

• PO-CH/NL/0312  
PART A

Part A

**SECRET**  
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COMMERCIAL - IN - CONFIDENCE

Begins : 14/7/87.

Ends : 22/2/89.

  
PO -CH /NL/0312  
  
PART A

Chancellor's (Lawson) Papers

THE CLOSURE OF HARLAND  
AND WOLFF SHIPYARDS

PD's : 25 Years

*[Handwritten Signature]*

25/10/95.

PO -CH /NL/0312  
PART A

SECRET

FROM: A M WHITE

DATE: 14 July 1987

1. MISS PEIRSON *MP*
2. CHIEF SECRETARY

cc Chancellor  
 Sir Peter Middleton  
 Mr F E R Butler  
 Mr A Wilson  
 Mr Anson  
 Mr Robson  
 Mr Colman  
 Mr Sharratt - o/r  
 Mr Tyrrie

**HARLAND AND WOLFF**

The purpose of this minute is to alert you to a potentially serious situation developing on Harland and Wolff. In view of a recent short-term funding problem and projected pressures on the EFL, Mr King has appointed Deloitte Haskins and Sells as investigative accountants to conduct a review of the company's financial and production control, to identify weaknesses and to determine how the situation can be remedied. An interim report on the company's immediate financial needs is likely to be available shortly.

2. The main report on Harland's financial management, quantifying the pressures on the EFL, by Deloitte is not likely to be available until late in the Summer. Northern Ireland officials' view is that it may well prove necessary, in the light of that report, to replace Harland's existing financial management perhaps by giving Deloitte's executive control of that side of the company's management.

**Background**

3. Harland's EFL <sup>for 87/88</sup> was set by Ministers in E(A) on 19 March at £49.5 million (including £32 million from trading). Although the company had also sought approval for capital expenditure of £29 million on the restructuring of their yard, their proposals were not considered sufficiently robust to be approved, and the

Secretary of State offered a further discussion once he had been satisfied that a detailed and viable cost reduction programme had been developed.

4. NI officials tentative assessment is that Harlands are now likely to breach their EFL by £7.5 million above the current limit. (The latest quarterly report by Touche Ross - who are Mr Kings normal advisors on Harland and Wolff - suggests a total EFL of £57 million in 1987-88). Harland's EFL is not only used as an end-year figure but also as an in-year control total and NI officials have recently asked for a temporary relaxation to the end of July while an investigation was carried out as to what the cause of the pressure was on Harland's trading EFL. I anticipate that they will now wish that concession (to be funded from within the NI block) to be extended until Deloittes have reported.

#### Comments

5. Recent redundancies have led to an overtime ban, work to rule and a lowering of morale in the company. This has in turn lead to delays on certain contracts (although there have been technical problems, for example, on the SWOPS contract where GEC's performance appears to have been below standard).

6. But neither these developments, nor the present NI officials view of the potential pressure on the EFL would appear to have called for such a decisive step by Mr King as to put Deloittes in with the remit we understand them to have. That remit indicates grave concern on Mr Kings part, amounting to loss of faith in the financial management of a company in an extremely weak trading position and with no fresh orders in prospect.

7. Once Deloittes substantive report is available it is quite possible that the question of closure may have to be looked at again, or at least whether it is sensible to leave the AOR I contract and lead design work for that new class of vessel with a yard in such a poor trading position and with the management weaknesses that Harlands have again demonstrated.

**Conclusion**

8. No decisions can or should be taken in advance of the report by Deloittes. However Mr King may well decide to write shortly to alert colleagues to the problem, setting out the steps he has already taken and promising a substantive discussion immediately after the Summer break. In the meantime we are keeping closely in touch with NI officials and through them with Deloittes work as it progresses.



**A M WHITE**



NORTHERN IRELAND OFFICE  
 WHITEHALL  
 LONDON SW1A 2AZ

SECRETARY OF STATE  
 FOR  
 NORTHERN IRELAND

The Rt Hon John Major MP  
 Chief Secretary  
 HM Treasury  
 Treasury Chambers  
 Parliament Street  
 London  
 SW1P 3AG

CHIEF SECRETARY	
REC.	17 JUL 1987
10	Mr A M White
	EX Sir Peter Middleton
	Mr Butler Mr A Debra
	Mr Anson Mrs Pease
	Mr Robson Mr Colman

16 July 1987

*John*

*Mr Sharratt Mr Tyrie*

HARLAND AND WOLFF

The EFL set for Harland and Wolff for 1987/88 was £49.5m, of which £23m constituted the company's trading EFL. The company has experienced significant disruption following the recent major redundancy programme and has recently informed me of further delays and difficulties in respect of ATS and SWOPS which will lead to exceeding its EFL. Indeed, partly because of delayed receipt of a large payment from BP, my officials had already secured the agreement of Treasury officials to a temporary increase of £10m in the trading EFL for the period up to the end of July.

I am extremely concerned that the company should be encountering EFL difficulties so early in the financial year. I recognise that a significant part of the delay on SWOPS is related to the poor performance of GEC on sub-contracts, but H&W does nonetheless have a clear responsibility. I have therefore made it very clear to the Chairman (John Parker) that urgent steps need to be taken to deal with the company's production problems.

Recent events have indicated a serious weakness in the financial management of the company. I have therefore immediately commissioned Deloitte to undertake a thorough review of the

company's financial requirements and to report urgently on the effectiveness of the company's financial management arrangements. Parker has agreed to co-operate fully with them. As a first stage in the exercise Deloittes will report to me as soon as possible on the company's financial requirements month by month for 1987/88, but this is unlikely to be with me before mid-August. Should it indicate serious deficiencies in the existing set-up I would intend to ask Deloittes to take a closer role in the operation of financial management in the company.

I face a difficulty on timing. I am anxious to bring this matter to E(A) but cannot do so until I have confidence that the figures I have are or not confirmed by Deloittes. Until then I propose to finance the company on a minimum requirement drip feed basis. Since the existing temporary EFL expires at the end of July I would need a further temporary extension of the £23m trading EFL by £12m until the end of August. I have no alternative but to base this upon the company's own figures which Deloittes are not yet able to validate. As soon as I have Deloittes' report on the company's future financial requirements I shall write to you again seeking further temporary EFL cover validated by Deloittes which would carry the company through until the E(A) meeting. I will of course ensure that my officials keep their Treasury counterparts informed of developments throughout the summer.

Copies of this letter go to Members of EA and to Sir Robert Armstrong.

