 HM Treasury  
 Treasury Chambers  
 Parliament Street  
 LONDON  
 SW1P 3AG

Your Reference

Our Reference

Date 7 July 1988

*Dear Alan*

**HARLAND AND WOLFF: ESTIMATE OF CLOSURE COSTS**

As requested I attach a year-by-year breakdown of our estimate of £240m.

I must emphasise that this is very much a ball-park figure and in view of this it is considered that a totally misleading view of its accuracy would be conveyed by the inclusion of this breakdown as an Annex to the E(A) memorandum.

Your attention is drawn to the notes on foot of the draft Annex already forwarded to you, in particular that the estimate was prepared without consultation with H&W and that the company are due shortly to produce revised cash flow forecasts for the next few years which may require revision of the estimate.

Finally, may I also make clear in case of misunderstanding that the maximum figure of £60m in any one year mentioned in the text of the draft memorandum refers only to negotiations with Mr Tikkoo and not to closure costs. As you will note, in the last two financial years of the period covered in the breakdown the estimated cost exceeds £60m, in one year by a very substantial margin.

*Yours Ever*  
*Denis*

D J RITCHIE

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## HARLAND AND WOLFF: ESTIMATE OF CLOSURE COSTS

	1988/89	1989/90	1990/91	1991/92
Trading Support (incl.contract losses)	37	25	22	30
Specific Closure Costs				
Terminal Bonuses	-	-	20	-
Others - demolition, etc	-	-	8	10
Redundancies	13	15	32	28
	—	—	—	—
TOTALS	50	40	82	68
	—	—	—	—

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SECRET

FROM: SIR ANTHONY WILSON

DATE: 11 July 1988

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Mr Anson  
 Mr Phillips  
 Mr Monck  
 Miss Peirson  
 Mr Robson  
 Mr A M White  
 Mr Macaskill  
 Mr Barton  
 Mr Call

*Mr Anson  
 Mr Phillips*

**SHORT BROTHERS**

You asked for my considered views on the three options contained in the Lund Review and set out in Mr White's minute of 4 July to the Chief Secretary, and the next steps to be taken in relation to Short Brothers.

2. I have seen the Executive Summary of the Lund Review, the recent pattern of minutes and a draft of the Secretary of State's memorandum for E(A), which indicates some changes of approach, and have discussed the underlying facts with Mr White and Mr Macaskill, but I have not studied the Lund Report itself. I agree with the views expressed by Mr Macaskill in his attached minute. This was written following discussion of the position in the course of which he gave me further particulars about Shorts gleaned from his work in reviewing its corporate plans in 1986 and 1987. Quite independently the Secretary of State has discussed with me the internal report which his staff prepared on the appalling weaknesses in the financial controls and systems at Shorts.

3. Of the three options put forward, it seems to me that Option C, (pursuit of the Company's development plans as outlined by Mr Lund), is high risk, relying on hope more than justified expectation, and likely to prove very expensive. The company is largely a one-product company so far as aircraft construction

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 had  
 attached*

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work is concerned; it is virtually at the end of its successful SD 330/360 aircraft range and the proposed new FJX aircraft is still little more than a gleam in the executive's eye as a potential project. Joint venture partners have not yet been identified. In size of aircraft it is in a very competitive area and its costs must be subject to a wide range of speculation. Launch aid is a most important factor in the cost calculations and this is no more than a very doubtful possibility. Option C, therefore, appears to me to represent a blank cheque and a very unsatisfactory prospect, bearing in mind the company history of playing for time.

4. So far as Options A and B are concerned, the most valuable project which Shorts has to sell is its successful missiles business. Allied to this are the company's reputation for quality production of aircraft and structures and an availability of skilled labour. There is also the prospect of extending the Tucano trainer production plan if overseas orders could be obtained, and this might make it profitable in the long term. It is in any case a potential asset for disposal.

5. The allocation of common labour and overhead costs between aircraft and aerostructure businesses is conjectural so that it is difficult to form a view about whether either would be viable in the absence of the other. The Lund Report indicates that the Aerostructure Division would not be commercially viable on its own. The Secretary of State may now be thinking, however, in terms of liquidating the aircraft business and finding a buyer for a business based on the Aerostructure and Missile Divisions. Although this might lead to a higher employment level maintained in Belfast, it seems unlikely to me that the overheads would be much reduced and therefore profitability would be vulnerable. I also doubt that a business constrained in this way would continue to attract the necessary drawing office and research capability - a factor referred to in the Lund Report as a reason for concluding that the Aerostructure Division on its own would not be a viable prospect.

6. Despite Shorts' reputation for quality and its skilled labour force, I cannot see that there is likely to be a buyer

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who is prepared to pay a reasonable price for the Aircraft or Aerostructure Divisions either separately or together when, as I understand the position, the aircraft industry worldwide is in a state of over-capacity. It must also be doubtful whether the North Americans in particular would be interested from the political standpoint in purchasing productive capacity in Northern Ireland.

7. This leads to the conclusion that the most saleable package, (and probably the only one if a reasonable price is to be obtained), is a combination of the Missiles, Aircraft and Aerostructure Divisions - the whole business - but the important caveat must be entered that such a disposal should not be conditional on progressing or funding the FJX project. This is Option A, and although I have referred to "a reasonable sale price", the realistic assumption is that a purchaser would expect a substantial Government funding of the business before it was taken off its hands. I cannot make any estimate of how much such funding should be on the information available to me, but the funding is essentially to allow the purchaser to run down or liquidate the parts of the business it does not require. This strategy would carry lower financial risk for the Government than Option B because the total loss would be crystallised in the sale contract, whereas a disposal of parts of the business, (eg missiles), and rundown and eventual closure of the rest would be a largely open-ended commitment with not much less uncertainty attached to it than Option C.



A WILSON

july.37

CONFIDENTIAL AND  
COMMERCIAL IN CONFIDENCE

FROM: A M WHITE  
DATE: 15 JULY 1988

FINANCIAL SECRETARY

cc Chancellor → 12/2  
Chief Secretary  
Mr Anson  
Mr Monck  
Miss Peirson  
Mr Barton  
Mr Call

**JAMES MACKIE AND SONS LIMITED**

As I indicated in my brief on E(A)(88)34, doubts have arisen over James Mackies ability to cope with cash flow difficulties in the early weeks of August.

2. At the Secretary of State's request, following an approach by the company to the IDB, Coopers and Lybrand have prepared a report on the short term cash requirements of the company.

3. That report concludes that it is likely that the company will need to exceed its present £9.5m borrowing facilities during August by about £750,000. The Northern Bank is unwilling to increase its exposure and Mr King sees no alternative but to provide a temporary increase to his existing guarantee of £2m to support the company while its future is being resolved.

4. Accordingly, Mr King's officials have approached us for approval to increase the present guarantee from £2m to £2½m for the month of August, with the possible need to continue that higher level of support into September.

5. As I understand it, Mr King indicated at E(A) on Wednesday that he was actively exploring two prospects for involving the private sector in securing the future of Mackies on the basis of a dowry. But those negotiations cannot be completed before the end of this month. Therefore, if he is to be allowed time to pursue them there is no alternative to agreeing the extension of guarantee proposed.

6. This would also be consistent with the Prime Minister's summary up of E(A) agreeing that the Secretary of State for Northern Ireland should be able to take limited action as necessary to ensure the company's survival over the next few months, while discussions over longer term measures continued.

7. Accordingly, I recommend that you authorise me to agree a temporary increase in the Secretary of State's guarantee of the company's borrowings from £2m to £2½m. As, on my reading of Cooper's report it is likely that that temporary increase will need to be kept in place for September as well as August. I would be grateful if you could confirm that if necessary I can leave the guarantee limit at £2½m until end September.

8. In replying to Mr King's officials I shall, of course, only agree the £½m increase for the month of August, leaving it for them to make a fresh approach if extension into September turns out to be necessary.



A M WHITE

july.43

CONFIDENTIAL

FROM: A M WHITE  
DATE: 18 JULY 1988

CHIEF SECRETARY

cc Chancellor  
Miss Peirson  
Mr Turnbull  
Mr Barton  
Mr Call

**SHORTS: BORROWING POWERS**

As I explained this afternoon, the company is very close to its present borrowing limit of £300m.

2. DED are proposing that an extraordinary General Meeting of shareholders (themselves and DTI) should approve an increase in the borrowing limit to £400m. They believe that prompt action is also necessary to avoid speculation in financial circles over the Government's commitment to Shorts.

3. Present cash flow projections show that the company's borrowings, which have already risen by £78m this year (to stand at £282m at 1 July) are likely to continue to rise sharply to about £110m in the autumn and remain at that level until the end of the calendar year, then decline to about £82m by end March.

4. There is therefore a clear case for some increase in order to avoid breaching the company's borrowing limit at a time when all efforts are being bent towards an early disposal to the private sector.

5. The cash flow projections above were prepared by the company before E(A)'s decision to go for early disposal. It is likely that one of the effects of that decision being announced is that orders which it was anticipated would be received in the coming months will be deferred as purchasers wait to see who will be running Shorts and how. There may also be some deterioration in the work force's performance, particularly on the aircraft side which they know is highly vulnerable.

6. I would also expect, and Mr Viggers has this in hand, efforts to be made to limit this impact by stringent cash conservation measures. The company is being instructed by Mr Viggers today to prepare a comprehensive plan to this end. This plan will include proposals for short time working and temporary lay offs.

7. But I would not expect those efforts to do more than reduce the heavy cash outflow that the company has been experiencing.

8. While one could argue on the basis of the figures currently before us that a lesser increase in the limit, say to £350m, might be sufficient to see the company through until a purchaser is found, I could not advise that with confidence.

9. So in my view we should agree to the new limit of £400m proposed.

10. But as I made clear when we discussed I would wish to attach tight conditions to any borrowing over the present £300m limit.

11. I would propose :-

(a) that Northern Ireland officials accept that the increase to £400m is no more than a technical adjustment to the Boards powers;

consequently

(b) any borrowing over £300m should be justified to, and only committed once approved by, the Treasury;

(c) that as a matter of urgency we should be advised of the company's cash conservation proposals;

(d) that as soon as possible we should be advised of any further steps that Northern Ireland Ministers feel could be taken to reduce the company's cash outflow.

12. It would be my objective to constrain any proposals for borrowing to the bare minimum needed to keep the company going while negotiations for its disposal go forward. I would, of course, consult Treasury Ministers on any such proposals for borrowing.

13. Are you content that I should write to Northern Ireland officials in the terms of the attached draft?



A M WHITE



july.41

DRAFT LETTER TO:-

4809

Mr D Ritchie  
Department of Finance & Personnel  
Stormont  
BELFAST  
BT4 3SW

19 July 1988

**SHORTS: BORROWING POWERS**

We discussed your letter of 18 July.

2. In the light of Ministers' decisions last Wednesday, your Secretary of State is now addressing how he can speedily return the company to the private sector. Proposals should be put to colleagues in September.

3. As your Secretary of State quite properly warned colleagues, treatment of the company's indebtedness will be one of the most difficult and almost certainly costly aspects of any such disposal. All efforts must be made to limit that indebtedness in the months ahead.

4. Therefore proposals to increase the company's borrowing limit and potentially its indebtedness are less than welcome.

5. As I understand it from John Semple the needs for cash conservation have been put forcibly to the company, who have been invited by Mr Viggers to put robust cash conservation proposals to your Ministers in the next few days. It is quite clear that Mr King and Mr Viggers are intent on staunching the drain on Short's cash flow as speedily and effectively as possible, by measures including short time working and temporary layoffs. But that said, the company is so close to its present borrowing limit that I can well understand why DED feel it necessary to propose an increase with immediate effect.

6. I am only prepared to accept that on the following conditions. Firstly, as your letter already suggests it should be seen as purely a technical adjustment, to provide headroom if needed i.e. you in Belfast should not regard the increase in the borrowing limit as conveying any authority to you to approve any extension of Shorts' indebtedness beyond £300m. Secondly, any proposals that would result in borrowing rising above the present £300m limit would be justified to and approved by HM Treasury before that borrowing was undertaken (and we would expect reasonable time to consider and probe any such proposals). Thirdly, you will as a matter of urgency report on the nature and scope of any cash conservation proposals now put forward by the company. Forthly you will report as soon as possible on any further steps that your Ministers feel able to recommend to further reduce the outflow of funds from the company.

7. I would be grateful if you could confirm acceptance of these conditions in writing before the extra ordinary General Meeting of

the company on 21 July. In so doing it would be helpful to have an indication of when you will be writing to discharge the third and fourth conditions set out above.

8. I am copying this letter to John Semple.

A M WHITE

TO:  
PRIME MINISTER

FROM:  
KENNETH CLARKE  
18 July 1988

CH/EXCHEQUER	
REC.	18 JUL 1988 ✓ 18/7
ACTED	
COPIES TO	CST

*Wang*  
*That BS man*  
*promote to accept. No*  
*Custom in order. This*  
*from*  
*B(A) - quite*  
*18/7*

**BRITISH SHIPBUILDERS**

1 We last discussed the position on BS at E(A) on 10 May. Since then I have announced the successful completion of the sale of the Govan yard to the Norwegian company Kvaerner Industrier. You will wish to know the position on the remaining BS yards.

**Smaller Yards**

2 Peter de Savary's Highland Participants are close to seeking main board clearance for a bid for Appledore. They are, however, looking for continued Intervention Fund support and in view of this the terms they have so far proposed are much more generous than I would be prepared to let BS settle for. The only other serious interest in Appledore is likely to

be Stone Manganese, who manufacture propellers. BS could be in a position to enter final negotiations for a sale with one or other of these companies by about the middle of August.

3 The prospects for Ferguson at Port Glasgow are not as encouraging. The only interest is from Ailsa Perth who operate a yard at Troon. Ailsa's main interest seems to be in securing access to IF, with the bulk of any future business being carried out at Troon. I think this would be extremely difficult to get through the European Commission and in any event I doubt that we should be prepared to countenance the implicit extension of IF to another yard as a sufficient justification for disposal. There is only one order remaining to be completed at Ferguson. If no other interested parties identify themselves, it is possible the yard will need to close by the beginning of September, with the loss of some 500 jobs. I have alerted Malcolm Rifkind to this and suggested he may wish to consider whether there is a case for any remedial measures.

4 Several parties have expressed serious interest in the engine manufacturer Clark Kincaid on the Clyde. The future workload of the yard depends partly on where Kvaerner place their engine orders for the ships they will be building at Govan and, more importantly, on whether the Cuban order proceeds at a privatised North East Shipbuilders. The terms of sale for

Clark Kincaid may need to reflect the risk that any new owner would be taking on with respect to the Kaverner and Cuban orders.

5 The only other small remaining BS facility, Marine Design Consultants at NESL and Aberdeen, will probably be the last to be privatised. Again the prospects for disposal, almost certainly to a UK concern, look reasonably good.

#### North East Shipbuilders Limited

6 The position here remains extremely difficult. Although a large number of parties have expressed an interest, the only real prospect in the short term appears to be a consortium involving Lloyds Bank and a design engineer named Peter Zacchi. It is possible that Sumitomo might be interested. This would be attractive but could take several months to bring to a head. In the meantime, the only work NESL currently has is the Danish ferries contract. The legal position is still complicated although the BS Chairman, John Lister, has announced to the workforce that they will only lay keels for 16 out of the original order of 24. As we agreed at E(A), I have not allowed BS to take any new orders. The main prospect for a further order is from Cuba. No deadline has been set by the Cubans but I believe they will not want a final answer before the end of the year provided we confirm in the meantime that satisfactory

credit terms would be available. This will need to be looked at carefully.

7 My main concern at present is how we deal with the position at NESL. Doing nothing and letting matters drift does not seem to me to be a credible option. Costs are continuing to be incurred while work proceeds on the Danish ferries contract. This in itself is unsatisfactory. The position will become more acute, however, after the end of August. John Lister has advised me that he will then almost certainly need to transfer all of the remaining work to just one of the two main NESL yards with the loss of up to 1,500 jobs. It would be very difficult to defend this in the face of a possible order from Cuba and with no prior announcement. I have made clear that I would be prepared to offer future IF support provided NESL were privatised. Letting one of the main yards be mothballed without any announcement on privatisation would be seen as a de facto decision simply to close the yards down. Moreover, once one of the yards had been mothballed we would have seriously weakened our position prior to what I expect will be a difficult negotiation with the Commission on terms for any disposal of the remainder of NESL.

8 I have therefore decided to announce a date by which all bids for NESL have to be submitted. This would put a limit on the continuing losses at the yard. It would make clear that we

were maintaining the initiative. It would also ensure that any other potential bidders identified themselves so that we could secure the best possible deal. It carries the risk that Sumitomo will not be able to meet the deadline but I am not prepared to let the present uncertainty drag on indefinitely, particularly when this would leave us with even less negotiating flexibility and Sumitomo's interest is so uncertain. I will need to consider further the precise date to be announced. My present view is that this should fall in September, possibly in the first half.

#### Package of Measures at NESL

9 It remains probable, in my opinion, that whatever date is chosen no serious bidder will have come forward. We must also be prepared to face up to the likelihood of some 1,500 redundancies after the end of August and the possibility, if we are not to be put in an impossible negotiating position, of complete closure of NESL. Should either the mothballing of one of the two main yards or complete closure occur I would want to have in place a package of measures for NESL along the lines previously agreed by colleagues. I have agreed with John Major that I will find the cost of this for the current financial year from within my existing Departmental budget. My officials will be working up further details to put to the Treasury during the summer.



**Presentation**

10 On present forecasts, BS expect to exceed their current borrowing limit during the summer recess. I have therefore had to lay a new Borrowing Powers Order to increase the limit. This is due to be debated on Thursday 21 July. It will provide an excellent opportunity to announce the final date for all further bids to be submitted for NESL, since I will be able to point to the need to try to bring to an end the continuing losses, and also to outline the package of measures in the event that no successful bid is forthcoming. Members will obviously use the debate to ask about the position on the other yards. I will indicate generally the prospects for each of the yards but I will not go into detail, partly because of the need to preserve commercial confidentiality but also, for those yards where prospects are encouraging, so as not to disclose this until I am in a position to make an announcement on NESL where I expect the news to be far less than encouraging.

11 I am copying this minute to Nigel Lawson, Malcolm Rifkind, Tom King, Norman Fowler, Nicholas Ridley and John Major and to Sir Robin Butler.



KC



*We will need advice by  
beginning of the week  
Be. Case.*

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

*67 21/7*

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

CH/EXCHEQUER	
REC.	20 JUL 1988
TO	MR A R WILLIAMS
FROM	CST, EST
SIR P. MIDDLETON MR ANSON, MR PHILLIPS MRS CASE, MISS HAY MISS BARBER, MR TYRRE MR ISAAC I R, MR LEWIS I R MR FRASER I R PS I R	

19 JUL 1988

*Nigel*

I am writing to seek agreement to the terms of the Government's response to the Report by the Commons Select Committee on Transport on the decline in the UK-registered merchant fleet as outlined in the enclosed draft Memorandum.

The Committee reported on 21 June and recommended a number of measures intended to reverse the decline of the fleet, including concessions on taxation and National Insurance Contributions in respect of seafarers. The enclosed Memorandum responds to each of the recommendations after a brief introduction which outlines the measures which the Government has taken recently to secure the strategic requirement for merchant shipping. The Committee's report contained little that was new and our response similarly breaks no new ground. It is therefore deliberately low key. The responses on taxation and NIC have been supplied by Inland Revenue and DHSS respectively.

The Transport Committee's report was published shortly after the Defence Committee's report on the Defence requirement for Merchant Shipping and Civil Aircraft, and it would clearly be desirable that our responses to the two reports should keep in step. I understand that George Younger intends to reply to the Defence Committee by Memorandum before the Summer Recess, and, I would also propose to submit our response by then.

I should be grateful for any comments by Friday 22 July.

I am sending copies of this letter to Geoffrey Howe, George Younger, John Moore and Sir Robin Butler.