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FROM: A M WHITE  
DATE: 17 JULY 1987

1. MISS PEIRSON  
2. CHIEF SECRETARY

cc Chancellor 12/2  
Sir P Middleton  
Mr F E R Butler  
Mr A Wilson  
Mr Anson  
Mr Robson  
Mr Colman  
Mr Sharratt  
Mr Tyrie

### HARLAND AND WOLFF

In his letter of 16 July to you, Mr King reports the position of the company, which I had outlined in my submission to you of 14 July, indicates the steps he has taken, and seeks your agreement to a temporary extension for Harland's trading EFL by £12m until the end of August, on the understanding that he will put a paper to E(A) on the company immediately after the summer break.

2. You should agree to the temporary extension Mr King seeks, on the basis that Treasury officials should be fully involved in the work leading to the promised paper. A draft letter is attached for your approval.

### Background

3. Mr King's letter adds little to what I was able to report to you in my submission of 14 July.

4. He and his officials are deeply, and rightly, concerned that the company should be failing so early in the year to adhere to the budget that attainment of their EFL for the current year implies.

5. The current investigation by Deloitte was precipitated by this development, which appears to have been the last straw that has broken Mr King's faith in Harland's financial management.



6. Morale in both the workforce and the company's management is clearly low and while in some cases delays and consequent failure to obtain progress payments are at least in part due to poor performance by subcontractors (Mr King highlights the SWOPS difficulties with GEC) the company has a clear responsibility for its own predicament.

7. On all the contracts currently active - ATS, a bulk carrier for BSC, the SWOPS vessel for BP, and the first of class AOR contract for MOD the delays that have already occurred this year will either lead to missed contract dates or the virtual elimination of flexibility time from the schedules needed to complete within contract.

8. The timetable for the AOR - the last order the company has been able to secure - is further threatened by the pressures that delays on other contracts and the need for further work on them is placing on the company's technical resources, particularly its drawing office.

9. Unless there is a rapid and effective improvement in management control, the EFL for the current year may be substantially breached and the longer term prospects for the company, which were already very poor, would be stark.

10. So Deloittes have been put in, as I indicated in my submission of 14 July, with full access to the company's systems and its employees. Only when they have reported will Mr King feel he has adequate information on which to found proposals.

11. In the meantime, the company is being 'drip-fed', with Mr Kings officials advancing each week only those funds needed to meet the company's cash requirements for that week. On that basis they believe the extra £12m increase sought to the company's trading EFL of £32 ( not £23 as quoted in Mr King's letter) million will prove sufficient until decisions can be taken in the light of Deloittes findings.

Comment

XI  
12. The company's position is clearly acute. Unless a substantial and sustained improvement in performance can be achieved the question will become one of not whether the company should be closed, but when and how. Mr King and his officials are particularly concerned over the AOR contract, where he had difficulty last year in convincing colleagues that, given the prospects of the company as then perceived, that key order should be left in place. But they recognise that, unless significant improvements can be secured, that question may need to be re-examined, almost certainly in the context of a move to a strategy of orderly run down and closure.

Recommendation

13. There is no advantage in seeking to rush the difficult issues that may need to be addressed when Deloitte's report is available. Treasury officials should be clearly involved in the consideration of Deloitte's findings and in the preparation of advice for Ministers in their light.

14. I therefore recommend that while expressing grave concern about the situation as outlined by Mr King, you should agree to the temporary extension to Harlands trading EFL that Mr King seeks, on the understanding that Treasury officials will be closely involved in the work leading up to his promised paper to E(A).

15. If you agree, you may wish to reply to Mr King along the lines of the attached draft.

  
A M WHITE

**DRAFT LETTER TO SECRETARY OF STATE FOR NORTHERN IRELAND, FOR  
SIGNATURE BY CHIEF SECRETARY**

I am gravely concerned by the situation that you outline in your letter of 16 July and would welcome the earliest possible collective discussion.

2. I recognise that you will not be able to come forward with proposals, which may involve Deloittes taking a direct role in the financial management of the company, until Deloittes have completed over the next few weeks the work you have commissioned as a matter of urgency.

3. I note that during that time, my officials will be kept closely in touch with developments, so that they can work with yours on the assessment of the position that is needed to underpin the proposals you will be putting forward for collective consideration as soon as possible after you have received Deloittes report in mid August.

4. On that basis, and noting that you propose to 'drip feed' the company only those funds needed to meet its minimum requirements meanwhile, I am prepared to agree the temporary £12m increase in the company's EFL until you are able to report more substantively to E(A), which you anticipate should be by end August.

**JOHN MAJOR**

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CC CHANCELLOR  
SIR P. MIDDLETON  
MR. F.E.R. BUTLER  
MR H. WILSON  
MR ANSON  
MR PERKINSON  
MR ROBSON  
MR COMPTON

Treasury Chambers, Parliament Street, SW1P 3AG

MR SHARRATT  
MR A.D. WHITE  
MR TYRIE

The Rt Hon Tom King MP  
Secretary of State for Northern Ireland  
Northern Ireland Office  
Whitehall  
London  
SW1A 3AZ

22<sup>nd</sup> July 1987

*Tom King*

**HARLAND AND WOLFF**

I am gravely concerned by the situation that you outline in your letter of 16 July and would welcome the earliest possible collective discussion.

I recognise that you will not be able to come forward with proposals, which may involve Deloitte's taking a direct role in the financial management of the company until Deloitte's have completed over the next few weeks the work you have commissioned as a matter of urgency.

I note that during that time, my officials will be kept closely in touch with developments, so that they can work with yours on the assessment of the position that is needed to underpin the proposals you will be putting forward for collective consideration as soon as possible after you have received Deloitte's report in mid August.

On that basis, and noting that you propose to 'drip feed' the company only those funds needed to meet its minimum requirements meanwhile, I am prepared to agree the temporary £12 million increase in the company's EFL until you are able to report more substantively to E(A), which you anticipate should be by end August.

I am sending copies of this letter to members of E(A) and to Sir Robert Armstrong.

*Yours Ever*  
*John Major*

JOHN MAJOR

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

23 July 1987

Dear David,

HARLAND AND WOLFF

The Prime Minister has seen your Secretary of State's letter of 16 July about the position at Harland and Wolff, which she found most disturbing. She has asked whether the construction of the AOR has played any part in the difficulties and would like generally to know how this is going.

I am copying this letter to the Private Secretaries to members of E(A) and to Sir Robert Armstrong.

Yours,  
David

D. R. Norgrove

David Watkins, Esq.,  
Northern Ireland Office.

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CH/EXCHEQUER	
REC.	23 JUL 1987
ACTION	CST.
COPIES TO	

APP. 11.

MISS RUTTER

FROM: M SHARRATT  
DATE: 27 JULY 1987  
cc → PSS/Chancellor  
Sir P Middleton  
Mr F E R Butler  
Mr A Wilson  
Mr Anson  
Miss Peirson  
Mr Robson  
Mr Colman  
Mr R J Evans  
Mr M V Hughes  
Mr Macaskill  
Mr Tyrie

**HARLAND AND WOLFF**

David Norgrove's letter to Mr King's Private Secretary of 23 July records the Prime Minister's concern about the position at H&W and her queries about what part the AOR has played in this and progress on the contract generally.

2. The immediate cause of the deteriorating position in the yard is the action taken by the workforce in response to the latest announcement of redundancies - a combination of a work-to-rule and general drop in productivity. This has resulted in further slippages on the two orders which are well into the construction or outfitting stages, the air training ship for MOD (originally due for delivery in December 1986 but unlikely to be completed until end 1987) and the single well oil production ship (SWOPS) for BP (due for delivery in May 1988 but currently projected to be delivered in March 1989). Consequent delays in payments these has caused the cash crisis which has led Mr King putting Deloitte to review urgently the financial position. Soundings I have taken indicate that the company's cash requirements in 1987-88 could be as much as £80 million, £30 million higher than was set by Ministers in March.

3. The AOR programme has slipped by three months since March due to pressures from SWOPS work on the design office and the company has been forced to sub-contract much of the work on drawing up the detailed AOR production plans. In other circumstances, this slippage would not be a cause for concern at this early stage as the expectation would be that the time would be made up during the

three years of the contract. But all the indications are that this first slippage presages more serious delays later.

4. The real concern is that the decline in productivity will continue and that as a result other capacity constraints will develop. A likely pressure point is outfitting with a much delayed SWOPS and AOR in competition for available resources in 1989. The company's line is that the AOR will not be affected by capacity constraints and they could always delay SWOPS further in order to avoid delays on the AOR. This would clearly have consequences for their cash requirements as even more progress payments from BP would be missed and of course there would be the prospect of penalties for failing to deliver on time.

5. In any event assurances from the company have little credibility and irrespective of what happens to SWOPS there is every likelihood of AOR progressively slipping further and further behind schedule. Deloitte's report on H&W's financial position will now not be ready until mid-August - the company has shut down for the annual two week holiday and the chairman has refused to call senior management back from holiday! It will almost certainly make grim reading and in considering our advice to the Chief Secretary we will need inter alia to address the question of precipitating an accelerated run-down of the company by the cancellation of the AOR which strictly only MOD could do.

6. It is inevitable that in the period prior to closure the yard will be subject to considerable disruption and there is a clear advantage in minimising this. On the other hand the political repercussions of cancellation would be considerable and would probably put an end for the time being to the prospects of a more realistic approach being adopted by the unionists. There is of course also MOD's attitude to consider and the implications for the overall AOR programme. DM will be discussing these issues with MOD in the interval before Deloitte's report and we will take account of their views in our advice. During this period we will also be having further discussions with NI officials.

*M Sharratt*  
M SHARRATT



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

D R Norgrove Esq  
Private Secretary  
10 Downing Street  
LONDON  
SW1A 2AA

CH/EXCHEQUE	
NO.	31 JUL 1987
ACTION	CST
COPIES TO	

30. July 1987

Dear David,

HARLAND AND WOLFF

In your letter of 23 July you relayed the Prime Minister's question as to whether the construction of AOR has played any part in H&W's financial difficulties. She also asked for a progress report on this contract.

As you know, as soon as signs appeared of difficulties in the company's financial controls the Secretary of State authorised the immediate appointment of Deloitte to identify how the current difficulties have arisen and to advise on the best way forward. We shall then be able to see clearly why the company has encountered EFL difficulties so early in the financial year. But, since AOR construction is still at a very early stage - with only 2-3% of the budget having been expended - it is unlikely that it could have contributed significantly to the current financial situation.

Detail design for the AOR is well advanced and some steel work preparation is being undertaken with unit fabrication scheduled to begin in August. The company has encountered some resource problems in the area of design partially as a result of a greatly increased requirement for design in connection with the BP SWOPS vessel. H&W are confident that, by sub-contracting drawing work to other firms in Great Britain, this problem is being overcome.





The company is still forecasting that AOR will be delivered on time and to cost but we will be looking to Deloitte's report to help confirm that this is realistic. Officials and independent consultants (Touche Ross) have been reviewing progress on the contract on a monthly basis since the beginning of this year and will continue to monitor the situation closely.

We shall report on Harland and Wolff's overall financial position and the progress on individual contracts, including AOR, when my Secretary of State brings forward a paper on the company to E(A) in September which can reflect any further information that may come from Deloitte's work.

I am copying this letter to the recipients of yours.

*Yours sincerely,*

*D. J. Watkins.*

—

D J WATKINS

hcc:

E(A)  
Sir Robert Armstrong  
Mr Burns  
Mr Fell  
Mr Chesterton  
Mr F G McConnell  
Mr D Thomson (DED)



*EF*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

30 July 1987

*Dear David,*

HARLAND AND WOLFF

Thank you for your letter of 30 July. The Prime Minister looks forward to seeing the paper which your Secretary of State proposes to bring forward to E(A) in September about Harland and Wolff's overall financial position and the progress on individual contracts.

I am copying this letter to the Private Secretaries to members of E(A) and Trevor Woolley (Cabinet Office).

H/EXCHEQUER	
31/07/1987	
CST	
Given TO	

*Jan Kierely*  
*David Norgrove*

DAVID NORGROVE

D. J. Watkins, Esq.,  
Northern Ireland Office

CONFIDENTIAL



FROM: A W KUCZYS  
DATE: 31 July 1987

*AWK*

PS/CHIEF SECRETARY

cc Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr Robson  
Mr A M White  
Mr Tyrie

**HARLAND AND WOLFF**

The Chancellor has seen the recent papers on this subject. He has particularly noted, in paragraph 12 of Mr White's minute of 17 July, that:

"... the question will become one of not whether the Company should be closed but when and how."

The Chancellor has commented that the question is when and how, and he believes that Mr King recognises this. And since the answer to "when?" is "the sooner the better", he trusts urgent work is now being done on "how?".

A handwritten signature in black ink, appearing to be 'AWK'.

A W KUCZYS

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FROM: - A M WHITE

DATE: 4 September 1987

CHIEF SECRETARY

cc Chancellor  
Sir Peter Middleton  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr Robson  
Ms Seammen  
Mr Colman  
Mr R J Evans  
Mr M V Hughes  
Mr Macaskill  
Mr Tyrrie

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**HARLAND AND WOLFF**

Mr Sharratt's note attached reports the considerable progress made with Northern Ireland officials over the summer.