*ms*  
*Paul*

PAUL CHANNON

DRAFT

MEMORANDUM

GOVERNMENT OBSERVATIONS ON FIRST REPORT OF THE COMMITTEE, SESSION  
1988-89

DECLINE IN THE UK-REGISTERED MERCHANT FLEET

INTRODUCTION

The Government is grateful to the Committee for their report on the decline in the UK-registered merchant fleet. The report gives a detailed analysis of the contraction in the UK-registered fleet and is a welcome contribution to the debate on this important subject.

The shipping industry is, as the report recognises in section 3, a diverse industry of different sectors in different competitive situations. Some are in better health than others and the contraction of the UK-registered fleet is only one element in a complex picture of the industry. There have been signs recently that the decline may be slowing and that for some sectors the position may be improving. The Government welcomes this.

The Government fully accepts that it has a responsibility for ensuring that the Merchant Fleet should continue to be able to meet the nation's defence requirements. The Government has taken a number of measures to this end, some of which are recognised in the Committee's report and some of which have been taken since the Committee reported.

The Merchant Shipping Act 1988 which received Royal Assent on 3 May has provided powers for the Government to provide assistance with training and crew relief costs and to establish a Merchant Navy Reserve. Details of proposals for a scheme for supporting Merchant Navy officer training were announced, also on 3 May, and the scheme will be launched this autumn with a publicity campaign designed to attract new recruits. The Government will shortly be

announcing proposals for financial assistance towards crew travel costs and expects to be able to start making payments under this scheme before the autumn. Work is also in hand on the necessary secondary legislation and administrative arrangements for establishing the Merchant Navy Reserve.

Since the Committee reported, changes have been introduced in the Finance Bill which will benefit the shipping industry. The main change, broadly speaking, is to decrease from five-sixths to three-quarters of the year the period during which a seafarer must be abroad in order to qualify for Foreign Earnings Deduction. This will enable many more seafarers to qualify for tax relief and should make it more attractive to employ UK seafarers in deep sea trades. The value of this is estimated at £15-20m. In a further change to the Finance Bill the higher £5m limit for Business Expansion Scheme finance has been extended and will now be available to companies operating their own ships as well as those letting ships on charter.

On July 7 the Government announced its first agreement with an open registry state - the Bahamas - to make it easier for UK-owned vessels on foreign registers to be available to HMG in time of crisis and war.

The Government believes that these steps constitute a clear commitment to ensure that the shipping industry continues to be in a position to provide sufficient seafarers and ships to meet the country's needs in time of emergency.

#### SAFETY

*We recommend that the Department institute random checks of surveys carried out and that, if the surveys carried out by any particular Society are shown to be seriously inadequate, the Department ensure that no further surveys are delegated to that Society.*

The Government accepts this recommendation. Marine surveyors in the Department of Transport randomly check on average some 600 United Kingdom registered ships and 2,300 non-United Kingdom registered ships annually. From 1 September 1988 they will record the name of the Classification Society for each of the

ships they inspect so that a link can be established between ships found to be substandard and the Classification Society concerned.

#### ROLL OVER RELIEF

*We recommend that urgent and sympathetic consideration be given to the proposals for roll over relief for balancing charges.*

It is important that, where necessary, a balancing charge, which represents withdrawal of tax relief given for depreciation that has not occurred, is made if capital allowances are to fulfil their objective of allowing relief for actual depreciation of business assets. The roll over of a balancing charge arising on the sale of a ship by deduction from future capital expenditure on a new or secondhand vessel, provided the replacement is acquired within three years of the disposal, would go beyond that objective. It would also run counter to the general thrust of the Government's 1984 reform of business taxation, with its emphasis on removing from the system distortions which result from special reliefs of the kind proposed and at the same time reducing rates of tax. Moreover, the Government is not convinced that the proposals would have a significant effect in halting or reversing the decline of the fleet (which continued to contract during the decade up to 1985 when special tax incentives were available).

#### BUSINESS EXPANSION SCHEME

*We recommend that the Business Expansion Scheme limit of £5m be raised substantially.*

The annual limit for raising finance which qualifies for Business Expansion Scheme relief is £500,000 for most businesses, but it was recognised that this would be inappropriate for shipping (and for companies letting residential property on the new-style assured tenancy terms). The higher limit of £5m recognises the fact that current market conditions may make it difficult for shipping companies to raise even quite large amounts of equity finance. When setting the limit the Government had regard to the aim of the relief which is to help small unquoted companies start

up and expand. £5m was thought about right for shipping companies. Only one shipping company has made significant use of BES and, on each of two occasions, it raised about £5m. However, the limit will be kept under review. Since the Committee reported, the Government has announced the extension of the higher limit to companies which operate their own ships as well as it applying to those which let them on charter.

### CABOTAGE

*We recommend that the Government does not hesitate to use the power it has taken if the discussions in the EC on the abolition of cabotage are not brought to a satisfactory conclusion within a reasonable period of time.*

The Government is continuing to press strongly for early progress to liberalise cabotage in the Community as an essential component of the completion of the single market; further negotiations are to take place under the current Greek Presidency. It is, however, too early to say whether and when to make use of the powers in the Merchant Shipping Act 1988 to require companies engaged in cabotage around our coasts to be established here.

### NATIONAL INSURANCE CONTRIBUTIONS

*We recommend that the Government should look again at the whole question of employers' National Insurance contributions in respect of foreign-going seafarers.*

The Government has, as the Committee suggests, reconsidered the payment of National Insurance contributions in respect of foreign-going seafarers, but is not convinced that any changes are justified.

Foreign-going seafarers, like other employees whose work takes them outside the UK for long periods, use the facilities of the NHS less than people who are permanently resident in the UK. The employers of foreign-going seafarers are already compensated for the cost of providing health facilities on board ship, and their National Insurance Contributions are accordingly reduced by 0.5%. Nowadays sick seafarers can be more readily brought home for

treatment. Other British companies, who employ British resident workers, who travel overseas for periods up to a year, often provide medical facilities for their staff in the same way. It would therefore be difficult to justify reducing employers' National Insurance contributions paid by the shipping industry by more than 0.5%, the current level of the foreign-going rebate.

#### SEAFARERS' PERSONAL TAXATION

*We recommend that the present practice with regard to deduction of tax from seafarers employed by ship management companies should continue.*

*We recommend that urgent consideration be given to amending the statutory regulations which prevent the Inland Revenue from deducting tax from an employee where an employer should have operated PAYE.*

Where a person has a statutory obligation to operate PAYE, the Inland Revenue has a duty to try to ensure that that obligation is fulfilled. It has no discretion in this matter. So, the Inland Revenue having concluded that, in general, ship management companies should be operating PAYE, it has no option but to inform the companies concerned with a view to getting PAYE operated as soon as possible. That process has already been set in train; and in the circumstances the question of amending the PAYE Regulations does not arise.

The Committee reported (para 142) that they would understand if the Inland Revenue decide to make the deduction of PAYE the responsibility of the shipping company. In those circumstances they felt that special arrangements should be made to avoid the seafarer having to reclaim tax that he has overpaid. As noted above, in this year's Finance Bill the Government has relaxed the rules governing the length of permitted home visits which seafarers may make while still qualifying for the Foreign Earnings Deduction which provides 100% tax relief on foreign earnings. From 6 April 1988 many more seafarers are expected to qualify for this very generous tax relief which should ease the operating cost pressures which have been leading some companies to move their ships overseas and to employ foreign crews.

It is never possible to establish with certainty entitlement to this relief until after the tour of duty overseas has been completed. But the Inland Revenue has offered to explore with the industry whether, for some seafarers at least, crewing arrangements are now sufficiently long-term and certain, for it to be reasonable for them to authorise relief, on a provisional basis, in advance. Where this can be done, seafarers will, as the Committee suggests, be paid gross so that they do not have to reclaim tax overpaid at the end of the year.

#### TRAINING & RECRUITMENT

*We recommend that the sum made available by the Government for training be doubled.*

The Government has set aside £2.5m in 1988/89 and £3.5m in 1989/90 for assistance towards training costs. These amounts have been based largely on the number of new officer cadets estimated to be required annually with an initial target of 350 new entrants. This would represent a substantial increase over the present level of training and there can be no guarantee that recruits will come forward to fill all the places available.

The scheme also provides for assistance to meet the costs of existing ship's officers obtaining qualifications of a higher level than they already possess. The number of such cases cannot, at this stage, be accurately estimated.

So interest in the scheme is as yet untested and in the Government's view it is too early to conclude that the amounts allocated are insufficient. The provisions for future years will be determined in the light of experience.

*We recommend that HMG encourage a campaign in which all interested bodies should be invited to participate with the clear aim of improving the image and stressing the opportunities of the UK shipping industry.*

The Government shares the Committee's concern at the decline in numbers entering the shipping industry and agrees with the Committee's assessment of the importance of the image of the



industry. In support of the scheme of assistance for the training of Merchant Navy cadets the Department of Transport will this autumn be supporting and financing a co-ordinated campaign to reverse the decline. The campaign will be run by the General Council of British Shipping on behalf of the Department and will involve other interested bodies. It will, in line with the Committee's recommendation, aim to improve the public perception of the industry and to encourage interest in the opportunities which it offers.

#### UK OWNED VESSELS ON FOREIGN REGISTERS

*We recommend that arrangements for repatriating UK-owned vessels registered in foreign countries be concluded as a matter of the highest priority.*

The Government has been negotiating with four open registry states - Liberia, Panama, Bahamas and Vanuatu - to allow British ships on these registries to be made readily available to HMG in the event of crisis or war. Since the Committee reported the Government has concluded the first of these agreements - a Memorandum of Understanding with the Commonwealth of the Bahamas announced on 7 July. Negotiations with Liberia and Panama are at an advanced stage and we hope to be in a position to announce agreements with all three other states later this year.

#### MERCHANT NAVY RESERVE

*We recommend that, if the Merchant Navy Reserve is not effective the Government give consideration to further measures.*

The Government fully expects the Merchant Navy Reserve to prove to be both popular and effective. But it will certainly give consideration to further measures if this proves necessary.

*We recommend that periodic training of the Reserve be introduced.*

The Government's priority is to get the Reserve established and operational. Although some members of the Reserve might be attracted by a training element other potential Reservists, who would not be able to spare the time, might be discouraged by the requirement to take on a training commitment. The Government's view is therefore that the need for training can only be properly assessed in the light of the response to the scheme. It will be kept under careful review once the Reserve is in operation.



*[Handwritten signature]*

**FROM: R C M SATCHWELL**

**DATE: 19 July 1988**

**MR A M WHITE**

cc **PS/Chancellor**  
PS/Chief Secretary  
Mr Anson  
Mr Monck  
Miss Peirson  
Mr Barton  
Mr Call

**JAMES MACKIE AND SONS LIMITED**

The Financial Secretary has seen your minute of 15 July. He is content for you to agree a temporary increase from £2m to £2 $\frac{3}{4}$ m in the limit for the Secretary of State's guarantee of the company's borrowings, the increase to apply for August and, if necessary, September.

*R.C.M.S.*

**R C M SATCHWELL**  
**Private Secretary**

SECRET

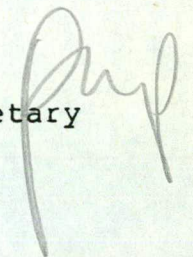


FROM: J M G TAYLOR

DATE: 19 July 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Waller



**BRITISH SHIPBUILDERS**

The Chancellor has seen Kenneth Clarke's minute of 18 July to the Prime Minister.

2. He has commented that it contains a worrying hint that British Shipbuilders may be permitted to accept the Cuban order. This did not find favour when discussed at EA) - quite rightly.

J M G TAYLOR

SECRET



67.22/7

*Just I have minutes on this. (unclear) (unclear)*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

19 July 1988

CH/EXCHEQUER	
REC.	20 JUL 1988 ✓ 20/7
ACTION	CST
COPIES TO	

*Dear Peter,*

**BRITISH SHIPBUILDERS**

The Prime Minister was grateful for the Chancellor of the Duchy's minute of 18 July. She has noted the position reached in relation to the smaller yards and agrees that it would be appropriate for the Chancellor of the Duchy to take the opportunity of the debate on 21 July to announce a final date for all further bids to be submitted for NESL.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Scotland, Northern Ireland, Employment, Environment, the Chief Secretary and to Sir Robin Butler.

*Yours,  
Paul*

(PAUL GRAY)

Peter Smith, Esq.,  
Office of the Chancellor of the Duchy of  
Lancaster.

SECRET

CONFIDENTIAL



FROM: JILL RUTTER  
DATE: 19 July 1988

MR A M WHITE

cc:  
Chancellor  
Miss Peirson  
Mr Turnbull  
Mr Barton  
Mr Call

**SHORTS: BORROWING POWERS**

The Chief Secretary was grateful for your minute of 18 July.

2 He discussed this with you earlier. As he told you he was only reluctantly prepared to agree to the £100 million increase in the borrowing limit, on the basis that it was your assessment that this was the minimum necessary to avoid the risk that the borrowing limit might have to be increased again later in the year. The Chief Secretary was concerned at the prospect of increasing the indebtedness of Shorts in advance of sale.

3 The Chief Secretary therefore considers it essential that there should be no remission from the conditions set out in your letter. He would like to strengthen your paragraph 6 by adding the following reservation: - "First, as your letter already suggests it should be seen as a purely technical adjustment, to provide headroom if needed and only if needed i.e. ...."

JILL RUTTER  
Private Secretary

July.46

CONFIDENTIAL

FROM: A M WHITE  
DATE: 20 JULY 1988

CHIEF SECRETARY

cc Chancellor  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Phillips  
Mr Burgner  
Mr Moore  
Mrs Brown  
Mr Barton  
Mr Call

**SHORTS; PRIVATISATION**

The Secretary of State is proposing to use 2 questions put down by David Alton, MP as a vehicle for the formal announcement of the privatisation of Shorts. Mr Alton's questions are:-

- (i) To ask the SOS for NI, what plans are being made for the privatisation of Shorts Plc; and if he will make a statement.
- (ii) To ask the SOS for NI, what representations he had had concerning the possible sell-off of Shorts; and if he will make a statement.

The Secretary of State proposes to answer them tomorrow. As the decision has been heavily leaked, and produced the predictable local reaction against its implications for employment in Northern Ireland both he and Mr Viggers are anxious that the answer should provide some reassurance on this point.

2. As this would be a departure from normal practice in announcing privatisation proposals both we and DTI have objected to the final sentence of the proposed answer:-

CONFIDENTIAL

CONFIDENTIAL

"In considering the terms of the sale, the Government will wish to give full weight to keeping the business in Northern Ireland."

The risk of such an answer is that it will deter potential purchasers who could well read it as saying 'the Government is looking for a philanthropist to carry Shorts on as it stands now'. It would also excite local expectation that the Government intends the business to continue much as at present.

3. In my view you should resist the inclusion of this sentence in the PQ, leaving the local interest in what may be the shape of Shorts after privatisation to be dealt with in response to press inquiries - in which context it would be easier to get over the fact that Government believes that a slimmer better focused business will be born from privatisation and continue as a viable part of the Northern Irish economy.

4. If however you feel that Mr King's difficulties are so acute that something should be said in the PQ itself then I would suggest that you argue that his proposed final sentence should be amended to read:-

"In considering proposals, the Government will give full weight to the contribution that a continuing viable aerospace business could make to the Northern Irish economy."

5. I attach alternative draft letters for you to send to Mr King.

*v J Jark*

*OP* A M WHITE

CONFIDENTIAL



DRAFT LETTER TO TOM KING

While I fully understand the pressures you face in announcing formally the decision to privatise Shorts, I cannot accept that the answer you propose should refer to the Government giving full weight to keeping the business in Northern Ireland.

2. That is likely both to deter some potential bidders and to create false expectation locally that Shorts will continue in much the same form as present - which sadly we know is unlikely to be the case.

3. I must ask therefore that the final sentence of your proposed answer be deleted, with the point being covered in defensive briefing in response to press inquiries. In that latter context it will be much easier to draw a distinction between our having an interest in seeing a viable successor business to Shorts Brothers Plc emerge as a result of privatisation, and our acceptance that this will inevitably mean some reconstruction and loss of employment.

ALTERNATIVE DRAFT LETTER TO MR KING

While I fully understand the pressures you face in announcing formally the decision to privatise Shorts, I cannot accept that the answer you propose should refer to the Government giving full weight to keeping the business in Northern Ireland.

2. However, I recognise that there is a great deal of concern that little will survive disposal. While it is not normal to cover this sort of point in privatisation announcements, I am prepared in your circumstances, to go a little further. But the most I could accept is a form of words along the lines of: -

"In considering proposals, the Government will give full weight to the contribution that a continuing viable aerospace business could make to the Northern Irish economy."

SECRET

FROM: W GUY  
20 July 1988

- 20  
1. MRS BROWN  
2. CHIEF SECRETARY

cc Chancellor  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Burgner  
Mr Turnbull  
Mr Mountfield  
Mr Waller  
Mr A M White  
Mr Call

### BRITISH SHIPBUILDERS

The Prime Minister has agreed to Mr Clarke's proposal (in his minute of 18 July) that a deadline in September should be announced for receipt of bids to buy North East Shipbuilders Ltd (NESL).

2. NESL is the major element in what will be left of BS after disposal of Govan. Its two yards on the Wear (Pallion and Southwick) are the biggest that BS has in terms of facilities and employment. It is also the least sellable bit of the Corporation. Its only order at present, the construction of a fleet of ferries for a Danish entrepreneur, is on the point of collapse. BS have announced that they will not lay any more keels beyond the sixteenth, for which they are cutting steel at present. The order was for 24. Simultaneously they are suing the customer for non-payment in respect of earlier vessels. He is formally in default under the building contracts for vessels up to number 13. But there are no cross default clauses in the building contracts. The various loan agreements by which the customer was to finance the order are cross-defaulted, but he has so far avoided cancellation of the loans on the basis that his non-payment under building contracts reflects dissatisfaction with BS workmanship on the order. He has only accepted delivery of the first two vessels. The others are building up in the Wear.

3. BS say that they are edging towards a settlement with the customer but an early resolution to the contractual difficulties cannot be relied on. In the meantime the only prospects for the yard beyond the premature termination of work on the Danish order (probably in August/September) lie in a possible order from Cuba.

4. Mr Taylor's minute of 19 July (not copied to PE) reports the Chancellor's concern that Mr Clarke is hinting at BS being allowed to accept the Cuban order. My reading is that Mr Clarke remains firmly opposed to letting BS take any further orders. He does not, however, object to subsidising the Cuban order if it were placed

at a privatised yard. He therefore wants to expedite matters in relation to NESL so that he is not faced with heavy redundancies at NESL this autumn before it is clear whether the yard can find a private sector purchaser who could take the order and preserve employment.

5. We are in favour of resolving the position at NESL as soon as possible. We need to be sure that if a serious purchaser does appear, there should not be a 'privatise at all costs' movement amongst colleagues as there was for Govan. But it is early days yet, and this point is best tackled when and if a purchaser comes forward. You may however wish to reiterate your concerns on this point.

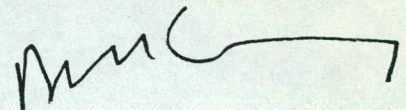
#### Other yards

6. Mr Clarke's minute contains no new information. The point about controlling disposal costs is equally relevant to other yards, though.

#### Remedial Employment Measures

7. Your previous correspondence with Mr Clarke covered the funding of remedial measures in Sunderland in the current year, but agreed to leave discussion of future years for the Survey. IAE advise that it is essential that in his statement Mr Clarke should not say anything which would prejudice your position in those discussions, and they recommend that you should send Mr Clarke a letter making your agreement to his statement subject to this.

8. A draft letter is attached, incorporating also the points above.



W GUY

SECRET

DRAFT LETTER TO MR CLARKE

BRITISH SHIPBUILDERS

Thank you for copying to me your minute of 18 July to the Prime Minister.

With NESL, as with the other BS facilities, it will be important for bidders to appreciate that if a disposal deal cannot be done on a basis with acceptable costs, then there will be closures. ~~That is,~~ There should be no expectation that we are going to privatise at any price. This may indeed make the prospects for NESL less than encouraging, but I agree that it will be helpful to expedite matters there by announcing a deadline in September for bids.

I am sure that you are right to refuse to countenance support for BS to take the Cuban order.

On remedial measures, we have as your minute notes agreed on funding for the current year only in Sunderland. I can agree to your proposed statement only on the understanding that nothing will be said which would prejudge the outcome of discussions on future years in the current Public Expenditure Survey.

I am sending copies of this to the Prime Minister, Nigel Lawson, Malcolm Rifkind, Tom King, Norman Fowler, and Nicholas Ridley and to Sir Robin Butler.

JOHN MAJOR

1. Mr Revolta
2. Chief Secretary

1 ync. This submission is a useful summary of the response, but paras. 2-4 are of essential reading.

From A Houmann  
Date 21-7-88

cc Chancellor  
Financial Sec  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mrs Case  
Miss Hay  
Miss Barber  
Mr Tyrie  
Mr Isaacs (IR)  
Mr Lewis (IR)  
Mr Fraser (IR)  
PS/IR

DR  
21/7

## GOVERNMENT'S RESPONSE TO REPORT BY COMMONS SELECT COMMITTEE ON TRANSPORT (CSCT), DECLINE OF THE UK-REGISTERED MERCHANT FLEET.

1. Mr Channon wrote to the Chancellor on 19 July to seek agreement to the terms of the Government's response to the CSCT's report on the decline of the UK-registered merchant fleet. The recommendations in the report were neither new nor unexpected and the response is similarly couched in terms of previously announced Government policy. Where recommendations have been taken up this is clearly noted; and where recommendations have been rejected the reasons are clearly set out. We recommend that you agree to the terms of this memorandum.

### BACKGROUND

2. The CSCT undertook an inquiry into the decline of the UK-registered merchant fleet and published its report on 21 June 1988. The concern is that the fleet may be declining below levels at which it could be of strategic use and that further decline could damage the economy. The report made 12 main recommendations to the effect that Government assistance to the fleet was now required (given that no-one would argue against the proposition that it is of strategic and economic importance). The Government has accepted responsibility for ensuring that the fleet should be capable of meeting defence needs and has taken steps in the recent Merchant Shipping Bill and in the Finance Bill to aid and strengthen the fleet with a package of measures. These steps will have commercial as well as strategic benefit.

### DTP'S DRAFT RESPONSE

3. Mr Channon's paper notes these recent measures, both in his introduction and in reply to the individual recommendations. He also makes clear that the decline may be slowing in some areas of what is really a very diverse

industry. The measures adopted by the Government are therefore an attempt to target assistance where it is most needed, not to scatter assistance without proper thought for the benefits that may accrue. The drafting of the replies to taxation recommendations have been prepared by the Inland Revenue and approved by the Financial Secretary. The draft replies on National Insurance recommendations have been prepared by DHSS.

4. The paper deals with each of the main recommendations in turn:

a. SAFETY. The Government has accepted the recommendation to monitor safety surveys.

b. ROLL OVER RELIEF, BUSINESS EXPANSION SCHEME and SEAFARERS' PERSONAL TAXATION. The replies, which reflect recent Government action and stated policy, have been drafted by the IR and approved by the Financial Secretary.

c. CABOTAGE. The CSCT recommended that the Government make full use of the enabling power it has taken in the Merchant Shipping Bill, to require foreign cabotage operators to be resident in this country. This was a controversial addition to the Bill and is thought to have limited leverage in persuading other EC countries to open their cabotage markets. The response sets the cabotage issue firmly within the context of the Single Market in 1992 and Mr Channon emphasises that the UK is pressing for early progress in negotiations under the Greek Presidency.

d. NATIONAL INSURANCE CONTRIBUTIONS. DHSS have reviewed the NI contributions of foreign going seafarers, as recommended by the report, and noted that there is no justification for a change.

e. TRAINING AND RECRUITMENT. The CSCT recommended that the sum made available for training cadet and officer seafarers be doubled; but as Mr Channon points out, the scheme is as yet untried and the present sums are an estimate of what would be required to fill all the places needed annually. There is no guarantee that this estimate is accurate and further provision would not necessarily be helpful. As regards a campaign to promote a positive image for the Merchant Navy, the GCBS has already undertaken to run a campaign on behalf of DTp.

f. UK OWNED VESSELS ON FOREIGN VESSELS. Negotiations are already well advanced with several open register states to allow British ships to be made available to HMG in times of crisis.

g. MERCHANT NAVY RESERVE. The CSCT recommended that the new Reserve be reviewed and periodic training be given. Mr Channon rejects the need for training until such time as the Reserve is operational and it has been fully reviewed.

5. I recommend that you agree to the terms of the response to the CSCT recommendations. Mr Channon would like to reply at the same time as Mr Younger replies to the Defence Committee's report on the Defence requirement for Merchant Shipping and Civil Aircraft. This would mean a submission before the Summer Recess. I attach a draft reply to Mr Channon.

*Alan Houmann.*  
ALAN HOUMANN



DRAFT REPLY FROM CHIEF SECRETARY TO MR CHANNON

GOVERNMENT'S RESPONSE TO REPORT BY COMMONS SELECT COMMITTEE  
ON TRANSPORT (CSCT), DECLINE OF THE UK-REGISTERED MERCHANT  
FLEET.

1. Thank you for your letter of 19 July to the Chancellor.
2. I agree to the terms of the Government's response to the report on the decline of the UK-registered merchant fleet. As you say, the recommendations in the report were neither new nor unexpected and the response is similarly couched in terms of previously announced Government policy. Where recommendations have been taken up this is clearly noted; and where recommendations have been rejected the reasons are clearly set out.
3. I agree that it would be useful to submit your response at the same time as George Younger replies to the Defence Committee's report.
4. I am copying this letter to Geoffrey Howe, George Younger, John Moore and to Sir Robin Butler.

CONFIDENTIAL

FROM: M SHARRATT  
DATE: 22 JULY 1988

1. MISS PEIRSON  
2. CHIEF SECRETARY

cc Chancellor  
Mr Turnbull  
Mr A White o/r  
Mr Call

**SHORTS: BORROWING POWERS**

I am afraid that I must trouble you again with the problem of Shorts borrowing limit which Mr White brought to your attention in his minute of 18 July.

2. You very reluctantly agreed to the proposal to increase the limit by £100m to £400m and then only under the conditions set out in Miss Rutter's minute to Mr White of 19 July. Northern Ireland officials are anxious not to contravene the spirit as well as the letter of the Treasury's agreement to the proposal and have raised some difficulties with the conditions we imposed.

3. Shorts are very close to the present limit and will almost certainly breach that during the first week of August. Even in a good year, receipts in the first half of the year are much lower than expenditure due to the clustering of aircraft sales in the second half of the year and a high level of borrowing through to the Autumn is the norm.

4. There is limited scope for immediate reductions in cash requirements which would not damage the chances of transferring the company to the private sector. Current borrowings are needed to meet the wage bill and make payments to creditors. Those measures which could be put into effect quickly, such as blocks on new capital expenditure and new product development, have already been taken. While we can press Mr King to consider other urgent measures including short-time and temporary working to reduce wage costs, those would clearly start to have some effect on the company's credibility and therefore the prospects and terms of an early privatisation.

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5. Thus, an increase in the borrowing limit will not simply be a technical adjustment against a remote possibility of exceeding the present £300m limit; it is an essential and urgent requirement if the company is to avoid violating its Articles of Association. In particular, while NI officials accept that an increase in the limit itself would not confer authority for borrowing to exceed £300m without our separate approval, in fact they will need that approval almost immediately.

6. If confidence in Shorts is to be maintained while proposals for privatising the company are sought, I can see no other alternative than to agree to borrowings exceeding £300m. But the level of borrowing must be continuously monitored by NI officials and the Treasury would need to receive weekly reports of the current level and forecasts for the following three months. All the other conditions set out in Mr White's draft letter would apply.

7. Are you content that I allow the terms of the Treasury's agreement to the increase in the borrowing limit to be relaxed in this one respect?

*M Sharratt*

M SHARRATT

N Ireland's present forecast is that borrowings will peak at approximately £330 m in October and then decline to about £300 m by 31 March. However, we can have no great confidence in these figures.



FCS/88/141

SECRETARY OF STATE FOR TRANSPORT

CH/EXCHEQUER	
REC.	25 JUL 1988 ✓ 25/7
ACTION	Mr M L Williams.
COPIES TO	CST, FST, Sir P Middleton. Mr Anson, Mr Phillips Mrs Casa, Mrs Hall Miss Barber, Mr Tyrie Mr Isaac IR, Mr Lewis IR, Mr Fraser IR PS/IR

1. Your letter of 19 July to Nigel Lawson sought agreement to the terms of the Government's response to the Select Committee on Transport's Report on the decline of the merchant fleet.

2. I have only one comment, concerning the section on cabotage, where I believe we should emphasise the objective of the enabling power in the Merchant Shipping Act 1988 by adding as a new second sentence:

"Clearly full liberalisation is greatly to be preferred to continuing national restrictions",

and to amend the final sentence to read:

"... too early to speculate on whether we might nevertheless need to make use of the powers in the Merchant Shipping Act ..."

3. I am copying this minute to the recipients of yours.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
25 July 1988

CONFIDENTIAL

1. MRS BROWN
2. CHIEF SECRETARY

*This is a strong letter to DTI, but it is earlier views of the former to M Guy's advice. I agree with M Guy's*

*MES 28/12*  
*A* *W* *Johnson*

FROM: W GUY  
28 July 1988

- cc Chancellor  
FST  
Sir P Middleton  
Mr Anson  
Mr Monck OR  
Mr Moore OR  
Mrs Brown  
Mr Waller  
Mr A M White  
Mr Rutnam OR

**BRITISH SHIPBUILDERS: DISPOSAL OF GOVAN**

1. You will recall that a key feature of the terms of disposal of Govan to Kvaerner (the Norwegian shipping group) was the provision of Intervention Fund support on orders placed by Kvaerner in the yard. This morning I received for approval from DTI the formal proposal for IF support on the first four ships to be ordered. We normally process these approvals at official level. In this case, however, you may wish to consider the issues first and to write to Mr Atkins (the DTI Minister now dealing) yourself.

2. DTI are pressing for an urgent response. IF approval is an integral part of the disposal deal, which is due to be completed next week. Mr Atkins goes on holiday tomorrow. It would be helpful if you could write today. In any other case we would refuse to be bounced, but given what is riding on this one it is better to pull out all the stops and be cooperative. Looked at technically, I would not recommend the IF deal which is proposed; but there are much bigger considerations which point to giving prompt approval in order to secure the Govan disposal. I recommend that you use the opportunity of giving grudging consent to reinforce your earlier warnings to DTI that you do not wish to see this kind of deal repeated.

Background

3. From an early stage in the negotiations with Kvaerner we objected to DTI's idea of giving unusually generous support to the first four orders which Kvaerner would place at the yard to keep it working up to 1992. We complained that there should be no guarantee of support levels over this period which would insulate Kvaerner from the consequences of decisions which might be taken to reduce the support regime. We objected also to the idea of allowing Kvaerner to retain profits made on supported orders. And we pointed to the risk that because Kvaerner would be building the ships for themselves, they would rig the orders to make profits. The normal discipline of arms length pricing in a competitive market would be missing.

4. You made these points to Mr Clarke yourself in your letter of 10 June (below). You repeated them in your letter of 22 June (also below). The annex to Mr Clarke's letter of 21 June contained what we regarded as unconvincing assurances about the independence from the Kvaerner Group of the consortium placing the orders, in which Kvaerner has a major stake. In his letter of 23 June Mr Clarke assured you that 'as a result of further concessions extracted in the final negotiations the IF terms we are proposing are entirely conventional with no generosity for the first four new orders from Kvaerner'. He drew attention to the assertions about independence in the annex to his previous letter. He reinforced these by saying that he would obtain an independent assesment of comparative prices from overseas yards.

5. On this basis you reluctantly agreed to the deal in your letter of 27 June.

#### Current proposal

6. Against this background we have this morning studied the details of the IF approval which we are asked to give urgently. I have discussed them briefly with DTI officials.

7. The approval required is for support at 27.83 per cent of two firm orders to be placed now and options to place two further orders. The prevailing EC maximum is 28 per cent. The DTI case paper remarks that 'this case is unusual in that it recommends an approval in principle of IF to be made in respect of options as well as firm orders'. The options have no expiry date: they could be converted into orders, or not, at any time. The practical effect of this is to allow Kvaerner to lock in the maximum rate of support now on orders which they may not wish to place. This is unsatisfactory. Once the approval in principle on the options is given it is legally binding.

8. The locked in support rate may be overridden by the force majeure of a reduction in EC maxima, and in that sense Kvaerner are exposed to the risk that when the options are converted to orders they will attract lower support than 27.83 per cent. But they will be legally insulated from any decision to reduce UK support levels unilaterally below the EC maximum. If we chose to vary the UK regime unilaterally we would still have to pay Kvaerner 27.83 per cent or the prevailing EC maximum (whichever were lower) when the two options were converted, whatever the UK regime was at that time.

9. We would not readily consent to this arrangement in any other case. It is in fact unusually generous. It means that by getting approval of non-time limited options, buyers can insulate themselves from any decisions of the UK Government to bring support below the EC maximum. The case paper explains that 'the Builder advises that the Customer' needs certainty of state aid for

all four ships'. We maintain, of course, that the distinction between 'the Builder' and 'the Customer' in this case is a fiction.

10. Attention to the likelihood of 'the Builder' making a profit after support exposes this fiction. The casepaper says 'the builder is forecasting a profit of £1,098,000 for the year ending 31 December 1989. Profit cannot be derived from an IF contract.' The explanation provided is that 'the builder confirms that this forecast profit is from interest earned on the positive cash flow made available from the customer's agreed payment pattern'. This seems to satisfy DTI. What it means, though, is that quoted price is lower than the value which the customer is giving, because the customer is making stage payments in advance of need to allow the builder to earn interest on them. It is absurd not to take the generosity of these arrangements into account in assessing the price which the customer is paying. It opens the whole system to abuse.

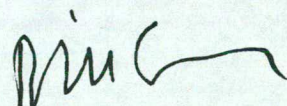
11. Suppose an order has a build cost of £10 million. Support will be the lower of the cost price gap or 28 per cent. Suppose a competitive price is £8 million. Support would then be 20 per cent. But if instead the price is quoted as, say £7 million, with payments being made sufficiently in advance of need to generate interest of £1 million, then the DTI, apparently, would cheerfully approve support of 28 per cent.

12. DTI officials tell us that the finance director of 'the customer' (the consortium in which Kvaerner have a major stake) was unaware until a late stage of the payment pattern - because it was dictated to him by the Kvaerner group who decided it in the overall interests of the group. That is, it was dictated by the Kvaerner group so as to allow a profit to be made by them on the supported work at Govan. This demolishes any credibility there may ever have been in Mr Clarke's assurances about independence.

### Handling

13. In summary, the IF arrangements on the first four ships are unusually generous, contrary to what Mr Clarke led you to believe. And Kvaerner have indeed fiddled the terms on which they will be buying the ships from themselves in order to make a profit from a supported order, in spite of Mr Clarke's assurances that this would not happen. It is worth complaining about this on principle, but in practice it does not seem worth trying to block the approval; to do so would very probably scupper the Govan disposal.

14. A draft letter to Mr Atkins is attached.



W GUY

DRAFT LETTER TO MR ATKINS

SHIPBUILDING INTERVENTION FUND

Your officials ~~have~~ asked mine <sup>yesterday</sup> for approval of Intervention Fund payments to support the new orders to be placed at Govan once it has been privatised. The disposal needs to be completed very soon now, and approval of the IF is an integral part of the deal.

You will have seen the correspondence I had about this with Kenneth Clarke, in which I expressed concern that the terms of IF on these orders should be no more generous than normally available. In particular I was concerned that there should be no guarantee of the rate at which support would be given on future orders up to 1993; and I was concerned that Kvaerner should not be able to make a profit out of our support payments, which are intended only to allow them to breakeven.

I was particularly concerned about a profit arising because I did not believe that the new owner of Govan and the customer for the ships would be at arms length. Govan will be acquired by a subsidiary of the Kvaerner group. The customer will be a consortium in which the major interest is another subsidiary of the Kvaerner group. I was concerned that this was unlikely to produce arms length prices, which were agreed as essential at a meeting held by the Prime Minister on 31 March.

<sup>Ken</sup> Ken gave me assurances on these points. In the annex to his letter of 21 June he explained that the builder and the customer were sufficiently independent of each other. And in his letter of 23 June he assured me that there would be no generosity in the terms of IF for the first four ships.

As you will see from my letter of 27 June I was able to agree to the proposed terms of disposal of Govan on this basis only with serious misgivings. I am surprised, therefore, to find that the detailed IF terms which have now been put forward for approval do indeed seem to be unusually generous and do allow Kvaerner to make a profit from the support we will be paying.

Specifically, it is proposed that approval in principle should be given for IF at the prevailing EC maximum on options rather than orders for ships. This allows Kvaerner protection against the consequences of any decisions we might take to reduce support below the EC maximum before those options are converted. Your department's casepaper remarks that this is unusual. It is in fact what I would regard as unusually generous, contrary to what I had been led to expect.

It is also proposed that Kvaerner should receive support at levels



which will allow them to make a profit, on the basis that this profit will arise only from interest earned on stage payments made by the customer in advance of the builder's needs. This payment pattern was apparently decided by the Kvaerner group and dictated to the customer consortium, in the group's overall interests. If, instead of making advanced stage payments to give the builder interest, the customer had simply paid a higher nominal price, the levels of IF support would have been lower. The interest of the Kvaerner group in this is therefore clear: they have instructed the builder subsidiary and the customer subsidiary to make a deal on terms which allow enough IF to be claimed as to make a profit.

This is precisely the kind of non-arms length manouevre which I was led to believe that we would not be entertaining. This confirms my fears about the terms of this disposal. Recognising the importance, to you and to Malcolm Rifkind in particular, of the Govan disposal now going ahead, I am prepared to approve the IF terms proposed. But I do so only because it is now too late to change them, and I am deeply disappointed at the way they have come out given the reassurances I and colleagues received earlier.

*must reiterate that the*  
I ~~hope that the thoroughly unsatisfactory terms of the Govan disposal are not going to be repeated elsewhere~~ *cannot be taken as a precedent for any further sales of BS yards.*

I am sending copies of this to the Prime minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King, and to Sir Robin Butler.

JOHN MAJOR

CONFIDENTIAL



14/2 c.c. Chancellor

FST

Mr Monck

Mr Burgnes

Mr Moore

Mrs Brown

Mr AM White

Mr Guy

Mr Rutnam.

Treasury Chambers. Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP  
Chancellor of the Duchy of Lancaster  
and Minister of Trade and Industry  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1

10<sup>th</sup> June 1988

Dear Chancellor,  
BRITISH SHIPBUILDERS

Thank you for your letter of today.

Given that, as you say, any compensation to Kvaerner for the costs of redundancy and goodwill payments would have to be set against other elements in the total package, I am not sure what is the purpose of us approving these elements of the deal in isolation. Surely it is for Kvaerner to negotiate on these points, and then to make proposals to BS for reimbursement in the context of the overall package. We need to be distanced from these talks to avoid repercussions from what is conceded.

I find the idea of a £1,000 payment for all employees, including those who will keep their jobs, excessive. We should not be party to it. We cannot prevent Kvaerner from tabling this, but it should clearly come from them and not BS, and Kvaerner must understand that such an offer is bound to be seen as part of an overall package, to which we may or may not agree.

As to the overall package, I note that this may be firmed up for our approval quite soon now. Our preference has always been for a dowry in lieu of continuing Intervention Fund support, although I know that it was agreed at a meeting with the Prime Minister on 31 March and again at E(A) on 10 May that IF could be conceded if necessary for a deal, but any dowry element in that case should be minimised. I understand that current negotiations are moving towards the concept of a dowry of as much as £30 million, in addition to which Kvaerner would have open-ended access to IF support and indeed IF support at the current permissible maximum would effectively be guaranteed up to 1993.