2. Their advice to Mr King is likely to be unequivocally in favour of closure, they having abandoned all hopes of convincing themselves, let alone us, that the yard could be made viable even in the long term.

3. Mr King is likely to argue that closure should follow the completion of the last ship in the yard, MOD's AOR OI on which work has only recently started. On this basis, he expects to be able to present closure as a commercial inevitability rather than a deliberate Ministerial act.

4. This is a financially risky course, with a considerable prospect that work on AOR OI will be disrupted as the realisation of impending closure dawns on the work force, but as Mr King is apparently ready to bear that financial risk on his block, it may be difficult for you to argue for an earlier closure, not least as the apparent financial costs are little different whenever closure falls.

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5. Nor can you expect the Secretary of State for Defence to seek to precipitate matters by trying to break the AOR OI contract. Although now fully alert to the likely fate of Harlands, MOD officials take the view that the order should be left to progress, as some chance remains that Harlands will produce the vessel to time under the fixed price contract they have. They accept that there is a very real risk of delays or even failure to complete but do not see any advantage in trying to anticipate those risks.

6. It is of course possible that the Prime Minister, who was never satisfied with the original decision to give AOR OI to Harlands will seek to reopen the point.

7. If she does not, then I see no advantage in your pressing Mr King to go for earlier closure, subject to satisfaction that:-

- (a) rigorous criteria will be laid down for the company in seeking any further order so that any business won was on an unsubsidised basis (this will effectively close off that prospect);
- (b) that Mr King has clear contingency plans to cascade into earlier closure of disruption threatens significant delay to AOR OI;
- (c) that Mr King accepts that the financial risks inherent in his preferred approach will be borne on the block.



A M WHITE

CONFIDENTIAL

FROM: M SHARRATT  
DATE: 4 SEPTEMBER 1987

1. MR WHITE
2. CHIEF SECRETARY

cc Chancellor  
Sir Peter Middleton  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr Robson  
Ms Seammen  
Mr Colman  
Mr R J Evans  
Mr M V Hughes  
Mr Macaskill  
Mr Tyrie

**HARLAND AND WOLFF**

The deterioration in the financial position of Harland and Wolff was reported to you earlier in the summer (Mr White's submissions of 14 and 17 July and Mr King's letter of 16 July). In your reply to Mr King on 22 July, you agreed to his request for a temporary £12 million increase in the company's EFL pending the outcome of Deloitte's review of the short-term financial position and the company's financial management. The Private Secretary's letter of 23 July relayed the Prime Minister's disquiet about developments at Harland and the Chancellor has commented that the question is not if the company should close but when and how, and the answer to when is "the sooner the better" and he trusted that urgent work was being done to work out how.

2. We have discussed the company's position with Mr King's officials over the summer. MOD has also been consulted as the main present and prospective customer. This submission is intended to bring you up-to-date with developments.

3. The report by Deloitte on the company's short-term financial position and its financial management arrangements will issue on Monday. It has been delayed slightly by the absence on holiday of the Deloitte senior partner responsible for the review and who as at this moment is acting commercial director of the company pending recruitment of someone on a permanent basis. Mr King will be circulating a note at the end of next week for discussion at E(A) on 17 September.

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4. Although we have yet to see the Deloittes report we understand it to be highly critical of Harland's management from the top down and they will be making substantial recommendations for improvements to management and financial control in the company. In the short-term, on the basis of figures derived from the company's production plans which Deloittes have yet to evaluate, they assess that the trading EFL for 1987-88 will need to be increased from the £23 million agreed by E(A) in March to £50 million. This increase of £27 million is offset by a reduction of £8½ million in redundancy costs - because of slippage there will be fewer redundancies this year but more next year - and £4½ million reduction in borrowing required to finance the advance of work in progress on the AOR1, because the planned six months advance has not in fact materialised again as a consequence of slippage on other contracts. Thus the revised 1987-88 EFL requested will be £63.2 million or nearly £14 million above the figure authorised in March.

5. Mr King's note for E(A) will draw also on a recent review of the strategic options open to the company. This was prepared by Touche Ross, consultant advisors on Harland and Wolff to the Department of Economic Development in Northern Ireland, following pressure from Treasury officials for forward planning options to be drawn up in parallel to Deloittes' work on the immediate situation. This report, having first examined world market prospects goes on to consider six strategic options which range from keeping the company going sine die, either on a commercial footing or by continued state support, to various closure options.

6. As far as Harland continuing in business, Touche Ross demonstrate that even with a massive change in work practices and methods to improve competitiveness, in itself unlikely to happen, there is little prospect of new merchant orders even if subsidies within the EC Sixth Directive limits continued to be offered indefinitely. It is clear even to Mr King's officials that the company has no commercial future and the only work that the yard could hope to obtain is quasi-naval work from MOD. But such orders are unlikely to be obtainable in fair competition with

private sector yards. They could only be secured if the Government countenanced tenders from Harland which contained a significant element of subsidy by way of the Government's financial support for overhead costs. Closure is therefore argued as inevitable; the question is when and the closure scenarios considered by Touche Ross, which we agree span the range of options, are considered below.

**Close end 1987**

7. The company would close after completion of the air training ship for the MOD around the end of the year. The SWOPS vessel for BP would be flutable and would have to be completed elsewhere. Very little construction work would have been done on the AOR1 and MOD would either have to arrange for another yard to build it to the Harland design or start from scratch and retender for design and construction. Touche Ross put the cost of this option at £231 million made up of the estimated 1987-88 trading loss, penalty payments on SWOPS and the AOR1, and redundancy and closure costs.

**Close end 1988 after SWOPS - transfer AOR now**

8. The ATS and SWOPS contracts would be completed but the AOR1 would be transferred now. To break the AOR contract would probably require the present company to go into liquidation and a new company formed to complete ATS and SWOPS. The cost of this option is estimated to be £240 million.

**Close end 1988 after SWOPS - transfer AOR on closure**

9. The company would be liquidated on completion of SWOPS and MOD would have to arrange for AOR to be completed elsewhere. The AOR should be flutable by then on present production plans but there must be a considerable risk that these will not be adhered to as the workforce realises that AOR will be the last ship built. This option is costed at £240 million.

**Close early 1990 after AOR**

10. This is the most expensive option at £264 million and as with the other costings, it is based on present production plans. This option is at most risk from slippage which will almost certainly



occur as the workforce recognises that no new work will materialise. Indeed it is quite possible that such delays would be serious enough to necessitate MOD's removal of the AOR before completion; thus in practice this option could cascade into the previous option but probably with a later closure date.

11. Mr King's paper is likely to reflect Northern Ireland officials' preference for the 1990 closure option. The main advantage they see in this option is that it can be presented as the company's decision in face of its inability to obtain further work although we suspect that they cling to the hope that something will turn up between now and 1990 to stop the yard closing. MOD are likely to favour this course as it keeps open the chance of delivery of the AOR to price, on time, and to standard.

12. The view of Treasury officials is that in evaluating the later closure options considerably more weight should be given to the prospect of industrial disruption and the resulting higher losses. In terms of delays and greater losses, the immediate closure option offers the least risk while the options which involve the removal of a flutable partly-completed AOR are at highest risk.

13. Treasury Ministers may therefore wish to argue for earlier closure than is likely to be proposed by Mr King. He will resist this and he seems willing to carry the cost of closure from his block as there has been no suggestion from his officials that a claim on the Reserve is in prospect. Given the difficulties involved in immediate closure it may be better to accept Mr King's plans but on the following conditions:

- (i) he bears the full costs of closure;
- (ii) there must be clear and rigorous criteria established for the company to operate within in seeking further orders;

**CONFIDENTIAL**

(iii) he must formulate contingency plans against the event that there is further deterioration in the company's performance, leading to a cascade into an earlier closure option.

14. We would be grateful for your reaction to this so that we can reflect Ministers' views in our briefing for E(A).

*M Sharratt*

**M SHARRATT**

**CONFIDENTIAL**



Ch.

E(A) : Harland + Wolff

This paper by Mr King is being taken at E(A) on 17 September.

The CST will go. Do you want to go yourself? **No.**

2. The CST has asked whether you agree with his view that it would be unnecessarily risky to go along with Mr King's suggestion that closure should be postponed to 1990. He thinks we should close Harland and Wolff without delay. Do you agree? **Yes.**

25/14/9

CONFIDENTIAL



FROM: M C FELSTEAD

DATE: 7 September 1987

MR A M WHITE

ro

cc:  
Chancellor  
Sir Peter Middleton  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr Robson  
Ms Seammen  
Mr Colman  
Mr R J Evans  
Mr Hughes  
Mr Macaskill  
Mr Sharratt  
Mr Tyrie

**HARLAND AND WOLFF**

The Chief Secretary has seen Mr Sharratt's note of 4 September on Harland and Wolff together with your covering minute of the same date.

2 It seems to the Chief Secretary that Mr King's favoured option of closure in early 1990, after the completion of AOR OI, carries high risks of extra expenditure. He has commented that Mr King may be prepared to bear the costs on his block, but it is still a bad use of resources. Moreover, he notes that if we effectively close off the possibility of fresh business by removing our subsidy then it will be clear Harland and Wolff have no future and that will maximise political and industrial difficulties over a long period.

3 His preference would be to close Harland and Wolff without delay.

M C FELSTEAD  
Assistant Private Secretary

CONFIDENTIAL

0315



FROM: J M G TAYLOR  
DATE: 15 September 1987

PS/CHIEF SECRETARY

cc: Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr A M White

**HARLAND AND WOLFF**

The Chancellor has seen Mr Felstead's minute of 7 September, recording the Chief Secretary's preference for closing Harland and Wolff without delay. He has commented that he agrees with the Chief Secretary's view .

*JF*  
*PAASSED ON CA/EXS*  
*APOLOGIES FOR E(A)*  
*TONY*

*JF*

J M G TAYLOR

CONFIDENTIAL

FROM: M SHARRATT  
DATE: 15 SEPTEMBER 1987

1. MR WHITE
2. CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Miss Peirson  
Mr Robson  
Ms Seammen  
Mr Colman  
Mr R J Evans  
Mr M V Hughes  
Mr Macaskill  
Mr Tyrie

E(A)(87)31: HARLAND AND WOLFF

Summary

The Secretary of State seeks agreement to an increased EFL of £63.2m for 1987-88 (up £13.7m) and to his proposal that the company should be closed, but only after AOR01 is completed in 1990.

2. Despite a strongly critical report from Deloitte on the company's management and financial systems and an analysis by Touche Ross which identifies early closure as the least costly option, Mr King argues that political factors point to a gradual rundown and closure "as the inevitable result of market forces" rather than "by the Government taking work from the Province". He argues that the lengthy timescale he proposes minimises the risks of disruption to production plans and indeed of civil unrest following from a decision to close the second largest manufacturer in the Province and a stronghold of Unionism. It would also allow time for the development of a package of job creation and other measures to soften the eventual blow.

3. He does not intend to announce his conclusion that closure after AOR is unavoidable, but proposes to tell the Board that failure to win further orders will have that inevitable consequence. He

indicates that he will make all endeavours to meet the costs involved from within his block but reserves his right to come back with a bid if escalating support costs or the timing of redundancies face him with pressures he cannot contain in a particular year.

#### Line to Take

4. You should argue that support for Harland and Wolff is an inefficient deployment of scarce resources and delaying closure simply adds to the waste.

5. Your assessment of the risks involved in keeping the yard open is that it is almost certain that there will be even greater losses and that the company will require even more Government support than Mr King indicates. You are convinced that the best course to follow is for steps to be taken to close the yard as soon as the ATS is completed.

6. If your arguments are supported by the Prime Minister and other colleagues but Mr King argues that he could not possibly find the full costs of immediate closure, you should acknowledge his difficulties and offer to give sympathetic consideration to a claim on the Reserve.

#### Fallback

7. Only if colleagues find immediate closure unacceptable because of Mr King's assessment of political repercussions, could you reluctantly agree to go along with Mr King's preferred strategy but only on the basis that he meets all the costs including any that arise as a result of his preferred strategy being blown off course. In addition, press Mr King to agree that if and when industrial disruption increases the costs of his preferred strategy above his current estimates, he will switch to early closure. In the meantime the company must not be allowed to tender for further orders except under the conditions Mr King sets out in his paper.

## Background

8. The further deterioration in the financial position of Harland and Wolff led to Mr King's retention of Deloittes in July, and they have identified major inadequacies in the management of the company. An account of Harland's recent performance and Deloittes' main conclusions are attached as an annex to this submission.

9. In parallel with Deloittes' review, Touches Ross have examined the strategic options open to the company. They have demonstrated beyond doubt that the company has no commercial future and the only work it has any hope of getting is quasi-naval work from MOD but on the basis of tenders which contain a significant element of subsidy by way of the Government's financial support for overhead costs. Such orders are unlikely to be obtainable in fair competition with private sector yards and closure is therefore argued as inevitable.