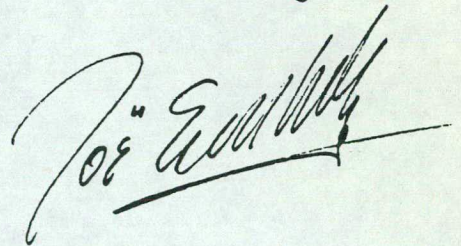
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If this is what is emerging, I would wish to have an opportunity to comment on it while the numbers still are, as you say, fluid. I would not favour contract support arrangements which are effectively more generous than IF which is generally available, and I would expect the Commission also to have views on that. Moreover if we are countenancing continuing support we must recognise how expensive that could be in the longer term, beyond 1993, and we must not rely on over optimistic assumptions about EC action to reduce support levels when we calculate the costs. It is essential that if continuing support is to be available, any dowry must be cut back to well below £30 million. Indeed it may not be possible to justify any dowry at all by reference to the costs of closure.

It would also be essential, as discussed at the Prime Minister's meeting on 31 March, for support to be based on arm's length prices. I am not sure how you envisage introducing this safeguard if new orders at Govan effectively represent Kvaerner building ships for themselves incorporating a unique technology.

I am sure that we all wish to avoid reaching a position in which the cost implications of the Kvaerner package are unacceptable, but in which there is too little time to change them or in which changes could not be made without bad faith. I should be grateful therefore if you could urgently let me know the detail of what is emerging and how it is satisfactory, bearing in mind the considerations above.

Yours sincerely,



for JOHN MAJOR

(Approved by the Chief Secretary  
and signed in his absence)

CONFIDENTIAL



W2 FST  
Sir Peter Middle  
Mr Anson  
Mr Monck  
Mr Bagnall  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr R.M. White  
Mr Ruffnam.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP  
Chancellor of the Duchy of Lancaster  
and Minister of Trade and Industry  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1H 0ET

22 June 1988

*Dear Chancellor of the Duchy,*

**BRITISH SHIPBUILDERS**

Thank you for your letter of 21 June, which I have discussed this morning with Nigel Lawson.

I am sorry that we did not have more time to comment on your proposal. You will recall that on 10 June I asked you to let me know urgently how the negotiations were proceeding so that I could comment before the deal was firmed up. I said then that it was essential that the costs of Intervention Fund support at Govan in the longer term should be taken into account in your costings if it was to be offered to Kvaerner. I said that I doubted that a dowry as high as £30 million could be justified if open-ended IF was to be available. I said also that I thought any IF support to Kvaerner should be on generally available terms, and on the basis of arms length prices as agreed at the Prime Minister's meeting on 31 March.

Your letter does not seem to address these concerns. The further annex which you circulated separately today refers to the costs of IF in the 1990s being uncertain. That does not mean we should ignore them, as your costings do. Also although it is not clear from your letter, I understand that you are proposing an unusually generous form of IF for the first four new orders, which would allow Kvaerner to keep any profit they made on the ships. This seems to me particularly difficult to justify given that the customer for this order will be a consortium in which Kvaerner itself has the major stake. The prices will not therefore be determined at arms length, and

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there is scope for abuse. I am not at all reassured by the notes on this in your additional annex. My officials are not aware of any evidence for the independence of the consortium and the competition from Japan beyond assertions from Kvaerner themselves.

However my main concern with your proposal is that you have not quantified the costs of Intervention Fund support on the fifth and successive new orders at Govan. This is a critical omission. E(A) agreed that continuing IF could be conceded. But we have to cost it properly before we can decide whether the dowry you propose is too high, compared with the £90 million estimate of closure costs. Unless contract support for UK yards had been completely eliminated before further orders were placed, the costs could be very large. For instance, if in 1991 or 1992 Kvaerner placed new orders with building costs of £100 million and the support regime was still at 28 per cent, this alone would push the costs of the Kvaerner deal above your estimate of closedown costs.

Unless, therefore, we can be confident that there will be no Intervention Fund costs beyond the £37 million you identify, the numbers in your letter will not give us a true picture of the costs to which your proposal would expose us.

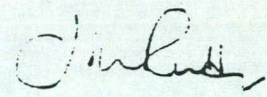
It is only reasonable to exclude the longer term IF costs if you believe that contract support for UK yards will have been eliminated before Kvaerner could seek support for further orders. I am extremely sceptical that the European Commission could achieve this change in policy through EC regulations in that time. They may have a degressive aim under the sixth directive, but they have not achieved any reduction in the support maximum under it so far. Confidence in your costings must therefore rest on the assumption that the UK regime will vary unilaterally within the EC maximum and that regardless of what the EC decides there would be no support for further orders at Govan.

On this basis, I feel I must ask you to reconsider either reducing the size of the dowry, or the possibility of placing a cap on the rate at which Intervention Fund support is payable after 1991 - if the EC has not eliminated it by then.

I should be glad to have a word if necessary in the margins of Cabinet tomorrow.

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Yours sincerely,



pp JOHN MAJOR

(Approved by the Chief Secretary  
and signed in his absence).

We have another (top) copy of the attached minute.  
Pl. put these copies together with that one, pl.

PWD 3 of 9  
J



Done  
Sadeh

SECRET

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CH/EXCHEQUER	
REC.	29 JUL 1988 ✓ 29/7
ACTION	CST
COPIES TO	
	28 July 1988

The Rt Hon Antony Newton OBE MP  
Chancellor of the Duchy of Lancaster  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1

Dear Tony,

Kenneth Clarke recently reported the position on the disposal of British Shipbuilders' subsidiaries, in his minute of 18 July to the Prime Minister. I have a number of points concerning my Scottish interests which I would be grateful if you would take into account in taking matters forward.

On the Ferguson yard at Port Glasgow, where Kenneth says the prospects for sale are not encouraging, I understand that there is work at the yard until at least next spring. I do not therefore expect closure, as Kenneth suggested, as early as September, although it may be possible that the yard has to start to shed labour in the autumn. Job losses, however, should not be as large as 500, as the yard employs only around 300.

The position will of course be different if the yard can secure new work. One imminent prospect is the ferry for Mauritius which the yard has been pursuing for some time, and on which a decision is now expected towards the end of the summer from the Mauritian Government. I understand that overseas aid has been offered to Mauritius if the order is placed in the UK, and I would ask that nothing be done regarding the yard that might prejudice the chances of securing this order; and that the yard be allowed actively to seek other orders. I am sure that more interest might be generated, and the prospects for a satisfactory disposal correspondingly improved, if the yard had an order book that went beyond next spring and had shown recent ability to win new orders.

Kenneth had reservations about the only interest remaining in the yard, from the Ailsa-Perth yard in Troon. There is some evidence that the company's intention would be to maintain operations at both Port Glasgow and Troon. I would therefore like to keep an open mind on the availability of Intervention Fund until the company's intentions have been fully established.

This will not be an easy yard to sell. I believe some interest may emerge from a new source shortly, but I would not want any early deadline for submission of bids, and I hope you can agree that the yard can effectively remain on the market at least until all current work is completed.

SECRET

SECRET

Other Scottish points are less pressing at present, but I am aware through the Scottish Development Agency, which has been advising the management buyout team at Clark Kincaid, that there may be some concern emerging among Clark Kincaid's customers about placing business with the company because of the continued uncertainty over its future, and I hope that, if at all possible, consideration of its disposal will not be prolonged to such an extent that prospects for the business's longer term future are damaged as a result.

I should also mention that I hope the management buyout team for the Scottish operation of Marine Design Consultants (in Dundee, not Aberdeen) be given a fair chance to present their proposals for a buyout separate from the rest of MDC. I know Kenneth received representations on this from the local Members, and I am concerned that the Dundee operation, despite having been an independent unit until 1986, might be vulnerable if any rationalisation were to follow acquisition of the company as a single entity.

Copies of this letter go to the Prime Minister, Nigel Lawson, David Young, Tom King, Norman Fowler, Nicholas Ridley and John Major and to Sir Robin Butler.

*Yours ever,*  
*Malcolm*

MALCOLM RIFKIND

SECRET

# dti

the department for Enterprise

The Hon. Alan Clark MP  
Minister for Trade

Peter Viggers Esq MP  
Parliamentary Under Secretary  
of State  
Northern Ireland Office  
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Your ref  
Date 29 July 1988

CHIEF SECRETARY

REC 29 JUL 1988

Mr Bottrell / Mrs Brown  
CX Mr Anson Mr Lankester  
Mr Monck Mr Bugner  
Mr Mounfield Mr Moore  
Mrs Peirson Mr Turnbull

*John Peter*

Mr Guy Mr G T L Jones  
Mr Call.

## HARLAND & WOLFF/TIKKOO CRUISE LINER

It is now some months since ECGD was initially approached about support for this project, although they have only recently received a formal application. The latter indicates that little progress has been made on the central issue of security, and with the prospective privatisation of Harland and Wolff in mind, which could also create problems for ECGD, I think it advisable to set down without further delay the considerable difficulties we currently see in providing any ECGD support for this project.

### Security

As security ECGD are offered a first mortgage on the vessel plus the guarantee of Tikkoo Cruise Line Ltd (TCL). In some cases, eg the more standard type of cargo vessel, ECGD has in the past been prepared to place a value on the mortgage of up to a maximum of 50% of the contract price. They would not, however, feel justified in doing so in this present case in view of the certain difficulties in disposing of so large and unique a vessel in the event that the owners cannot make it pay, probably due to a slump in the cruise market, and the very large losses they would accordingly suffer. They consider the value placed on the mortgage should not exceed around 25% of the contract price. Since support is requested for a loan of 80% of the contract price, most of which will be drawn down during the building period, additional security in the form of third party payment



Peter Viggers Esq MP

July 1988

guarantees will be required for the 55% and to secure the pre-credit risk before the vessel is completed. In the absence of firmer financial information it is fair to assume that the value of a TCL guarantee would be negligible compared to the value of the loan. Hence there is a very large gap in the security, without any current indication of how it might be filled.

We gather that so far the US investors seem likely to put up only sufficient capital to cover the 20% direct payments. Without additional security, possibly from the shareholders, who should be prepared to take a greater stake in the project, ECGD would be left carrying most of the equity risk. Although the project appraisal commissioned by Harland and Wolff was favourable, it is not a proper function of ECGD to take a speculative risk of this nature based almost wholly on the success of the enterprise.

#### Privatisation of Harland & Wolff

The projected sale of Harland & Wolff to TCL would raise further problems. Under ECGD's buyer credit guarantees they take recourse to the builder for any claims they may have to pay to the financing bank at a time when the builder is in default under the building contract. They therefore have to be satisfied as to the recourse-worthiness of the builder and his ability to perform the contract. In this case the builder and owner could be virtually the same. As repayment of the loan will depend on the vessel being delivered on time and up to specification, it is certain that, if Tikkoo as owner is unable or unwilling to pay because of any failure to perform, Tikkoo as builder would similarly be unable to meet any recourse demand. As most of the loan would be drawn down before delivery of the vessel the potential recourse risk is a large one and ECGD will therefore require an independent and creditworthy recourse-giver.

#### Capitalisation of pre-delivery interest

The buyer has requested that interest accruing during the building period should be capitalised and repaid with the loan. This is a concession that is normally available for shipbuilding cases provided a higher interest rate is paid. In this case, however, with a 4 year construction period capitalisation would add around 17% (£40m) to the value of the already very large loan and thus increase substantially the already very great difficulty of providing adequate security for an ECGD guarantee. It would, in addition, involve a large increase in the potential interest rate

Peter Viggers Esq MP

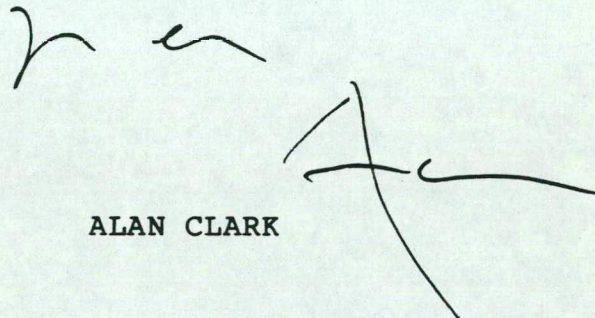
July 1988

subsidy which would be necessary to sustain the rate of 7½% demanded by the owners. The request for capitalisation of interest is also symptomatic of the owners' apparent unwillingness to take a proper financial stake in the project. It would therefore be unacceptable.

There seems to be no solution in sight for the above problems, and it is accordingly very difficult to see at present how any basis can be found for the project to be underwritten by ECGD, even 'in the national interest' under Section 2.

I should be interested to have your views on how you see the project developing and any suggestions you may have for overcoming the above difficulties, particularly so far as recourse is concerned.

I am copying this letter to John Major and Tony Newton.



ALAN CLARK

CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 29 July 1988

*Handwritten signature/initials*

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mrs Brown  
Mr Waller  
Mr A M White  
Mr W Guy  
Mr Rutnam

**BRITISH SHIPBUILDERS: DISPOSAL OF GOVAN**

The Chancellor has seen Mr Guy's minute of 28 July. He has commented that this (ie DTI's bounce) is a very bad business.

*Handwritten signature*

J M G TAYLOR

*prop*

To:  
Prime Minister  
From:  
Francis Maude  
5 August 1988

CH/EXCHEQUER	
REC.	08 AUG 1988 ✓
ACTION	FST
COPIES TO	

## REVIEW OF MERGERS POLICY

Earlier this year, QL agreed that next session's Companies Bill should incorporate a number of provisions relating to mergers. These were to implement the proposals agreed by E(A) for the voluntary pre-notification of mergers, statutory undertakings instead of reference to the MMC, and a charge to cover the costs of merger control; and also to make a number of technical amendments to the existing provisions. Most of these are minor changes designed to improve the working of the Fair Trading Act, and should attract little attention. However three of them involve some strengthening of the powers, and for that reason, whilst likely to be the most useful, could also prove controversial. I am therefore writing to seek the agreement of colleagues to the three changes described below.

### Order-making Powers

Schedule 8 of the Fair Trading Act sets out the powers which can be used to remedy matters which the Monopolies and Mergers Commission has found to be against the public interest. It is very detailed and specific - for example, orders can declare specified agreements to be unlawful, prohibit the withholding of goods or services or prohibit discriminatory treatment. But the list is by no means comprehensive, and does not for example allow us to insist on the provision of information to help monitor compliance with the order, or to require a particular business to be carried on by a separate subsidiary. Rather than attempting to extend the list of specific provisions, which might still leave gaps, we propose taking a broader power to impose such prohibitions or requirements in relation to the carrying on of any business as are considered requisite to remedy or prevent the adverse effects found by the MMC; there might be a list of examples, but without prejudice to the generality of the powers.

This change will reinforce our powers to act on MMC reports, and to some extent simplify the process, by allowing us to impose whatever remedies seem most suitable to deal with the adverse effects, without having to fit them to the very specific provisions of the schedule. But it may be criticised as giving us new and more far reaching powers. The answer to

MN3ACN

this is that, as at present, we shall only be able to make orders following an adverse finding by the MMC, and will be tied by the MMC's conclusions, reached after a full enquiry. All interested parties will have had an opportunity to put forward their views to the MMC, and will also be able to make representations on the draft order itself. It is quite wrong if something which the MMC have already found to be against the public interest, can continue to the detriment of the public merely because of insufficient powers to deal with it.

### Divestment Orders

Part II of this Schedule gives powers to order divestment, following adverse monopoly or merger reports. The orders are subject to Affirmative Resolution, and as they affect persons' private rights are subject to the hybrid instrument procedure. This gives those adversely affected by the order a right to petition the Lords; a Committee then hears written and oral representations, and may recommend that there should be a further enquiry by a Select Committee (although this recommendation may be overturned by the House itself).

It is clearly unsatisfactory that a matter which has already been fully examined by the MMC should be open to re-examination by a Select Committee before action can be taken. It means such orders are harder to make, and whilst there have been very few in the past, the power is an important one, which I have made clear we are prepared to use when appropriate. It will in any case be needed to back up divestment undertakings obtained instead of a merger reference, as proposed in the mergers Blue Paper. Apart from the initial MMC inquiry, parties have the opportunity to make representations before the order is laid, and any matters still unresolved can be aired when the orders are debated. For these reasons, I believe we can justify disapplying the hybrid instruments procedure, for which there are a number of precedents. However, such a change will inevitably prove controversial, particularly in the Lords, and will require careful handling.

### New offence of providing false or misleading information

At present, supplying false information to the Competition authorities is only an offence if done in response to the formal powers to obtain information. These are seldom invoked, and most information is supplied to a greater or lesser extent voluntarily. The new voluntary merger pre-notification procedure in particular will rely heavily on the information supplied in the standard questionnaire being correct. Supplying false information would clearly be an attempt dishonestly to obtain an advantage, whether it is clearance of a merger, or diverting the authorities from the activities of the monopolist. We therefore propose to introduce a general offence of deliberately or recklessly supplying false or misleading information to the Secretary of

MN3ACN



the department for Enterprise

State, Director General of Fair Trading, or MMC for the purpose of their functions under the Fair Trading Act, Competition Act 1980, Telecommunications Act 1984 or Airports Act 1986. My officials have already discussed this with those in the Home Office.

I should be grateful to know whether colleagues are content with these proposals by 9 September.

I am copying this minute to the members of E(A), James Mackay, Douglas Hurd, John Wakeham, John Belstead and Sir Robin Butler.

FM

MN3ACN



15/08/88 12:55

DEPT OF FINANCE PERS P03

**SHORTS**

RWRMcN EJW 228

8 August 1988

Mr P Viggers MP  
 Parliamentary Under Secretary of State  
 Department of Economic Development  
 Netherleigh  
 Massey Avenue  
 BELFAST  
 BT4 2JP

Minister, to see.  
 cc Mr. Fell O/R.  
 Mr ~~Gibson~~.  
 Mr Warnock.  
 MC.

Dear Peter,

Herewith a proposed Modus Operandi for your consideration. We would welcome any suggestions you may have.

Also attached is a time-frame which we believe is the best that can be achieved if everything goes to plan. I hope that this meets with your approval.

We discussed this morning the capital restructuring. As you can see it is desirable that the timing and amount be resolved within the next couple of months if we are to keep to programme on the issuing of the information package.

Yours  
 Rodney



**CONFIDENTIAL**SHORT BROTHERS PLC - PROPOSED MODUS OPERANDI FOR SALEIntroduction

The Government has agreed that Short Brothers will, if possible, be sold to the private sector as a single unit; the Government and the Board will work closely together to achieve this objective. If it appears impracticable to achieve this objective on acceptable terms, the Government and the Board will discuss other options.

This memorandum sets out the proposed working arrangements as between the Government, the Board of Shorts and their respective advisers.

Principles

The Chairman of Shorts and the Board will act as agents for the Government to handle the sale. The method of executing the sale, the criteria by which the purchaser will be selected, and the terms of any sale agreement, as developed by the Board will be agreed with Government.

Both the Government and the Board must have access on an equal footing to all relevant information, as the sale process proceeds.

Sale Procedure

It is proposed that the Board should prepare a preliminary Sale Memorandum which will contain an outline description of the business, including its historic and current financial results. This will be circulated to all bona fide prospective purchasers who will be asked to submit expressions of interest to the Chairman, indicating their proposed plans were they to acquire the Company and with an indication of the price they are prepared to pay, subject to any conditions that they might put forward.

The Board will be responsible for publicising the sale but this will be done in consultation with the Government. The Board may also make direct approaches to potentially interested parties.

Public announcements related to the sale will be made only by the Board and detailed information on the Company, which will include an Accountant's Report to be prepared by Deloitte, will only be supplied by the Board to offerors that meet the agreed criteria and who will be asked to submit firm offers on the basis of that information. It is proposed that the Accountant's Report be commissioned jointly by the Government and the Board and that the cost of this will be shared.