10. The Touche Ross estimates of the costs of the various closure options fall in the range £231m to £264m with immediate closure being the cheapest. But these estimates are based on the company's current production plans which for SWOPS and the AOR01 are almost certainly optimistic. It is very likely that the options which involve work continuing on these contracts would incur additional costs not included in these estimates - even without allowing for disruption. Given these risks, economic and commercial factors are unequivocally in favour of immediate closure.

11. Mr King defends his preferred strategy on the grounds that closure while there is still work in the yard would be regarded as a Government decision rather than the inevitable result of market forces. He thinks that immediate closure could lead to industrial action and could prejudice current political discussions. He does not believe that on cost grounds, the case for immediate closure is sufficiently strong to offset these difficulties. But even closure as proposed by Mr King will be seen by the Unionist community as Government withdrawal from supporting Harland and his intentions will become apparent by the middle of next year as steelwork in the yard runs down.



## Consequences of closure this year

12. Closure of the yard on completion of the air training ship (ATS) for MOD at the end of 1987 would mean that the two remaining contracts could not be fulfilled and even the ATS would have to complete its full trials elsewhere. SWOPS (for BP) should be flutable and would have to be completed at another yard and as proposed in DM's parallel brief on warship building, AOR01 would be switched to Swan Hunters.

## Public expenditure implications

13. For early closure, a claim on the Reserve is inevitable, although Mr King is proposing to find £63m EFL from his block and we would hope to obtain further offsets. (But in practice, he may bid for up to £150m, £213m estimated costs less the £63m EFL). However, any costs falling in 1988-89 (£18m redundancy costs and his as yet uncosted job creation proposals) should be met from his block.

14. You should suggest that officials agree the detail of the bid, taking account of the costs to MOD of switching AOR01 to Swan Hunter.

15. We would anticipate that the 1987-88 claim would in practice be less than £150m, as some costs budgetted for the current year will inevitably slip into 1988-89 but this approach leaves open the possibility of getting Mr King to absorb such slippage within his block.

## The Secretary of State for Defence

16. Neither you nor Mr King can expect strong support from Mr Younger. His position is simply that he has a contract with Harlands for AOR01 and would like the ship delivered to time and to cost. Mr King's approach would deliver to cost - MOD have a fixed price from Harland - but almost certainly late. An immediate switch to Swan Hunter might minimise delay, but carries some inevitable additional cost. If you could accept that that additional

cost would not fall on the Defence budget, that neutralises the cost point for Mr Younger and your approach offers a quicker way to procuring a ship that is needed operationally.

### Recommendation

17. The Secretary of State recognises that closure of Harland is inevitable. A protracted rundown would misapply resources and is unlikely to be as orderly as he hopes with considerable risk of industrial disruption and substantially higher costs than he has allowed for.

18. For this reason, I recommend that you argue for closure by the end of 1987. If that is agreed, you should offer to consider a bid on the Reserve for up to £150m in 1987-88.

19. Only if early closure cannot be agreed should you accept reluctantly Mr King's approach providing:-

(i) he bears the full cost himself from the Northern Ireland block, including any escalation;

(ii) the company is allowed to tender for further merchant work only within the Sixth Directive rules and is allowed to bid for naval work, only on a fully costed and unsubsidised basis.

20. GEP2 and DM are content with the sections covering their interests.

*M Sharratt*

M SHARRATT

CONFIDENTIAL

ANNEX

**HARLAND AND WOLFF: NOTE BY TREASURY OFFICIALS**

1. Harland and Wolff has declined gradually over many years from its former eminent position in both national and world shipbuilding. The company's present work force of 4,000 is barely 10 per cent of what it was 60 years ago and 16 per cent of the work force in the 1950s. It has made losses on all work carried out since 1963 has received special Government assistance since 1966 and was taken into full public ownership in 1975. Since 1966 the company has received total Government support of well over £500m (over £1 billion at 1986 prices), nearly half of this since 1983.

2. In 1982, concern at the growth in support needed by the company, led E(NI) to instruct that work be done on the future of Harland with the intention that this should primarily be an assessment of the closure costs. The subsequent report by officials identified immediate closure as the least cost scenario although allowing a gradual rundown to closure in 1985 did not add greatly to the cost. Allowing the yard to remain open indefinitely was shown to require a continuing high level of assistance.

3. In the event no decision on closure was reached and the company was allowed to seek further heavily subsidised orders. These have become more and more difficult to obtain and in recent years Harland have attempted to move into the specialist ship sector. In April 1986, the yard was awarded the contract to design and build the first of class auxiliary oil replenishment (AOR) ship for MOD. It won the competition with Swan Hunter on the basis of both design and price, but the latter assumed that the company would obtain a merchant order which would carry a share of the overheads. As such an order has not materialised, it is clear that Harland's contract price contains an element

of subsidy in the form of assistance in meeting its overheads.

4. Harland is very ill-equipped managerially to assume "full ship responsibility" but it has been forced in this direction to obtain orders and the company has work outstanding on three contracts. The air training ship (ATS) for MOD is due to be completed by the end of the year although full trials will continue until the Autumn of 1988. There has been extensive slippage and cost overrun on this contract and although Harland claim MOD is partly to blame, there is no doubt that mismanagement and poor productivity are largely responsible. The single well oil production ship (SWOPS) for BP is well behind schedule caused both by delays on the ATS and technical problems with this sophisticated vessel. On present forecasts SWOPS should be flitable by the end of the year although it could not be completed until early 1989. As far as the AOROL is concerned, construction work has barely started despite the Secretary of State seeking agreement in March to advance work by six months. This has been eaten up by bottlenecks in design capability and lack of facilities due to delays on the ATS and SWOPS although the company is still claiming that it will complete the AOROL on schedule in early 1990.

5. An EFL of £49.5m for 1987-88 was agreed by E(NI) in March. In July the company told the Secretary of State that because of its failure to obtain a SWOPS instalment from BP, it was about to breach that limit. Furthermore, the company was unable to give a satisfactory assessment of the financial position for 1987-88. Consequently, he retained Deloittes to undertake an urgent review of the company's financial management and its immediate financial position.

6. Deloittes' report is very critical of Harland's management. They found that the chairman and chief executive, John Parker, was not performing satisfactorily either of these tasks. It accuses the directors and senior management of having no real appreciation of the Government's concern about the company's finances and of believing that support would continue to be provided as in the past. The other principal conclusions are

as follows:-

(i) Harland and Wolff's cash forecasts have been unreliable, and it has not been able to estimate accurately the cost to complete ships.