The Board will agree with the Government the detailed criteria by which offerors will be either rejected or selected for detailed negotiation; these criteria will include, in addition to financial considerations, their financial strength, their suitability as owners of a business that executes important MoD contracts, the extent to which their plans will develop the business and preserve employment in Northern Ireland, and the extent to which any diminution in competition is acceptable.

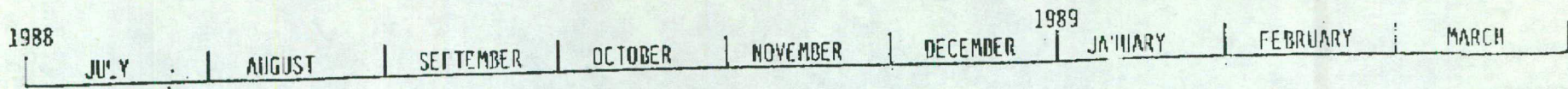
All information, including the Accountant's Report, will be passed to potential offerors by Barclays de Zoete Wedd as financial advisers to the Board.

77  
The Board will progress detailed negotiations with the selected offerors to the sale contract, subject to agreement with the Government both on the terms of the contract and the identity of the purchaser.

RWRMcN EJW 221  
08.08.88

# SHORTS PRIVATISATION PROCESS

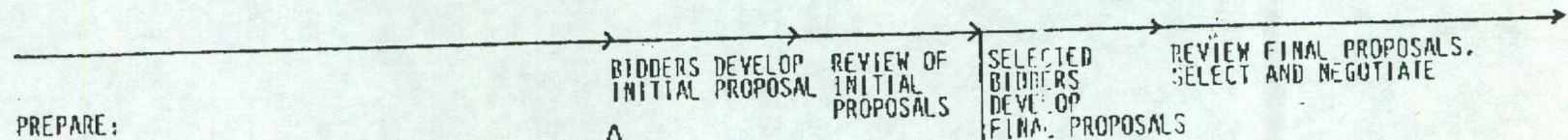
CONFIDENTIAL



△  
PARLIAMENTARY  
STATEMENT

→  
ENSURE SALE IS ADEQUATELY  
PUBLICISED

→  
COMPLETE INFORMATION  
PACK



PREPARE:

- SALE MEMORANDUM
- LONG FORM REPORT
- BUSINESS PLAN
- FINANCIAL ANALYSES + MODELS

△  
ISSUE

△  
ISSUE  
△  
ISSUE  
(EDITED)

→  
ACCOUNTANTS  
REVIEW FOR  
SELECTED  
OFFEROR

→  
COMPLETE 1987/88 ACCOUNTS

→  
AGREE:  
— PRIVATISATION ROUTES  
— PREREQUISITES  
— SELECTION CRITERIA

→  
VISITS/DISCUSSIONS AS REQUIRED

17/08/88 14:25

DEPT OF FINANCE PERS P02

MAX SHARRATT

DRAFTSHORTS PRIVATISATIONTERMS OF REFERENCE OF MERCHANT BANKERS TO BE APPOINTED BY THE  
DEPARTMENT

The decision to privatise Shorts plc was announced in Parliament on 21 July. The privatisation is unusual in that it is expected that although the Government intends to dispose of its 100% shareholding in the company, it is likely to be necessary to offer a "dowry" to any party wishing to assume ownership of the company. For this reason it is expected that any sale will be to the trade rather than to the public.

Because of the unusual nature of this share disposal, the Government has agreed to consider a proposal from the Chairman and Board of Shorts whereby they would play a prominent role in the privatisation of the company. This proposal is being considered at the moment. The Government, of course, is unable to delegate to third parties its direct accountability for taxpayers' funds, so, while the Chairman and Board will act as agents for Government in the search for purchasers, the Government will remain responsible for the method of sale, the terms and conditions of the sale contract and the implementation of the contract. Both the Government and the Board will have access to all relevant information as the sales process proceeds and the Government will seek the views of the Chairman and Board at the appropriate stages of the decision making process.

As an initial step, pending agreement on this modus operandi, the company is preparing an information pack on itself. An early task of the merchant bank adviser to Government is to review the content and coverage of this information pack before the Government consents to its issue to potential purchasers.

As announced on 21 July, the Government's preferred intention is that the company should be sold as a unit and the privatisation is proceeding on this basis. However should it not be possible to sell the company as a unit, then offers for parts of the company will be considered.

With this in mind any merchant bankers appointed to advise the Department will be expected to -

- (a) *Offer general advice to the Department on matters arising*  
~~Offer general advice to the Department on matters arising~~  
during the privatisation process including, in the first instance, advice on the modus operandi for selling the company as proposed by the Chairman and Board of Shorts and on the adequacy or otherwise of the search for potential purchasers;
- (b) Offer advice on the capital structure of the company and on the extent and terms of any dowry needed to encourage any interested party to acquire the company. It will be necessary for the Department of Economic Development to agree the size and terms of this dowry within Government. Before doing so, we will wish to take into consideration

the views of the Chairman and Board of Shorts;

- (c) Offer advice on the implications of splitting up the company. In discussions between the Department of Economic Development and the company it has been alleged by the company that any decision to sell its separate activities to different purchasers would result in the crystallisation of liabilities which could be very large indeed. It has been alleged that customers of the company would seek redress for its failure to complete contracts. This has been presented as a reason for not splitting the company and it has been agreed that, during the period that attempts are being made to sell the company as a whole, the Government and the company will seek to clarify the extent of these potential liabilities;
- (d) Offer advice on the conditions which Government might impose on any disposal of its shareholding in Shorts. Such conditions might include ones relating to the level of employment in the company and/or the location of its headquarters and other factories;
- (e) Offer advice on how the Department might eliminate guarantees and continuing liabilities for the company. While Shorts has been in the public sector the Government has made it clear that those dealing with the company can do so in the knowledge that it will, in the

last resort, ensure that creditors have their claims fully met. It is assumed that this commitment applies not only to trade creditors but also to off balance sheet financing and contingent liabilities. Once the company is privatised, it should be fully responsible for its own affairs and should meet any liabilities from the resources made available by shareholders; and

- (f) Advise the Department in negotiations with potential purchasers and undertake any necessary investigations into their financial standing.

Shorts has appointed Barclays de Zoete Wadd as its advisers in the privatisation exercise.

169e

113 12/8

- 1. MR BURGNER
- 2. FINANCIAL SECRETARY or

FROM: EDNA YOUNG  
 DATE: 12 August 1988

- cc PS/Chancellor-2  
 PS/Sir P Middleton  
 Mr Monck or  
 Mr Burr or  
 Mr Tyrie  
 Mr Call  
 Mr Waller or  
 Mr Stevens  
 Mr Wynn Owen

**REVIEW OF MERGERS POLICY**

Mr Maude minuted to the Prime Minister on 5 August seeking colleagues' agreement to the inclusion in next session's Companies Bill of a number of provisions relating to mergers in addition to those already agreed by E(A). His minute sets out the three changes he regards as possibly controversial (because they involve some strengthening of the powers). The DTI's present intention is to clear the other, more technical, changes at official level.

2. This minute sets out the background to the proposed changes and offers a draft reply to Mr Maude concurring with what he proposes.

**BACKGROUND**

3. In September 1987 E(A) agreed the main conclusions of the review of mergers policy. The DTI paper on mergers policy was published on 3 March, and the DTI (with our support) have secured space for the necessary legislative changes in the next session. The main changes agreed were:

i. Voluntary pre-notification

This is a new procedure to help speed up the process. The OFT would have to respond within a set period (failing which a proposed merger would automatically be cleared). The period is likely to be 4 weeks, with provision for 2 week extensions in complicated cases, or where inadequate information had been supplied. The DTI had been considering making mergers which were not pre-notified potentially liable for reference to the MMC

for 5 years. But they are now thinking of keeping to the existing system for such mergers, whereby any merger remains liable for reference to the MMC for 6 months after it becomes public or new material facts come to light. This will be one of the points to be cleared at official level.

ii. Statutory undertakings

The legislative changes will permit statutory enforcement of undertakings given by the parties to the DGFT and the Secretary of State in order to avoid references to the MMC. This will considerably enhance the role of the DGFT, and should cut the number of references to the MMC.

iii. Speeding up procedures

This is a package of measures to speed up the reference procedure. The aim is for cases to be completed within 4 to 5 months (8 months at present). It is also proposed to reduce (by statutory instrument) the minimum number of MMC Commissioners dealing with a case from 5 to 3.

iv. Charging

It has been agreed in principle between ourselves, the DTI and the OFT that bidding companies should be charged for the cost of OFT and MMC investigations. The details have still to be worked out; the legislation will probably provide broad powers, with the details covered in regulations.

4. Mr Maude's minute now proposes three further, less far-reaching changes:

i. Order-making powers

The Secretary of State's current powers to remedy adverse effects found by the MMC are very detailed, but



not comprehensive. The DTI now propose to take a broader power to impose prohibitions or requirements as considered necessary to remedy (or prevent) such adverse effects. This would give the Secretary of State more flexibility in preventing something which the MMC have found to be against the public interest. There is no reason for us to object.

ii. Divestment orders

At present divestment orders are subject to affirmative resolutions of both Houses, with those adversely affected having the right to petition the Lords. The DTI propose to remove this right, on the grounds that during the 42 day consultation period those affected will continue to be able to make representations which the Secretary of State is bound to consider. There is no reason for us to object, though this may run into Parliamentary difficulties, particularly in the Lords.

iv. New offence of providing false or misleading information

If the voluntary pre-notification procedure is to work, it clearly makes sense to penalise anyone who seeks to abuse it by deliberately supplying false information.

5. The DTI are likely to have further minor changes to propose, which they will clear at official level. The most important of these will be a provision to ensure that pre-reference undertakings can be accepted only where they relate to divestment, thus excluding deals between companies and the DGFT/Secretary of State to avoid references on grounds other than competition.

6. I attach a draft letter to Mr Maude.

*Edna Young*

EDNA YOUNG

**DRAFT LETTER FROM THE FINANCIAL SECRETARY TO:**

The Hon Francis Maude MP  
Parliamentary Under Secretary of State for  
Corporate Affairs  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

**REVIEW OF MERGERS POLICY**

Thank you for copying to me your minute of 5 August to the Prime Minister about the review of mergers policy.

Nigel Lawson and I have very much welcomed this review and Treasury officials have been closely involved with yours in working out the details. I am content with the three changes you propose.

I note that in your view the other technical amendments are minor and likely to attract little attention. I understand that these are to be cleared at official level.

Copies of this letter go to the Prime Minister, members of E(A), James Mackay, Douglas Hurd, John Wakeham, John Belstead and Sir Robin Butler.

[N L]

FROM: M SHARRATT  
DATE: 17 AUGUST 1988

1. MR WHITE *17/8*  
2. PAYMASTER GENERAL

cc PS/Chancellor  
PS/Chief Secretary  
PS/FST  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr Monck  
Miss Peirson  
Mr Turnbull  
Mrs Brown  
Mr Bent  
Mr Call

#### PRIVATISATION OF SHORT BROTHERS

E(A) decided on 13 July that Short Brothers, the wholly Government owned Belfast aircraft and missiles company, should be transferred to the private sector as soon as possible. The Secretary of State was asked to work up proposals on how best to do that and report back in September. The Government's intentions were announced in the House on 21 July.

2. Unfortunately, the preliminary stages have been badly mishandled in Northern Ireland leading to a crisis in the relations between the Board and Northern Ireland Ministers and officials. Attempts have been made to restore working relations and these are continuing but the position is still very delicate. Our particular concern at the moment is to ensure that in seeking to improve relations with the company, Northern Ireland officials do not compromise the Government's position as principal in the determining the optimum means of transferring the company to private sector ownership and then arranging that transfer. Consequently, we have taken steps to ensure that the Government's position is protected.

3. The purpose of this note is to inform you about recent developments. There is no need for you to intervene at this stage.

#### Background

4. Shorts has been in difficulties for some years and recently the scale of losses and cash requirements has shown a sharp increase. In particular, the aircraft manufacturing division is

experiencing major difficulties with sales of its aging range of basic commuter aircraft falling off in the face of competition from more advanced products. The majority of its business is with small commuter airlines in the USA and with the price of Shorts' planes denominated in dollars, the strength of sterling has meant that US sales are now made at a loss.

5. The aerostructures and missiles divisions have traditionally been more profitable and have kept down the overall losses of the company. But 1987-88 was a poor year all round with lower volume missile sales and productivity problems in aerostructures. On top of that, there was a disastrous breakdown in financial control in the company leading to a major under-reporting of cash outflow, the aftermath of which is still being resolved.

6. The present problems between the company and Government began when the Secretary of State rejected the corporate plan prepared by the new chairman, Mr Lund, who succeeded Sir Philip Foreman at the beginning of April. That plan essentially recommended continuation of Sir Philip's preferred strategy of retaining the present shape of the company and in particular of developing a successor to the company's dated existing range of commuter aircraft. That strategy was based on continuing public ownership of Shorts, and transfer to the private sector was considered to be a distant if desirable prospect.

7. Mr King had pinned great faith in Mr Lund's ability to take a realistic view of the company's prospects and make recommendations in line with those. He was acutely disappointed in Mr Lund's assessment and made those views known to Mr Lund who took it very personally. Following E(A)'s decision, the difficulties between the company and NI Ministers were then damaged further by press reports before the formal announcement of the Government's intentions to sell off the company. It seems that Northern Ireland Ministers took the view that because Shorts is regarded in the province as a very successful company, the ground needed preparing for the formal announcement of the privatisation proposals.

8. Those tactics went badly wrong. Some of the reports contained rather uncomplimentary references to Shorts' management and the Board threatened to take legal action against Northern Ireland Ministers, a threat which has still not been lifted. Mr King hastily met Mr Lund to attempt to resolve matters but that resulted in little than a fruitless attempt to paper over the cracks. Following that meeting, there were further press reports - certainly based on leaks by the company - which indicated that Mr Lund believed he had Mr King's agreement for the company to take the lead in finding a buyer and that the Government had agreed that Shorts should only be sold as a single entity. That was not Mr King's view of the outcome of the meeting; he believed that Mr Lund had understood that the Government had the final responsibility and, in line with the original announcement, while it was hoped to sell the company as a single entity, if necessary, it would be split up.

9. A further meeting was hastily arranged between Mr Viggers and Mr Lund on 8 August at which it was agreed that Mr Lund would send Mr Viggers the Board's proposed modus operandi for selling the company. This he has now done and a copy of his letter is attached to this submission at Annex A.

10. The degree of involvement the Board propose for themselves goes beyond that which we would normally advise. The interests of the Board do not fully accord with those of the Government and the concession of greater negotiating leverage incurs the risk that the Government will have to pay a penalty in the terms secured for the sale. It was already recognised at E(A) that as a condition of any proposed sale, the Government would certainly be required to inject a large amount of cash into the company to reduce its debts, at present well over £350m. Direct involvement of the Board in the negotiation of a sale is likely to risk bidding up that cost.

11. But the Board will not relinquish entirely its claim to be instrumental in the sale. Short of sacking the present Board and starting again, which would hardly enhance the prospects of a

**CONFIDENTIAL**

successful sale, there seems little alternative but to allow it a somewhat bigger role than we would normally expect.

12. We have accordingly advised NI officials that the Board's role must be clearly defined and limited before negotiations begin. We have proposed and they have accepted that it is essential that there should be a clear definition of agent and principal roles and when the Board acts as agent of the Government, it should do so in accordance with the Government's instructions. In particular, the Government should approve all public statements or information flows in advance and it should agree in advance negotiating mandates for all meetings with potential purchasers and have official and merchant bank representatives present to ensure that these mandates are complied with in all respects.

13. In addition, we have told them that when the Board acts as principal, for example in making proposals about the company's future capital structure, it should be understood that advice may need to be taken and that decisions will be communicated back to the Board as and when appropriate. In particular, it should be made clear that it is at the Government's discretion whether it releases information supplied to it as principal in the context of negotiations with the Board.

14. NI officials will now reflect these points, together with more detailed comments we have given them, in their submission of a draft reply to Mr Lund.

15. At the same time we have agreed with them terms of reference of the merchant bankers to be appointed by the Northern Ireland Department of Economic Development. These are shown at Annex B. The selection procedure accords with Treasury guidelines and we will be represented at the interviews which are scheduled to take place on Friday.

*M Sharratt*

M SHARRATT

CH/EXCHEQUER	
REC.	19 AUG 1988 ✓ 19/8
ACTION	FST
COPIES TO	

MP



QUEEN ANNE'S GATE  
LONDON SW1H 9AT

19 August 1988

x p 1 ?

Dear Francis,

X

You copied to me your letter of 5 August to the Prime Minister.

My interest lies in the proposed new criminal offence of supplying false or misleading information to the competition authorities in the standard questionnaire. I am content with the proposed offence in principle but should be grateful if my officials could be consulted about its detailed formulation.

A copy of this letter goes to the recipients of yours.

Yours,  
Douglas

The Hon Francis Maude, MP



**THE ARCHBISHOP OF ARMAGH**  
The Most Reverend Dr. R. H. A. Eames

The See House  
Cathedral Close  
ARMAGH BT61 7EE  
Northern Ireland  
Telephone: (0861) 522851  
Office: (0861) 527144

**PERSONAL AND CONFIDENTIAL:**

24 August 1988

The Right Honourable The Prime Minister,

CHIEF SECRETARY	
REC.	18 SEP 1988
ACTION	Mr AM White
OFFICE TO	Cx, Sir P. Middleton FSI
	Mr Anson, Mr Monck, Mr Moore
	Mr Brown, Mr Walker, Miss Teresa
	Mr Long Mr Call

*My dear Prime Minister,*

*pps on H + W p1*

I hope you will forgive me troubling you at this present time on a matter which I know Robert Runcie has already mentioned on my behalf. I write at this time as I feel very strongly that there is a need for you to be informed of an anxiety which I share with many here in Northern Ireland.

Harland & Wolff face an extremely grave situation at present in the aftermath of Parliamentary statements on privatisation. The degree of uncertainty as to their future as a firm is such that some of their brightest brains are leaving the company and seeking employment elsewhere.

As you know the firm is engaged in negotiations with Ravi Tikkoo on the possibility of the construction of his Liner "Ultimate Dream". The Managing Director has just told me that he understands Ravi Tikkoo is being pressurised by shipbuilding concerns from other countries with offers to build the ship which in a purely commercial way are very attractive. Time is therefore of the essence in reaching decisions on the privatisation of Harland & Wolff and as I have conveyed to you through Robert Runcie there is full backing for this policy on the part of the Board. I believe that if the process of privatisation involves confidence in the person taking over, the knowledge that the current financial structure of the firm is reasonable and the hope of further work to come, this would give tremendous confidence to the workforce at a time when Northern Ireland is facing such grave pressure.

The current Board have made determined efforts to get the Yard on to a firm foundation and in fact the loss per man hours is now less than the biggest Yard in South Korea. A recent agreement of flexibility has also demonstrated the commitment of the workers to the future.



I felt I should write to you at this time as news has reached me that a French competitor in Saint Nazaire is pressurising Mr Tikkoo and offering much better credit than is possible in the United Kingdom.

If this order and possible take-over in private ownership is lost at Harland & Wolff I would have grave reservations about the employment situation in East Belfast. I know only too well of your personal anxiety to see stability return to this Province and you know you can count on my full support for any measures that you introduce to bring this about. It is because of that and the knowledge that ultimately a Cabinet decision will be necessary that I felt I should share my concerns with you at this time.

We are passing through most difficult days in Northern Ireland and I would assure you of my full and utmost confidence in Tom King - with whom I enjoy the most cordial and personal relations. Firm decisions are necessary and if at any time you feel I can be of assistance to you I would be grateful if you would contact me.

Ken Maginnis has just been telling me of his visit to No. 10 and I can assure you that he very much appreciated the time you were able to offer him.

May I again apologise for troubling you in this manner but speed on a decision is essential to solve a problem which will have the widest implications for the whole of our society in the days to come.