(ii) At the time of Deloitte's ~~our~~ appointment on 2nd July 1987, Harland and Wolff did not have in place the financial disciplines to ensure that any forecasts were met.

(iii) Harland and Wolff has obtained work by submitting tenders based on over-optimistic assumptions with inadequate contingencies for cost overruns. Harland and Wolff has ignored the losses that have resulted from these assumptions until late in the cycle of the contracts.

(iv) The changes Harland and Wolff was planning to its financial controls would not result in Harland and Wolff's forecasts being any more reliable within the immediate future.

(v) The estimated cash requirement totalling £63.2m for 1987-88 is not derived from an integrated financial system, but is the best Harland and Wolff can do in the circumstances, and is a realistic estimate.

(vi) Harland and Wolff's latest production plan is unrealistic, and is effectively a target for its middle management.

(vii) Harland and Wolff cannot forecast accurately the cost to complete AOR, but Deloitte consider that it is behind schedule.

7. In parallel with the Deloitte review, Touche Ross have examined the strategic options facing the company and conclude that closure is inevitable. The options (set out in Annex 1 to Mr King's paper) range from immediate closure (end 1987) to closure after completion of the ADOR1 in 1990. While the costs of the closure options fall within a relatively narrow range

(£231-264m), the later closure options do not allow for the almost certain escalation of costs arising from the industrial disruption that will follow the work force's realisation that the AOR will be the last ship the yard will build. If the decision was a commercial one alone, this would clearly lead to the immediate closure of the company.

CONFIDENTIAL

FROM: A M WHITE  
DATE: 15 SEPTEMBER 1987

CHIEF SECRETARY

- Chancellor
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Miss Peirson
- Mr Robson
- Ms Seammen
- Mr Colman
- Mr R J Evans
- Mr M V Hughes
- Mr Macaskill
- Mr Tyrie

*Handwritten notes in red ink:*  
 This also worth reading  
 Has a cut. CHM  
 about a decision to allow him to  
 continue to support the merger  
 (whose name I don't know)  
 was a short 15/5  
 because we have no  
 financial closure of  
 H&W (see to 10 pm @  
 the time?)

**HARLAND AND WOLFF**

Since my submission to you of 4 September I have had the opportunity to read Deloitte's report on Harlands.

2. The main conclusions of that report, set out in paragraph of the Annex to Mr Sharratt's brief, provide additional justification for the view you had already expressed that early closure would be the best option.

3. Early closure is our unequivocal recommendation. I attach Mr Sharratt's brief, together with a note of suggested points to make.

*Handwritten signature: Mr Sharratt*

pp A M WHITE

CONFIDENTIAL

E(A)(87)31: HARLAND AND WOLFF

SPEAKING NOTE

1. Yard is uncompetitive, has serious management weaknesses, and has no prospect of further orders at acceptable cost to Government.
2. Closure is clearly justified on economic and commercial grounds.
3. The protracted closure option proposed is risky both in terms of escalating costs and in delay to ships now under construction.
4. In any case, the strategy would become apparent as steelwork comes to an end early in 1988.
5. It is questionable whether H&W have or can recruit a management team that could deliver a long drawn-out closure to time and to acceptable cost.
6. It is better to close now. Closure will be seen in Northern Ireland as a Government decision whenever it comes.
7. Recognise the Northern Ireland block would have difficulty in absorbing all the costs that immediate closure would entail. Am prepared to consider a bid on the Reserve but expect Secretary of State to find further offsetting savings to add to resources already earmarked.

[if necessary]

Accept that costs to MOD of switching AOR01 to Swan Hunter should be taken into account in that bid.





*pm*

FROM: J M G TAYLOR  
DATE: 16 September 1987

PS/CHIEF SECRETARY

cc Mr A M White

**HARLAND AND WOLFF**

The Chancellor has seen Mr White's submission of 15 September. He has commented that it is also worth recalling that E(NI), on 22 July, decided to allow Mr King to continue to support Short Brothers in large measure because the Committee foresaw the imminent closure of Harland and Wolff. I attach a copy of the Chancellor's minute of 23 July to the Prime Minister reporting this discussion.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

**PRIME MINISTER**

**MEETING OF THE SUB-COMMITTEE ON NATIONALISED INDUSTRIES:  
22 JULY 1987**

I chaired the E(NI) meeting on 22 July which considered the 1987 Programme of Nationalised Industry references to the Monopolies and Mergers Commission (MMC); and Shorts' 1986 Corporate Plan and External Financing Limit (EFL) for 1987-88.

On MMC references, the Sub-Committee agreed that the 1987 programme should comprise London Regional Transport's underground services, the Welsh Water Authority, the Post Office Counter Services (Crown network) and British Coal (BC). The Secretary of State for Energy will inform the Chairman of British Coal of the BC reference as soon as possible to enable the Chancellor of the Duchy of Lancaster to make an early statement. The BC reference need not cover all their activities, and the Sub-Committee invited the Secretary of State for Energy to agree the coverage with the Chancellor of the Duchy and the Chief Secretary. The Sub-Committee took the view that there were some public bodies, such as the Ordnance Survey, which could benefit from a reference to the MMC, even though they were not nationalised industries. The Chancellor of the Duchy is examining further which public bodies might be eligible for future reference to the MMC by the Government. Finally, the Sub-Committee agreed that it should meet before the end of 1987 to consider the 1988 Programme. The Chancellor of the Duchy will put forward proposals to the Sub-Committee for such a meeting.

As to Shorts, the Sub-Committee accepted the proposals by the Secretary of State for Northern Ireland to set them an EFL for



1987-88 of £52.3m and to authorise the development of the Improved Sherpa (a military transport plane based on the SD 360 but with a rear loading door) at a cost of £6m. In reaching this conclusion the Sub-Committee took into account the sharply worsening situation at Harland & Wolff, and the likelihood of unpopular measures being required there before very long. The agreement to the development of the Improved Sherpa was on the understanding that its costs and any losses, if they were incurred, would be met from within the Northern Ireland block vote. In the longer-term, we shall need to consider the strategic options facing the company. The Secretary of State will bring forward proposals to the Sub-Committee later in the year. These proposals will need to reflect the discussions between Shorts and Boeing on a collaborative venture in aerostructures and to cover the option of privatisation whether by a trade sale or some other means.

I am copying this minute to the other members of E(NI) and the Secretaries of State for Wales and Northern Ireland, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish underneath.

N.L.