I would therefore be most grateful if you could bear in mind the points I have made.

*Please accept my personal good wishes and the assurance of my full support as you set a way forward for Northern Ireland.*

*Yours very sincerely,*

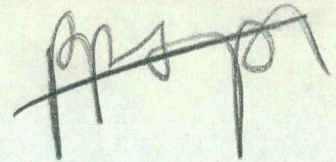
*+ Rev. Armagh.*

ARCHBISHOP OF ARMAGH AND PRIMATE OF ALL-IRELAND.

- 2 SEP 1988

**dti**

the department for Enterprise



CONFIDENTIAL

~~BF 9/9 13/7~~

The Rt. Hon. Tony Newton OBE, MP  
Chancellor of the Duchy of Lancaster and  
Minister of Trade and Industry

Rt Hon Malcolm Rifkind QC MP  
Secretary of State  
Scottish Office  
Dover House  
Whitehall  
LONDON  
SW1A 2AU

Department of  
Trade and Industry

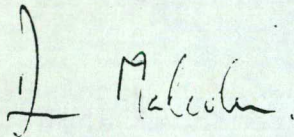
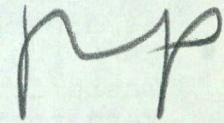
1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

CHIEF SECRETARY	
REC.	- 2 SEP 1988
ACTION	Mr Guy
COPIES TO	CV, FST, SIEP, MIA, etc
	Mr Angus, Mr Mowbray
	Mr Hogg, Mrs Brown
	Mr Wallace, Mr AM White
	Mr POTNAM

Direct line 215 5147  
Our ref  
Your ref  
Date 31 August 1988



**BRITISH SHIPBUILDERS**

Thank you for your letter of 28 July. I am also grateful to Peter Brooke for his letter of 19 August which comments on yours.

While completion of the deal with Kvaerner has to be excellent news for you in particular, I quite understand your concern about the future of British Shipbuilders' remaining facilities in Scotland.

On Clark Kincaid you express particular concern about the timetable for bids. Two serious bids have now been received, one from the Management Team you mention. I hope it will prove possible for BS to reach satisfactory terms, preferably including the opportunity for Clark Kincaid to supply the first two engines required by Kvaerner. Whether this will be possible will depend on careful consideration of the bids.

On Ferguson, the prospects are less clear. You wrote of further orders. Our decision in E(A) on 10 May and the earlier decision to which Peter refers clearly restricts the scope. I share the reservations Peter enters and have already told John Lister that

AU3ACU

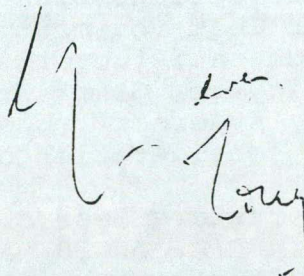
I would by far prefer any further order to be secured by a new owner. He understands the significance of this given the stand we have taken on the Cuban order at NESL.

BS have received enquiries about a further dredger order that Appledore could not deliver on time but which a new owner for Ferguson might secure during October. This points to a bid date for the yard during September. But the Mauritius Ferry Programme has slipped yet again with bids now invited by 4 November possibly resulting in an order early next year. Although Ferguson is still on the shortlist, Meyerwerft of Germany represents strong competition among the field of five. Both the timing and the winning of the order have to be regarded as uncertain.

There are now, I understand, three parties interested in Ferguson: Ailsa Troon is so far talking of terms that are quite unacceptable to BS and I suspect to our colleagues. The other parties have yet to show their hands, though the Norwegians would probably build fishing boats they presently deliver to Scottish owners from Norway.

I will of course bear your concerns about Ferguson in mind, but on Intervention Fund I go further than Peter's reminder about not countenancing the extension of IF to achieve a disposal. Any question of Intervention Fund for Troon raises a spectre of similar treatment for all previous BS yards from whom this support was normally excluded as a term of disposal. Quite apart from difficulties in Brussels, I would not regard renewed support for these yards as a realistic or affordable proposition. My officials have therefore advised Ailsa Perth that they should plan and bid on the basis that support would be available only towards new building at the Ferguson yard, and they have 'gone back to the drawing board'.

Copies of this letter go to the Prime Minister, David Young, Tom King and Peter Brooke, and to Sir Robin Butler.



TONY NEWTON



Treasury Chambers, Parliament Street, SW1P 3AG

The Hon Francis Maude MP  
Parliamentary Under Secretary of State for  
Corporate Affairs  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

31 August 1988

*Dear Minister,*

**REVIEW OF MERGERS POLICY**

I have seen a copy of your minute of 5 August to the Prime Minister about the review of mergers policy.

Nigel Lawson and I have very much welcomed this review and Treasury officials have been closely involved with yours in working out the details. I am content with the three changes you propose.

I also note that in your view, the other technical amendments are minor and likely to attract little attention. I understand that these are to be cleared at official level, and am content for them to be handled in this way.

Copies of this letter go to the Prime Minister, members of E(A), James Mackay, Douglas Hurd, John Wakeham, John Belstead and Sir Robin Butler.

*Yours sincerely,*

*Robert Sutherland*

pp

~~NORMAN LAMONT~~

*(Approved by the Financial Secretary  
and signed in his absence)*



MP

FROM: R C M SATCHWELL

DATE: 31 August 1988

MS YOUNG

cc PS/Chancellor  
PS/Sir P Middleton  
Mr Monck  
Mr Burgner  
Mr Burr  
Mr Tyrie  
Mr Call  
Mr Waller  
Mr Stevens  
Mr Wynn Owen

REVIEW OF MERGERS POLICY

The Financial Secretary was grateful for your minute of 12 August. He has now written to Mr Maude as attached.

2. On a separate point, the Financial Secretary would like to be kept in touch about officials' discussions with DTI on the "further minor changes" (para 5 of your minute); and in particular the provision to ensure that pre-reference undertakings could be accepted only where they relate to divestment.

R.C.M.S.

~~R C M SATCHWELL~~  
Private Secretary

dti

the department for Enterprise

BF 9/9

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

The Rt. Hon. Tony Newton OBE, MP  
Chancellor of the Duchy of Lancaster and  
Minister of Trade and Industry

Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

SECRETARY
SEP 1988
Mr Guy
Mr Anson, Mr Major
Mr Moore, Mrs Brown
Mr Wallace, Mr Atkinson
Mr Pott

Department of  
Trade and Industry

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Fax 01-222 2629

Direct line  
Our ref  
Your ref  
Date

215 5147

2 September 1988

**BRITISH SHIPBUILDERS: CLARK KINCAID**

My officials have presented to yours a case for Clark Kincaid to be allowed to take orders for two new engines so as to facilitate BS's disposal of the business on an advantageous basis. The engines are for the first two gas ships to be built at Govan under its new owners Kvaerner Industrier. BS are well advanced in their plans for privatising Clark Kincaid although it will not be possible to complete this before a decision is required on where the new engine orders are to be placed.

BS have received two sealed bids for Clark Kincaid, one from the management and one from a third party. A sale to either would cost approximately £5m. This compares to the cost of outright closure of approximately £10m, net of asset sale for alternative use although not including the cost of any remedial measures or continuing unemployment benefits for the 500 employees who would be made redundant.

BS are facing heavily subsidised Polish competition for the engine orders and would expect to have to take a contract loss of £1.45m. The total public sector cost of the sale of Clark Kincaid with the new orders would therefore be approximately

LS5AIP



the department for Enterprise

£6.5m. However, at least one and almost certainly both of the bids for the yard are conditional on the order being placed there, and even if in the one case it were not conditional then the bid would be reduced by more than the additional cost.

If this were the only choice facing us then I would have no hesitation in recommending that we allow Clark Kincaid to take the order and proceed with the sale to one of the bidders. At this stage, however, it is not possible to guarantee that the sale will be completed. All of the indications are that it will but final negotiations still need to take place. We would also need to secure agreement from Brussels. Officials are examining how the proposed terms for the order would meet our obligations under EC competition rules. They are also considering the timing of a notification to the Commission of the sale terms and, if necessary, of support for the order. I believe that given the difficulties of Inverclyde and the Commission's failure to protect enginebuilding in the EC from dumping from the Far East and Poland we would secure their agreement. If, however, the sale did not take place then there would be extra closure costs of £3.2m arising from the £1.45m contract loss on the engines and £1.7m of extra under-recoveries involved in keeping the facility open to complete them.

In my view we should still be prepared to accept this risk and allow Clark Kincaid to take the order. In reaching this conclusion, I have been influenced by the views of Lazards, who are advising BS. They have not yet completed their valuation of the bids for Clark Kincaid but their initial view is that either of them should provide a satisfactory basis for a sale. It is also important to see the future of Clark Kincaid in the context of our wider policy towards BS. In selling Govan to Kvaerner, we placed emphasis on the advantages of attracting inward investment to the UK and the expectation that Kvaerner would place more of their future orders here. I would agree that these orders should not be taken at any cost but our critics would no doubt maintain that a decision to close Clark Kincaid was evidence of our not having been committed to the policy for the disposal of Govan.

I know you are also aware of the difficult decisions that face us with respect to some of the other remaining BS yards. North East Shipbuilders is clearly going to be extremely difficult. In the present context, however, we must also consider the position of Ferguson at Port Glasgow where there is a strong likelihood that no satisfactory bid will be found for the yard which would then need to close with the loss of some 300 jobs. I think this could be presented against a satisfactory sale of Govan and Clark Kincaid but otherwise it would be much more difficult.

LS5AIP



the department for Enterprise

I have of course carefully considered the other risks involved in allowing Clark Kincaid to take these orders before it is sold. In particular, some may argue that NESL and Ferguson should also be allowed to take orders prior to their disposal. We would have a strong case against this. The key point is that we have received sealed bids from two parties, both of which BS's merchant bank advisers have said look acceptable and would provide a suitable basis for final negotiation. This is not the case with any of the potential bidders for NESL who have publicly identified themselves so far. I would propose to ask BS to do everything possible to have reached preferred bidder stage and to have a Letter of Intent from the preferred bidder before the engine order was signed. Also, we could point out that over the past three years Clark Kincaid has actually made a small profit on enginebuilding contracts in contrast to the considerable contract losses on shipbuilding at both NESL and Ferguson. This of course also makes it more difficult for us not to allow Clark Kincaid to take the present orders.

I am copying this letter to the Prime Minister and Malcolm Rifkind and to Sir Robin Butler.

TONY NEWTON



X pl asap

pe2.ss/bg/min/4

FROM: W GUY  
DATE: 5 SEPTEMBER 1988

- 1. MRS BROWN
- 2. CHIEF SECRETARY

cc  
Chancellor  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Burgner  
Mr Waller  
Mr A M White  
Mr Rutnam

*I agree that you need further assurance from Mr Newton where you would consider agreeing to this. Mr Grieve visit, who is P.D. in that he has told me about is very uneasy about the proposal, though little things may be put to intervene.*

*I have v. considerable reservations about this proposal. At the v. of the MEB was not further down.*

*new to close of work - 5.00*

**BRITISH SHIPBUILDERS: CLARK KINCAID**

1. Mr Newton wrote to you on 2 September proposing that British Shipbuilders should take a loss making order to build two marine engines to improve the prospects for disposal of Clark Kincaid (CK). CK is the BS engine building works which employs 500 people at Greenock in Scotland. We find it difficult to recommend this proposal. It requires urgent attention, as we understand that the order will go elsewhere unless BS bid for it by 9 September.

Background

2. Two expressions of interest in CK have been registered. Neither is yet firm enough in terms of figures to be sure what it would cost to dispose of CK. DTI believe that the best bid will be that from an MBO team which draws heavily on NESL management, and that this will work out at a net cost to us of about £5m. They put closure costs at about £10m.

3. The current workload of the yard, which is well below capacity, will run out around the end of 1988. If the yard were to close afterwards, the workforce would probably spin the work out to around March 1989. Closure costs were earlier estimated at around £7m net, with a cost of about £3m to keep the yard going throughout 1988-89. The £3m may have been revised upwards, but on

the other hand most of this should be sunk by the time that the yard is sold now. The £7m figure also looks high given that these are only 500 employees. £10m therefore seems a high figure for costs which could be avoided by disposal instead of closure.

4. The net disposal cost of £5m also looks suspect. CK is carrying tax losses which alone could be worth £5m but which have been valued at nil by DTI. The MBO team have also requested a £1m unsecured loan from BS which also seems to have been valued at nil.

5. At best therefore it will be a fine judgement whether it will be cheaper to dispose of CK rather than close it. The position is more marginal than that, however, because for some reason both bids assume that by 9 September BS will wrest from Poland an order from Kvaerner-Govan to build two marine engines at a loss of £0.75m each. The bids assume that the new owners would take over these orders and receive an extra £1.5m from BS in compensation, which would put disposal costs up to £6.5m.

6. DTI believe that without these orders and the £1.5m compensation, the two bids may fall entirely or else the amount asked for by the bidders would exceed the costs of giving them the engine order. The reason is that both bidders want to diversify CK away from <sup>heavy</sup> marine engines, as well as increasing productivity. But in the meantime they have slim chances of picking up other orders and without some work in the yard they cannot begin to increase productivity. The two Kvaerner engines would give CK something to do up to November 1989.

7. Mr Newton believes that BS should be allowed to bid for the orders because without them there is a greater risk that disposal bids will evaporate and with them disposal costs should be lower.

8. The downside is that if for any reason CK could not be disposed of and had to be closed, having the new order could mean that closure had to be delayed for up to a year, and the costs of supporting the under-utilised overheads of the works, plus the

losses on the contracts, could add over £3m to closure costs compared with a present estimate of £10m or less.

9. There are a number of reasons why CK might have to be closed. The tentative bid could just evaporate; the costs of the bids could turn out to exceed closure costs; and the European Commission may interfere in the disposal and frustrate it. Following Govan, the Commission is known to be very uneasy that the DTI is effectively buying the continuation of excess UK Shipbuilding capacity with subsidies delivered to new owners through terms of disposal. (They are comparing this with the very similar behaviour of the Italians to their Steel company, Finsider, about which the DTI is complaining on behalf of BSC). If CK had to close for any of these reasons it clearly would be better if it did not have the new orders. There is also the risk that allowing BS to take a new loss-making engine order for CK will increase pressure for new shipbuilding orders to be taken eg at NESL.

10. Mr Newton thinks that the pros outweigh the cons. But he probably believes that in the event of things going wrong, the Reserve would carry the extra closure costs next year. In practice, he would probably be right.

11. The attached draft letter says neither yes nor no. It registers unease at the proposal and asks for assurances:

(i) that no further loss-making order would be taken by BS in any circumstances;

(ii) that disposal negotiations would proceed to a letter of intent before the order were taken;

(iii) that ways could be found (as suggested earlier by BS officials) to satisfy the order by buying in an engine rather than building it if necessary; and

(iv) that there really is daylight between likely disposal costs and closure costs.

12. The implication is that if all this were forthcoming you would be prepared to agree. This is certainly not the hardest stand you could take, and you may prefer a tougher line in which case we could provide a redraft quickly. In either case it would be helpful to Mr Newton if you wrote urgently. If he were to cavil at these conditions and you were minded to help him out more, I would recommend sticking out for (i) above at the very least.

W GUY

W GUY

pe2.ss/bg/let/2

DRAFT LETTER TO:

The Rt hon Tony Newton OBE MP  
Chancellor of the Duchy of Lancaster  
1-19 Victoria Street  
LONDON SW1H 0ET

BRITISH SHIPBUILDERS: CLARK KINCAID

1. I am very uneasy about the proposal in your letter of 2 September for a number of reasons.

2. First, there is at this stage no commitment from anyone to take Clark Kincaid off our hands. The two tentative bids could just evaporate. Or the bidders could increase their demands in the knowledge that the new order would make the avoidable closure costs much greater. I am surprised that both of the bids should be conditional on BS taking the engine order from Kvaerner when as I understand it the order is going to be placed in Poland unless BS are prepared to suffer heavy ~~contact~~ losses by bidding for it at the last moment. I do not know why the bidders should have presumed that will be the case.

3. Given that we shall have to weigh the costs of disposal of CK against the costs of closing it, it seems a very strange policy to take a new order now which <sup>in the event of closure would</sup> ~~will~~ significantly increase closure costs and possibly prolong the agony of closure for up to a year. I am not sure how the estimate of £5m to dispose of CK and £10m to close it has been devised. My officials believe that the disposal

costs will be much closer to closure costs and that it would be a finely balanced judgement whether to accept either of the bids. Taking the new order would expose us to much higher closure costs. It might also, of course, frustrate <sup>future</sup> ~~the~~ disposals if the European Commission took too bad a view of it. It certainly would not help our standing in Brussels, in matters such as the Finsider complaint.

4. It would also be visibly at odds with our policy towards NESL, where the same logic which would lead us to take a risk on loss-making orders for CK to improve disposal prospects <sup>might</sup> ~~would~~ seem to point to BS taking the Cuban order for NESL, to which I am firmly opposed. This is a very slippery slope. I do not share your view that failure to make a special case for CK will damage the presentation of our policy towards Govan. On the contrary, the indisputable fact that we are paying a lot of money to save Govan should make it easier to present a prudent approach to the problems of CK. I cannot accept that the Govan disposal, about which I had serious reservations, should now be allowed to <sup>lead</sup> ~~finesse~~ us into increasingly generous treatment for each ~~other~~ BS facility as it comes along.

5. I do not wish to be unhelpful to you, but the risks in your proposal are very great. I certainly could not agree to it without a firm undertaking that it could not repercuss on to other BS facilities. This would mean an <sup>assurance</sup> ~~undertaking~~ that in no circumstances would any other loss-making orders be taken by BS. In this context I would regard an order which required a facility to remain open with unrecovered overheads for longer than it

otherwise would as excluded. *I should also welcome an assurance that* ~~And I should feel less uneasy if~~ BS will  
 actually <sup>have</sup> ~~had~~ progressed to a Letter of Intent before the new  
 orders <sup>are</sup> ~~were~~ taken. There would be further, comfort if in <sup>extremis</sup> ~~in~~  
 BS were able to satisfy the order by buying in an engine from the  
 Far East instead of building it: this possibility was mentioned by  
 your officials. I should be grateful also if my officials could  
 be given the detailed costings supporting your estimate of  
 disposal and closure costs, with particular attention in the  
 former case to the valuation of tax losses and the unsecured loan  
 required by the MBO bid; and in the latter case to how much of the  
 costs of closure represents the cost of support until present work  
 is finished and how much of this is now avoidable by disposal.

6. If you were able to offer me reassurances on these points I should be happy to look urgently at them. *I hope that we can find a satisfactory way through this.*

7. I am copying this to the Prime Minister and Malcolm Rifkind and to Sir Robin Butler.

JOHN MAJOR

*pwp*



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switsfwrdd)  
01-270 (Llinell Union)

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-270 3000 (Switchboard)  
01-270 (Direct Line)

*Oddi wrth Ysgrifennydd Gwladol Cymru*

*From The Secretary of State for Wales*

The Rt Hon Peter Walker MBE MP

CH/EXCHEQUER	
REC.	06SEP1988
ACTION	FST
COPIES TO	

5 September 1988

*6/9*

*[Handwritten signature]*

**REVIEW OF MERGERS POLICY**

Thank you for sending me a copy of your minute of 5 August 1988 to the Prime Minister.

Although I can foresee some difficulties on the way, and the provisions will need to be carefully framed, I do not disagree with your intention to seek these powers.

I am copying this letter to the Prime Minister, other members of E(A), James Mackay, Douglas Hurd, John Wakeham, John Belstead and Sir Robin Butler.

*[Large handwritten signature]*

The Hon Francis Maude MP  
Parliamentary Under Secretary of State  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1H 0ET





10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

CH/EXCHEQUER	
REC.	08 SEP 1988
ACTION	FST.
COPIES TO	

8/9

7 September 1988

*[Handwritten signature]*

*I have asked for pps I think?*

Dear Andrew,

REVIEW OF MERGERS POLICY

The Prime Minister was grateful for Mr. Maude's minute of 5 August. She has also seen the Home Secretary's letter of 19 August and the Financial Secretary's of 31 August. The Prime Minister is concerned about some aspects of these proposals. In particular she regards the proposed new order making powers as very sweeping and wonders, for example, who would decide on their use and on what basis. She is also not persuaded that it would be appropriate to change the hybrid instrument procedure for divestment orders.

The Prime Minister would be grateful for further comment on these points, and has commented that it may be necessary to convene a meeting to discuss the proposals.

I am copying this letter to the Private Secretaries to the members of E(A), to Paul Stockton (Lord Chancellor's Office), Nick Sanderson (Home Office), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office) and to Trevor Woolley (Cabinet Office).

*Yours sincerely,  
Pd Gray*

Paul Gray

Andrew Heyn, Esq.,  
Parliamentary Under Secretary of State's Office (Mr. Maude),  
Department of Trade and Industry.



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

7 September 1988

CH/EXCHEQUER	
REC.	07 SEP 1988
ACTION	CST
COPIES TO	

7/9

*Thanks*

*MP*

*Dear Archbishop Eames,*

Thank you for your letter of 24 August in which you highlighted the Harland & Wolff position. I very much appreciate your kind comments about our handling of the situation in Northern Ireland and your support.

I fully understand your concern about the future of the company. Shipbuilders throughout the world are facing adverse market conditions and even the large Far Eastern yards have been losing money. Against this background Harland and Wolff has found it difficult to generate new orders even with substantial contract support from the Government. As a result, the company is incurring very substantial losses. The Government has continued to meet these. But this is a heavy burden on the taxpayer and is inevitably at the expense of other social and economic priorities in Northern Ireland.

As you say, interest has been expressed in acquisition of the yard by a number of parties including Mr Tikko. These have to be looked at carefully in each case and that is what we are engaged on now.

I cannot say more at present. But I have taken careful note of the points you make and we recognise the need to end the uncertainty as soon as possible.

Warm regards,

Yours sincerely

Margaret Thatcher

---

The Most Reverend Dr. R.H.A. Eames.



MP

FROM: MISS M P WALLACE

DATE: 7 September 1988

PS/CHIEF SECRETARY

cc Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Burgner  
Mrs Brown  
Mr Waller  
Mr A M White  
Mr Guy  
Mr Rutnam

**BRITISH SHIPBUILDERS: CLARK KINCAID**

The Chancellor has seen Mr Guy's minute of 5 September. He has commented that he has considerable reservations about this proposal. At the very least, he thinks we need the further assurance that Mr Newton will recommend the closure of Fergusson without further ado.

*M.P.W.*

MOIRA WALLACE

MP

FROM: W GUY  
DATE: 7 September 1988

CHIEF SECRETARY

cc: Chancellor  
Financial Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Burgner  
Mrs Brown  
Mr Waller  
Mr A M White  
Mr Rutnam

## BRITISH SHIPBUILDERS: CLARK KINCAID

The Chancellor has suggested insisting on an assurance that Ferguson will be closed without further ado, as part of the price for agreeing to Clark Kincaid taking the new engine orders.

2 There would be many attractions to closing Ferguson, mainly because to keep it open in the private sector would imply a continuing IF burden which we would probably not be able to get valued properly when comparing disposal and closure costs. There is also the point which Mr Newton makes himself - that the emergence of acceptable bids looks increasingly unlikely. A prompt decision to close would cut short the agony.

3 On the other hand there is no remit from colleagues to close Ferguson immediately; Mr Rifkind would object and the Prime Minister might not support you if you boldly insisted on that; and Mr Newton might object also that it would be precipitate to close it before it is clear that it cannot be privatised more cheaply.

4 However, it does seem to be worth adding in to your letter the thought that a decision on Ferguson should now be taken very quickly; and that if disposal is looking to be difficult and a basis for Clark Kincaid to take the new order can be found, it would be sensible to link these events. A redraft of your letter reflecting this is attached.

5 You may also wish to note that, forewarned that we take a dim view of all this, DTI officials are working on the option of taking the Kvaever engine order for CK on a basis which would allow BS to buy in both engines from Poland rather than build them if CK were to close. This is strange, but helpful.

W GUY

CONFIDENTIAL

REDRAFT OF PARA 5 OF LETTER TO MR NEWTON

5 ... and how much of this is now avoidable by disposal. I shall be replying separately to your proposals for Appledore but for Ferguson where, as you say, the prospects of an acceptable bid are receding, I think we must take a decision very soon now. Certainly if CK were to be allowed to take this new order I would see merit in linking that with a decision to close Ferguson if by that time a basis for disposal had not been established.

CONFIDENTIAL



cc:  
 Chancellor  
 FST  
 Sir P Middleton  
 Mr Anson  
 Mr Monck  
 Mr Moore  
 Mr Burgner  
 Mrs Brown  
 Mr Waller  
 Mr Guy  
 Mr A M White  
 Mr Rutnam

Treasury Chambers, Parliament Street, SW1P 3A  
 The Rt Hon Tony Newton OBE MP  
 Chancellor of the Duchy of Lancaster  
 1 - 19 Victoria Street  
 London  
 SW1H OET

8 September 1988

*Dear Chancellor of the Duchy of Lancaster*

**BRITISH SHIPBUILDERS; CLARK KINCAID**

I am very uneasy about the proposal in your letter of 2 September for a number of reasons.

First, there is at this stage no commitment from anyone to take Clark Kincaid off our hands. The two tentative bids could just evaporate. Or the bidders could increase their demands in the knowledge that the new order would make the avoidable closure costs much greater. I am surprised that both of the bids should be conditional on BS taking the engine order from Kvaerner when as I understand it the order is going to be placed in Poland unless BS are prepared to suffer heavy contract losses by bidding for it at the last moment. I do not know why the bidders should have presumed that will be the case.

Given that we shall have to weigh the costs of disposal of CK against the costs of closing it, it seems a very strange policy to take a new order now which in the event of closure would significantly increase closure costs and possibly prolong the agony of closure for up to a year. I am not sure how the estimate of £5 million to dispose of CK and £10 million to close it has been devised. My officials believe that the disposal costs will be much closer to closure costs and that it would be a finely balanced judgement whether to accept either of the bids. Taking the new order would expose us to much higher closure costs. It might also, of course, frustrate future disposals if the European Commission took too bad a view of it. It certainly would not help our standing in Brussels, in matters such as the Finsider complaint.

It would also be visibly at odds with our policy towards NESL, where the same logic which would lead us to take a risk on loss-making orders for CK to improve disposal prospects, might seem to point to BS taking the Cuban order for NESL. This is a very slippery slope. I do not share your view that failure to make a special case for CK will damage the presentation of our policy towards Govan. On the contrary, the indisputable fact that we are paying a lot of money to save Govan should make it easier to present a prudent approach to the problems of CK. I cannot accept that the Govan disposal, about which I had serious



CONFIDENTIAL

reservations, should now be allowed to lead us into increasingly generous treatment for each other BS facility as it comes along.

I do not wish to be unhelpful to you, but the risks in your proposal are very great. I certainly could not agree to it without a firm undertaking that it will not have repercussions for other BS facilities. This would mean an assurance that in no circumstances would any other loss-making orders be taken by BS. In this context I would regard an order which required a facility to remain open with unrecovered overheads for longer than it otherwise would as excluded. I should also welcome an assurance that BS will actually have progressed to a Letter of Intent before the new orders are taken. There would be further comfort if in extremis BS were able to satisfy the order by buying in an engine from the Far East instead of building it: this possibility was mentioned by your officials. I should be grateful also if my officials could be given the detailed costings supporting your estimate of disposal and closure costs, with particular attention in the former case to the valuation of tax losses and the unsecured loan required by the MBO bid; and in the latter case to how much of the costs of closure represents the cost of support until present work is finished and how much of this is now avoidable by disposal. I shall be replying separately to your proposals for Appledore but for Ferguson where, as you say, the prospects of an acceptable bid are receding, I think we must take a decision very soon now. Certainly if CK were to be allowed to take this new order I would see merit in linking that with a decision to close Ferguson if by that time a basis for disposal had not been established.

If you were able to offer me assurances on these points I should be happy to look urgently at them. I hope that we can find a satisfactory way through this.

I am copying this letter to the Prime Minister and Malcolm Rifkind and to Sir Robin Butler.

*Yours sincerely,*

*P. Wainwright*

PP JOHN MAJOR

*[Approved by the Chief Secretary  
and signed in his absence]*

FROM A M WHITE  
DATE 6 SEPTEMBER 1988

FINANCIAL SECRETARY

cc Chancellor  
Chief Secretary  
Mr Anson  
Mr Monck  
Miss Peirson  
Mrs Burnhams  
Mr Call  
Mrs Dayer-T Sol

JAMES MACKIE AND SONS LTD

This note is to inform you about the latest position on Mackies.

2. As my submission of 15 July anticipated Mr King's officials have requested that the guarantees that were agreed for August should be extended to the end of September. You authorised an increase in the guarantees to £2.75m for August and an extension to the end of September if this should prove necessary. I have agreed this extension.

3. In putting the case for the continuation of the guarantees until the end of September Northern Ireland officials alerted us to the possibility of a further problem. There was some risk that Mackie's auditors- Coopers and Lybrand- might be unwilling to sign the accounts as a going concern unless guarantees were given for the rest of the financial year.

4. I attended a meeting in Belfast yesterday to discuss this problem and to find out what progress had been made to secure private sector investment in Mackies. It appears that pressure from the auditors has now subsided. The accounts do not have to be signed off until the turn of the year and the auditors will probably be content to leave things as they are until discussions about the future of the company can be concluded.

CONFIDENTIAL

5. Since the 12 July meeting of E(A) a number of potential investors in Mackies have emerged. The most promising seems to be Howdens, a Glasgow based engineering company who took over an East Belfast company last year. They are to have a meeting with the company's Trustees this week and it is expected that a formal offer and a detailed business plan will be put forward in about three weeks time. An American company have also shown some interest and are to put forward an outline plan. If negotiations with Howdens reach a satisfactory conclusion the other company will be invited to make an offer, in order to introduce an element of competition. It is likely that a substantial dowry will be necessary, but no indication of its size is yet available.

6. There will be an opportunity to discuss the latest developments on Mackies at E(A) on 29 September as it has been agreed that it would be sensible for Mr King to report back on Harlands, Shorts and Mackies at that meeting.

7. There is no need at the moment to go beyond the present guarantees which are in place until the end of September. The position can be reviewed again after Mr King has reported to E(A). The help afforded to Mackies fully reflects E(A)'s agreement that limited action could be taken to ensure the survival of the company while discussions on longer term measures continue.



A M WHITE

RP



Minister of State

Department of Employment  
Caxton House Tothill Street London SW1H 9NF  
Telephone Direct Line 01-273 5805  
Switchboard 01-273 3000 Telex 915564  
GTN Code 273 Facsimile 01-273 5124

CH/EXCHEQUER	
REC.	12 SEP 1988
ACTION	FST
COPIES TO	

12/9

9 September 1988

The Hon Francis Maude MP  
Parliamentary Under Secretary of State  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON SW1

Dear minister

REVIEW OF MERGERS POLICY

I have seen the Prime Minister's response to your note of 5 August, as recorded in the Private Secretary's letter of 7 September.

This Department has a particular concern because of the possible implications of broadening the existing order-making powers, as you propose, to affect agreements relating to terms and conditions of employment. These are currently excluded. I am sure that such a change would require careful consideration and I would therefore like us to be represented in any further discussions.

I am copying this letter to the Prime Minister, members of E(A), James Mackay, Douglas Hurd, John Wakeham, John Belstead and to Sir Robin Butler.

Yours sincerely

Robert Ledson

PP JOHN COPE

(Approved by the minister and signed in his absence)



ST. ANDREW'S HOUSE  
EDINBURGH EH1 3DG

09 SEP 1988

*Handwritten initials*

The Hon Francis Maude MP  
Parliamentary Under-Secretary of State  
for Corporate Affairs  
Department of Trade and Industry  
1 -19 Victoria Street  
LONDON  
SW1H 0ET

INDUSTRY CHIEF SECRETARY	
REC.	9 SEP 1988
ACTION	
COPIES TO	<del>XXXXXXXXXX</del>
	<del>XXXXXXXXXX</del>
	<del>XXXXXXXXXX</del>
	<del>XXXXXXXXXX</del>

9 September 1988

*Dear Francis*

REVIEW OF MERGER POLICY

I have now seen your minute of 5 August to the Prime Minister and copied to colleagues seeking comments by 9 September on proposed changes to improve the operation of the Fair Trading Act.

I am content with the changes you propose and have no detailed comment to offer.

Copies of this letter go to the recipients of your.

FINANCIAL SECRETARY	
REC.	9 SEP 1988
ACTION	Ms Young
COPIES TO	PPS, Sir P Mr Monck Mr Burr Mr Waller

G.  
Middleton,  
Mr Burgner,  
Mr Stevens,  
Mr Tyrie, Mr Call.

*Handwritten signature*

MALCOLM RIFKIND

mp

FROM: A M WHITE

DATE: 9 SEPTEMBER 1988

FINANCIAL SECRETARY

cc Chancellor

Chief Secretary  
Sir P Middleton  
Sir A Wilson  
Mr Anson  
Mr G H Phillips  
Mr Monck  
Miss Peirson  
Mr Beastall  
Mrs Burnhams  
Miss Wheldon T Sol

**SHORT BROTHERS**

Following an investigation into the reporting and control failures, which resulted in Shorts exceeding their EFL limit by a significant margin, Mr King has been considering what if any action should be taken against Price Waterhouse -Shorts auditors at the time- and Touche Ross, who are retained by the Department of Economic Development (DED) to provide commercial advice on Shorts and to monitor the company's performance. We have been approached by NI officials, as Mr King had indicated that he wished to deliver a personal reprimand to Touche Ross in the presence of a Treasury Minister.

**BACKGROUND**

2. E(NI) set a loss target for Shorts of £10.3m for 1987-88. Their performance was such that the actual loss for the year amounted to £46m. The EFL had been set at £52.3m but the cash requirement of £120m exceeded this by a wide margin. It became clear that the company's financial management control was totally inadequate. Both the Financial Director and the Treasurer were dismissed. More stringent controls have now been imposed on the company by DED.

## MR KING'S PROPOSED ACTION

3. In the case of the company's then auditors- Price Waterhouse- Mr King decided, after taking advice from Sir Anthony Wilson, that Peat Marwick Mitchell should be approached to undertake an investigation to see if there had been any negligence. Legal advice is being sought about such a course, but Treasury Solicitors have suggested that there would be some difficulty as the auditors were appointed by Shorts rather than the Department; and litigation would be on the basis of loss suffered which the company would normally launch.

4. In respect of Touche Ross Mr King proposed to deliver a formal reprimand about their performance; to possibly have the reprimand recorded in the public archive; and to take it into account in the next round of public accountancy appointments. Mr King would like a Treasury Minister to be present during the reprimand.

## TOUCHE ROSS

5. Having consulted here, I attended a meeting with NI officials in Belfast on Wednesday, to see how their advice was forming before making a submission to you. The investigation undertaken by DED suggests that there is no clear case of negligence on the part of Touche Ross in carrying out their duties although they may not have been as vigilant as might have been expected. There is a lack of evidence to support a charge of negligence. Treasury Solicitors who were consulted by the NIO have advised that any question of blacklisting could possibly leave Ministers' actions open to judicial review. Their advice is that, if Mr King proceeds in the way he has proposed, it would be prudent to allow Touche Ross the opportunity to rebut any criticism made, in order to demonstrate that the Secretary of State acted fairly and reasonably.

6. My own view is that Touche Ross, who had been monitoring Shorts for a couple of years, may simply have gone stale, or become over-influenced by the attitude of DED- who adopted a hands-off approach to Shorts. Touche Ross, with some justification, may be able to claim that they did not receive sufficient guidance or support when Shorts failed to provide their full cooperation. In addition there is little evidence that DFP played the sort of role in relation to DED's sponsorship of Shorts, that the Treasury might adopt in relation to a sponsor department in GB.

7. The report produced by DED about the control failures offers no support for any formal action. Touche Ross' terms of reference reflect the principle of minimum or non-interference, which the working party set up to consider the role of consultants, was anxious to preserve. They were most anxious to avoid "damaging confrontations" with Shorts' management.

8. Unless there is litigation in prospect it would seem inappropriate to even consider blacklisting, and it would appear that there is no question of legal action in the case of Touche Ross. Apart from any legal problems there are also practical difficulties, if firms which perform less well than expected on an individual assignment, are barred from Government work.


9. Against this background, the most that NI officials are likely to advise Mr King is that he might have a private meeting with Touche Ross to indicate his extreme disappointment with their performance in this episode. I have indicated that I feel it is unlikely that a Treasury Minister would wish to be present, but agreed to give them a formal view on this point after consulting you.

#### PRICE WATERHOUSE

10. NI officials views and legal advice is, that given the difficulties of mounting a legal action, the risk of counter suits, and possible complications to Short's privatisation, the Secretary of State should be advised against any formal steps being taken with Price Waterhouse. I have asked them to confirm whether he accepts this advice

#### RECOMMENDATION

11. My strong recommendation is that you should agree that I should advise NI officials that, while a private reprimand is quite proper if the Secretary of State is dissatisfied with the performance of Touche Ross in this episode, it would seem inappropriate to go beyond this unless there is clear evidence of negligence. I see no advantage in a Treasury Minister being present for such a reprimand, and subject to your views, will advise NI officials accordingly. Do you agree?

  
A M WHITE



*PPS. P/ Pmp*

pe2.ss/bg/min/7

*I agree. You expressed the  
various reservations about the  
Clark Kincaid order in your  
letter of 5 September, and  
Mr Newton may not  
endorse any revised  
approach.*

FROM: W GUY  
DATE: 12 SEPTEMBER 1988

- 1. MRS BROWN
- 2. CHIEF SECRETARY

cc  
Chancellor  
FST  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Moore  
Mr Burgner  
Mr Waller  
Mr A M White  
Mr Rutnam

*MES  
12/9*

*✓*

**BRITISH SHIPBUILDERS: LATEST DEVELOPMENTS**

**Clark Kincaid**

1. Further to my submission of 5 September I have been discussing the position with DTI officials. BS had decided that it can buy the two engines from Poland and on-sell them to Kvaerner with no loss sticking to BS; moreover they believe that delivery schedules could be met if the order were not placed for a few more weeks. On this basis they wished to bid firmly for the Kvaerner order on Friday - so that if in the next few weeks it were decided to close CK, they could meet obligations to Kvaerner by sub-contracting to Poland.

2. Last Thursday DTI officials said they were intending to approve this <sup>on Friday</sup> cause of action; otherwise the order would today be lost by default. I objected and said Mr Newton should contact you about it: he apparently knew nothing of it. I reminded DTI that BS seemed to be capable of losing money on any contract; that reassurances from BS were effectively valueless; and that there was too much which could go wrong with the arrangement in BS hands.

3. On Thursday evening they said that Mr Newton could not deal with the issue in time, but that Kvaerner would be content to receive on Friday a provisional bid from BS which could be

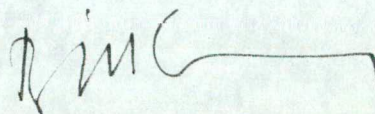
withdrawn within the next fortnight. I said we would not object to BS putting in a provisional bid which would automatically lapse if not confirmed with a fortnight, but that Mr Newton must respond urgently to your letter, and the bid must be allowed to lapse if within the next fortnight Mr Newton has not been able to provide the reassurances you required or to otherwise convince you that BS should take the order.

Appledore-Ferguson

4. DTI believe that by the end-September deadline for bids for Ferguson there may only be one bidder; even they take a dim view of the way that one bid is developing. Ferguson may have to close.

5. Mr Newton has written to you about the Appledore yard in Devon saying that there is a preferred bid which would allow disposal at a lower cost than closure. But the underlying figures provided by his officials make no sense and they are unable to explain them, having taken them on trust from BS. For instance, the closure cost estimate assumes that the entire workforce would be kept on until the current work is finished; that each employee would receive 13 weeks pay in lieu of notice; plus a terminal bonus; and that even so firm would have to be paid in damages to customers. This seems to be overegging. Also, in costing future ~~IF~~ DTI have used lower figures than Mr Newton is bidding for in the PES round. We are trying to sort out some agreed different figures with DTI officials. In the meantime you may wish to be warned that Appledore, too, might be a case for closure.

6. NESL continues to look beyond redemption. Its future is supposed to be decided at the end of this month.



W GUY



**FROM:** MISS S J FEEST  
**DATE:** 12 September 1988

**MR A M WHITE**

cc 2 PS/Chancellor  
PS/Chief Secretary  
Sir P Middleton  
Sir A Wilson  
Mr Anson  
Mr G H Phillips  
Mr Monck  
Miss Peirson  
Mr Beastall  
Mrs Burnhams  
Miss Wheldon T Sol

**SHORT BROTHERS**

The Financial Secretary was grateful for minute of 9 September 1988 and agrees with your recommendations.

A handwritten signature in cursive script that reads "Susan Feest".

**SUSAN FEEST**

1. Alex  
2. PJP

FROM: S D H SARGENT

DATE: 12 September 1988

PS/FINANCIAL SECRETARY

cc PS/Chancellor  
PS/Chief Secretary  
Sir A Wilson  
Mr Anson  
Mr Phillips  
Mr Monck  
Miss Peirson  
Mr Beastall  
Mrs Burnhams  
Miss Wheldon T Sol

**SHORT BROTHERS**

Sir Peter Middleton has seen Mr White's minute of 9 September. He has commented that Touche Ross seem to have taken a fee for doing very little, so some sort of expression of dissatisfaction is merited. No one appears to have suggested a blacklist, but presumably we are entitled to take performance into account when making any subsequent appointments.

*S D H Sargent*

S D H SARGENT  
Private Secretary



SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ

1. Jonathan  
2. pup

Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Great George Street  
LONDON  
SW1

CHIEF SECRETARY	
REC	17 SEP 1988
FROM	Mr AM White
TO	Cx Mr Hanson
	Mr Marek MaBurguer
	Miss Pearson
	Mr Call

14, September 1988

*John*

HARLAND AND WOLFF PLC

Ministers agreed in E(A)(88)10th of 13 July that I could negotiate with potential purchasers of H&W within the parameters I had previously proposed subject to my officials checking with Treasury and DTI that the parameters were consistent with the basis of the Govan deal; and to my officials agreeing with yours the estimated cost of closing H&W. I reported at the meeting that the front-runner for purchase of the yard appeared to be Tikkoo Cruise Lines (TCL), a company run by Ravi Tikkoo.

Since that discussion, TCL have come forward with an offer to acquire the shipyard, based on an order for a cruise liner (P3000). I have considered the terms of this offer but they are simply not acceptable. But if we cannot proceed on this basis, I

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COMMERCIAL IN CONFIDENCE

cannot simply reject TCL's terms outright. The importance of the yard within Northern Ireland, not least in political terms, and our understanding that TCL is considering instead placing the order with a French yard (which our embassy in Paris has confirmed is in a position to execute it) make it essential that we can show that we were prepared to deal very fairly with the yard in an effort to save the industry and jobs involved for Northern Ireland. I therefore propose to make counter-proposals to TCL, the terms of which have been discussed with your officials and are summarised in the attached Annex. I regard these proposals as very fair, but it is probable that TCL will reject these counter-proposals as a basis for further negotiations. Even if this assessment is proved wrong, however, it seems very unlikely from our discussions with TCL so far that the company would be able to raise sufficient finance to proceed with purchase. It also looks increasingly unlikely that ECGD will be able to offer terms on the P3000 alone which would enable TCL to proceed with the order - without which of course the wider proposition is impossible. I am meeting Tony Newton later today in order to discuss the position more fully with him, but whether anything further can be done by ECGD is a matter for them.

If, despite all these serious doubts, TCL should be able to raise sufficient finance for both the ship and the wider deal and decide to accept my suggested counter-proposals as a basis for further negotiation, I believe that those proposals are well within the parameters set by colleagues in E(A) - chiefly that any sale should be on the lines of the Govan/Kvaerner deal and fall within the costs of closing the yard.

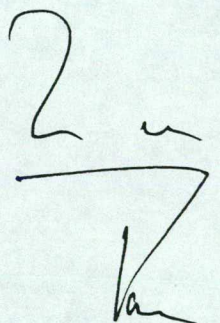
I am not in this letter seeking approval to the counter-proposals since I believe that they are within my negotiating remit from colleagues, but I am anxious to keep you in touch with major

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COMMERCIAL IN CONFIDENCE

CONFIDENTIAL  
COMMERCIAL IN CONFIDENCE

developments. If, however, you have any comment on my counter-proposals, I should be grateful if you could let me have your observations by lunchtime on Thursday, 15 September, so that I might go back to TCL without undue delay.

I am copying this letter and enclosure to the Prime Minister, to Tony Newton and to Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'Tony Blair', written over a horizontal line.

TK

SMN3697

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COMMERCIAL IN CONFIDENCE

H&W/TIKKOO CRUSE LINE LTD: TERMS OF COUNTER PROPOSAL

Provision of intervention aid for P3000 at the rate of 28% on standard terms (approximately £100m). TCL to arrange finance for the vessel. Future intervention aid, if any, to be available on the terms applicable at the time of receipt of an order.

TCL to acquire the fixed assets and stocks of H&W at book value (£9.76 million at 31 March 1988).

TCL to provide evidence of ability to fund the new company at least to completion of P3000.

DED to provide grant assistance at the rate of 30% on expenditure in the two years to 31 March 1991 covering normal capital replacement, some rationalisation costs and deferred maintenance and replacement; and at the rate of 100% on those aspects of rationalisation costs which include physical concentration and on under-utilisation costs. Expenditure on marketing/product development and retraining to be grant-aided under standard IDB/DED schemes. Government assistance estimated at £30/£40m.

DED to retain ownership of the existing company and pay its residual liabilities as they come due.

DED to sub-contract completion of SWOPS and AOT to TCL on the basis of budgeted completion costs with bonuses (and penalties) for achievement (or failure to achieve) agreed targets.

DED to fund redundancies down to an agreed level but no further.



FROM: A M WHITE  
DATE: 14 SEPTEMBER 1988

CHIEF SECRETARY

cc Chancellor  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Burgner  
Miss Peirson  
Mr Mountfield  
Mrs M Brown  
Mrs Burnhams  
Mr Call

**MR TIKKOO'S OFFER FOR HARLAND AND WOLFF**

Mr King's letter of 14 September outlines the terms of a counter-offer which he proposes to put to Mr Tikkoo very shortly.

2. I have discussed the details of the counter-offer with Mr King's officials and I am satisfied that they meet the parameters agreed at E(A) on 13 July. Amendments I proposed to the offer terms have been accepted and I understand the value of the counter-proposals to be in the region of £180m against closure costs estimated at £240m. In view of the political importance surrounding the Tikkoo offer I thought you would wish to be aware of any counter-offer before it was made.

3. The terms Mr King is proposing are unlikely to be acceptable to Mr Tikkoo. The unique nature of the venture makes it a very risky proposition, and there must be serious doubts about Mr Tikkoo's ability to fund the P3000 project. At the meeting Mr King had today to discuss ECGD support Mr Newton was unwilling to go beyond 25% support, and this would be dependent on proof of the remaining 75% funding being available. A letter confirming the outcome of the meeting is expected to arrive shortly.

4. In view of the tight timescale, and if you are content, your office may like to speak to Mr King's office to thank him for keeping you in touch with developments, and to confirm that you are content with what he proposes.

A M WHITE

The Hon. Francis Maude MP  
Parliamentary Under Secretary of State for  
Corporate Affairs

PS/Prime Minister  
10 Downing Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	19 SEP 1988
ACTION	FST
COPIES TO	

19/9

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line  
Our ref  
Your ref  
Date

215 4417

16 September 1988

Dear Mr Gray,

## REVIEW OF MERGERS POLICY

You wrote on 7 September about the proposals in my Minister's minute of 5 August.

The Prime Minister was concerned, first, that the proposed new order making powers would be very sweeping. It is true that they would give us a wide-ranging power to make prohibitions or requirements in relation to the carrying on of businesses. However, like the existing powers, the Secretary of State could only use them to remedy or prevent effects adverse to the public interest which the Monopolies and Mergers Commission have identified. Any attempt to overstep the limits the MMC's findings impose would be open to challenge.

The present powers (copy at Annex A) are already wide-ranging (including, as well as powers to prohibit agreements and control prices, a power to require a company to sell off parts of its business). But since they take the form of specific provisions it can sometimes be difficult to fit what the MMC may recommend, or we may think appropriate, to remedy the adverse effects within the powers. In addition to the difficulties mentioned before - in relation to obtaining information to help monitor compliance with an order, or requiring a particular business to be carried on by a separate subsidiary - many of the powers relate only to goods and services and not other business activities such as the granting of licences to enter on or use land (eg for car parking); it can in some cases be difficult to restrict the exercise of voting rights; and the powers to require publication of information are limited. Such problems can result in unnecessarily complicated drafting or in delay. These have

arisen in a number of cases. One example is the 1983 MMC report on cinema film distribution, on which we have just announced our intention to make an order; because of the terms of Schedule 8, this has had to be couched in the roundabout terms of prohibiting agreements, rather than simply insisting on particular action.

Adequate remedies are essential to an effective competition policy. Once the MMC have found something to be against the public interest, any difficulties or delays in dealing with it only allow further exploitation of consumers - both industrial and final consumers - with consequent costs to the economy. It would be possible to add to the detailed provisions but this could still leave gaps; since we have the opportunity, it seems preferable to take a general power with specific examples. The ultimate safeguard against abuse would remain that this could only be used to deal with the adverse effects found by the MMC. Moreover, if other Departments' interests were affected one could not envisage these powers being used without prior consultation, in addition to the statutory requirement for public notice.

The other point raised by the Prime Minister was about disapplying the hybrid instruments procedure from divestment orders. Lord Belstead has already expressed some reservations about this, and said that he would like to consider it further. My Minister recognises that this could cause difficulties with the Lords, and that the offsetting advantages are hypothetical, until the need arises - but this may occur at any time. The arguments here are the same as for orders generally; that effective remedial powers are essential to the success of the policy. The case for taking them out of the ambit of procedures designed to protect private interests, is that those private interests would already have been found by the MMC to be in conflict with the public interest; and there is also a consultation procedure in the Act. The delay which could be caused by the need for a Lords Committee to hear representations, and then possibly refer the matter to a Select Committee - even if that did not lead to the MMC's findings and recommendations being over-turned - could allow anti-competitive situations to be prolonged.

The need for these powers will be greater once we accept undertakings to divest parts of businesses instead of referring mergers to the MMC. Accepting undertakings could weaken our position on anti-competitive mergers unless undertakings can be adequately enforced. Like other undertakings obtained under competition legislation, we propose making these directly enforceable in the Courts, but in the last resort we may need to make an order by statutory instrument. Previous instances where the hybrid instruments procedure has been disappplied are

3

the Local Government Act 1972, Schedule 3, paragraph 1(3); the Water Act 1973, Section 3(11), and the Independent Broadcasting Authority Act 1974, Section 3(7).

Finally, John Cope's letter to my Minister of 9 September expresses concern about whether the new order-making powers will apply to terms and conditions of employment. This is something officials are discussing, and requires careful consideration: but is subject to whatever is decided on the more general power.

I am copying this letter to the Private Secretaries to members of E(A), the Lord Chancellor, Douglas Hurd, John Wakeham, Lord Belstead and Sir Robin Butler.

*Yours sincerely  
Chris North*

**CHRIS NORTH**  
Assistant Private Secretary

SCH. 7

PART III

GOODS PARTLY EXCLUDED IN RELATION TO NORTHERN IRELAND ONLY

<i>Description of goods</i>	<i>Form of supply excluded</i>
14. Live pigs.	Supply for slaughter.
15. Fresh uncured carcasses or parts of carcasses of pigs.	Supply otherwise than by way of retail sale.

Sections 56, 73,  
74, 77, 89 and 91.

SCHEDULE 8

POWERS EXERCISABLE BY ORDERS UNDER SECTIONS 56 AND 73

PART I

POWERS EXERCISABLE IN ALL CASES

1. Subject to paragraph 3 of this Schedule, an order under section 56 or section 73 of this Act (in this Schedule referred to as an "order") may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order, to make or to carry out any such agreement as may be specified or described in the order.

2. Subject to the next following paragraph, an order may require any party to any such agreement as may be specified or described in the order to terminate the agreement within such time as may be so specified, either wholly or to such extent as may be so specified.

3.—(1) An order shall not by virtue of paragraph 1 of this Schedule declare it to be unlawful to make any agreement in so far as, if made, it would be an agreement to which Part I of the Act of 1956 would apply.

(2) An order shall not by virtue of paragraph 1 or paragraph 2 of this Schedule declare it to be unlawful to carry out, or require any person to terminate, an agreement in so far as it is an agreement to which Part I of the Act of 1956 applies.

(3) An order shall not by virtue of either of those paragraphs declare it to be unlawful to make or to carry out, or require any person to terminate, an agreement in so far as, if made, it would relate, or (as the case may be) in so far as it relates, to the terms and conditions of employment of any workers, or to the physical conditions in which any workers are required to work.

1971 c. 72.

(4) In this paragraph "terms and conditions of employment" has the meaning assigned to it by section 167(1) of the Industrial Relations Act 1971.

4. An order may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order, to withhold or to agree to withhold or to threaten to withhold, or to procure others to withhold or to agree to withhold or threaten to withhold, from any such persons as may be specified

or described in the order, any supplies or services so specified or described or any orders for such supplies or services (whether the withholding is absolute or is to be effectual only in particular circumstances).

5. An order may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order, to require, as a condition of the supplying of goods or services to any person,—

- (a) the buying of any goods, or
- (b) the making of any payment in respect of services other than the goods or services supplied, or
- (c) the doing of any other such matter as may be specified or described in the order.

6. An order may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order,—

- (a) to discriminate in any manner specified or described in the order between any persons in the prices charged for goods or services so specified or described, or
- (b) to do anything so specified or described which appears to the appropriate Minister to amount to such discrimination,

or to procure others to do any of the things mentioned in sub-paragraph (a) or sub-paragraph (b) of this paragraph.

7. An order may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order,—

- (a) to give or agree to give in other ways any such preference in respect of the supply of goods or services, or the giving of orders for goods or services, as may be specified or described in the order, or
- (b) to do anything so specified or described which appears to the appropriate Minister to amount to giving such preference,

or to procure others to do any of the things mentioned in sub-paragraph (a) or sub-paragraph (b) of this paragraph.

8. An order may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order, to charge for goods or services supplied prices differing from those in any published list or notification, or to do anything specified or described in the order which appears to the appropriate Minister to amount to charging such prices.

9. An order may require a person supplying goods or services to publish a list of or otherwise notify prices, with or without such further information as may be specified or described in the order.

10.—(1) Subject to the following provisions of this paragraph, an order may, to such extent and in such circumstances as may be provided by or under the order, regulate the prices to be charged for any goods or services specified or described in the order.

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(2) An order shall not exercise the power conferred by the preceding sub-paragraph in respect of goods or services of any description unless the matters specified in the relevant report as being those which in the opinion of the Commission operate, or may be expected to operate, against the public interest relate, or include matters relating, to the prices charged for goods or services of that description.

(3) In this paragraph "the relevant report", in relation to an order, means the report of the Commission in consequence of which the order is made, in the form in which that report is laid before Parliament.

11. An order may declare it to be unlawful, except to such extent and in such circumstances as may be provided by or under the order, for any person, by publication or otherwise, to notify, to persons supplying goods or services, prices recommended or suggested as appropriate to be charged by those persons for those goods or services.

12.—(1) An order may prohibit or restrict the acquisition by any person of the whole or part of the undertaking or assets of another person's business, or the doing of anything which will or may have a result to which this paragraph applies, or may require that, if such an acquisition is made or anything is done which has such a result, the persons concerned or any of them shall thereafter observe any prohibitions or restrictions imposed by or under the order.

(2) This paragraph applies to any result which consists in two or more bodies corporate becoming interconnected bodies corporate.

(3) Where an order is made in consequence of a report of the Commission under section 72 of this Act, or is made under section 74 of this Act, this paragraph also applies to any result (other than that specified in sub-paragraph (2) of this paragraph) which, in accordance with section 65 of this Act, consists in two or more enterprises ceasing to be distinct enterprises.

13. In this Part of this Schedule "the appropriate Minister", in relation to an order, means the Minister by whom the order is made.

## PART II

### POWERS EXERCISABLE EXCEPT IN CASES FALLING WITHIN SECTION 56(6)

14. An order may provide for the division of any business by the sale of any part of the undertaking or assets or otherwise (for which purpose all the activities carried on by way of business by any one person or by any two or more interconnected bodies corporate may be treated as a single business), or for the division of any group of interconnected bodies corporate, and for all such matters as may be necessary to effect or take account of the division, including—

- (a) the transfer or vesting of property, rights, liabilities or obligations ;

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- (b) the adjustment of contracts, whether by discharge or reduction of any liability or obligation or otherwise ;
- (c) the creation, allotment, surrender or cancellation of any shares, stock or securities ;
- (d) the formation or winding up of a company or other association, corporate or unincorporate, or the amendment of the memorandum and articles or other instruments regulating any company or association ;
- (e) the extent to which, and the circumstances in which, provisions of the order affecting a company or association in its share capital, constitution or other matters may be altered by the company or association, and the registration under any enactment of the order by companies or associations so affected ;
- (f) the continuation, with any necessary change of parties, of any legal proceedings.

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15. In relation to an order under section 73 of this Act, the reference in paragraph 14 of this Schedule to the division of a business as mentioned in that paragraph shall be construed as including a reference to the separation, by the sale of any part of any undertaking or assets concerned or other means, of enterprises which are under common control otherwise than by reason of their being enterprises of interconnected bodies corporate.

## SCHEDULE 9

Section 91.

## PROCEDURE PRELIMINARY TO LAYING DRAFT OF ORDER TO WHICH SECTION 91(1) APPLIES

1. The provisions of this Schedule shall have effect where the Secretary of State proposes to lay before Parliament a draft of any such order as is mentioned in section 91(1) of this Act.
2. The Secretary of State shall cause notice of his intention to lay a draft of the order before Parliament to be published in the London Gazette, the Edinburgh Gazette and the Belfast Gazette and in two or more daily newspapers (other than local newspapers), and shall not lay a draft of the order until the end of the period of forty-two days beginning with the day on which the publication of the notice in accordance with this paragraph is completed.
3. A notice under this Schedule shall—
- state that it is proposed to lay a draft of the order before Parliament ;
  - indicate the nature of the provisions to be embodied in the order ;
  - name a place where a copy of the draft will be available to be seen at all reasonable times ; and
  - state that any person whose interests are likely to be affected by the order, and who is desirous of making representations in respect of it, should do so in writing (stating his interest





*Handwritten signature/initials*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

19 September 1988

*Red checkmark*

*Dear Chris,*

REVIEW OF MERGERS POLICY

Thank you for your letter of 16 September, which the Prime Minister has seen. She continues to have concerns about the proposals as indicated in my earlier letter of 7 September. The Prime Minister would therefore like these proposals to be brought to E(A). I should be grateful if you could arrange for a paper to be prepared for this purpose.

I am copying this letter to the Private Secretaries to the members of E(A), to Paul Stockton (Lord Chancellor's Office), Nick Sanderson (Home Office), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's) and Trevor Woolley (Cabinet Office).

CH/EXCHEQUER	
REC.	20SEP1988
ACTION	FST
CURTIN TO	

*Handwritten notes: 20/9, Yes, Paul Gray*

Paul Gray

Chris North, Esq.,  
Office of the P.U.S.S. (The Hon. Francis Maude MP),  
Department of Trade and Industry.