23 July 1987

*Bf (with volume) / pr itly.*



NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ

David Norgrove Esq  
10 Downing Street  
LONDON

CH/EXCHEQUER	
REC.	13 NOV 1987
ACTION	MR A.M. WHITE
COPIES TO	CST SIR P. MIDDLETON MR F.E.R BUTLER MR ANSON MR MONCK MISS PEIRSON MR BURNER MR ROBSON MS SEAMMEN MR D.J.L. MOORE MR COLMAN

13 November 1987

*Dear David,*

**SHIPBUILDING: HARLAND & WOLFF PLC**

I attach a note by the Secretary of State on the prospects for Harland & Wolff for discussion by Ministers at their meeting on Thursday 19 November.

I am copying this letter and enclosure to the Private Secretaries to the Lord President, Chancellor of the Exchequer, Secretary of State for Trade and Industry, Secretary of State for Scotland, Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong.

*Yours sincerely,  
David Watkins.*

D J WATKINS

SMN838

**MEMORANDUM BY THE SECRETARY OF STATE FOR NORTHERN IRELAND****HARLAND AND WOLFF PLC****INTRODUCTION**

1. When E(A) met to discuss Harland and Wolff in September, (E(A)(87)11th), a revised EFL for 1987/88 of £63.2 was agreed, but consideration of strategic options for the company was deferred until we had the opportunity to discuss the issues facing the UK industry as a whole. This paper reports on developments since September, and in particular what has happened to the contracts in hand.

**DEVELOPMENTS SINCE SEPTEMBER**

2. As a result of the Deloitte's review of H&W's financial and managerial systems the Board has been restructured with the number of non-executives reduced from seven to four and executives from seven to three, including Mr Parker. A new commercial director is being recruited to replace the Deloitte's partner on secondment to this post. Deloitte's recommendations for improving the production and financial control systems are being implemented. The company has confirmed, in its most recent financial report, that it expects to adhere to the revised current year EFL as set in September. H&W's new Corporate Plan will be available shortly.

**LATEST CONTRACT ASSESSMENTS**

3. The ATS conversion for MOD is almost complete and delivery is estimated to take place in December. Progress is being made on the highly complex SWOPS vessel, in spite of continuing difficulties with the GEC sub-contract. The

company's latest production plan envisages a further three month delivery delay to March 1989. The problems encountered with ATS and SWOPS have caused slippage in the planned redeployment of labour to AOR. This factor, together with an upward revision of the direct and sub-contract detailed design requirement have led the company to amend its contract outturn and delivery date forecasts to £150.2m and December 1990 respectively. More detailed information about these three contracts is at Annex 1.

#### COST OF AOR

4. H&W's revised forecast of £150.2m for the cost of AOR, which is considered realistic by Touche Ross who have been monitoring the contract on behalf of my Department, compares to a tender price of £134.3m (at current prices and as adjusted in agreement with MOD). The estimated loss is therefore £15.9m, equivalent to a cost overrun of approximately 12%. This means that there is now a forecast of costs to completion that breaches the level under the monitoring regime where we should review both the position of the AOR itself and the future of H&W.

#### STRATEGIC OPTIONS

5. Our strategy towards H&W had been to allow market forces to dictate the outcome for the yard. There are now, of course, virtually no orders at acceptable terms on that market. H&W has continued to search for them and has found a superficially attractive but extremely risky project for a package-holiday liner which Ravi Tikkoo is vigorously promoting. I believe this is an unrealistic and potentially

catastrophic order. This has highlighted the fact that there has to be a moment when we instruct the Board that they should cease any longer trying to get orders. The choice of that moment is critical and I believe that the timing envisaged by Kenneth Clarke is right for H&W also.

6. The question then is how to deal with existing orders. Annex 2 attempts costings of four closure options (compiled without the assistance of the Company). I regard it as wholly unrealistic and undesirable to plan on the basis of towing ships away for completion elsewhere; and there are compelling reasons, both on public expenditure and on political grounds, not to terminate the AOR contract at this stage - George Younger's letter of 3 November to Kenneth Clarke further illustrates this. I cannot therefore support options 1 and 2. I am satisfied that implementation of either of these options would create a situation which could well be virtually unmanageable. A note on the implications of removing AOR 01 from the Yard now is at Annex 3.
7. The cost of option 4 (closure after AOR) has increased because of the forecast delay in delivery and will increase further if terminal bonuses are awarded to minimise further delays. Nevertheless in my view this option remains the most realistic way forward.
8. Closure at any point, will have a profound impact on morale in Northern Ireland. Unfortunately at this very moment we see real risk to employment in major engineering companies in Belfast, notably Shorts and Mackies. Against that background we have to take vigorous action to promote new jobs, much on the lines recommended by Kenneth Clarke. Management of closure will also generate costs which cannot now be estimated with complete accuracy, particularly with regard to phasing. Even on the basis of the crude estimates contained in Annex 2 I would be faced with expenditure

levels which I doubt are containable within the Block. I will be coming forward to the Chief Secretary in due course with more detailed proposals and these could involve a bid on the Reserve.

**RECOMMENDATION**

9. I propose that on H&W we take similar action to that recommended by Kenneth Clarke for BS.

TK

13 November 1987



F.R.

ANNEX 1

## LATEST CONTRACT ASSESSMENTS

## ATS

The ATS conversion for MOD is nearing completion with delivery estimated to take place in December 1987 although weapons trials will last a further 6 months. The conversion of the original container ship Contender Bezant proved more difficult than anticipated and this led to overruns in costs and time. But there can be no doubt that a substantial vessel has been produced for the MOD at an extremely competitive price: while the contract has not proved a success for H&W, and this has caused delay and problems for MOD, the final product should meet MOD's specification

## SWOPS

The hull of the ship is complete, as is the oil production system although it has not yet been installed. Delivery is scheduled for March 1989. Many of the techniques and resources in this complex ship are being used for the first time, and, as with ATS, H&W underestimated the amount of work involved. Delays in the delivery of GEC equipment continue and this is having a disruptive effect on the planned pre-outfitting programme.

## AOR

The company is now forecasting delivery in December 1990 compared to the contract date of April 1990, with a loss of £15.9m. The split of the latest estimates of contract costs as compared to the tender is shown below.

FOR.

	As per original tender	Tender as amended with MOD agreed revisions	Revised Tender with Escalation	Latest Estimate
	£m	£m	£m	£m
Labour	13.1	14.3	17.2	23.0
Overheads	30.4	31.4	36.1	45.6
Materials	82.1	73.0	78.0	78.6
Profit and Contingencies	<u>3.5</u>	<u>6.4</u>	<u>3.0</u>	<u>3.0</u>
	<u>129.1</u>	<u>125.1</u>	<u>134.3</u>	<u>150.2</u>

NOTES

1. The original and amended tenders are at 1985 prices.
2. The latest estimate includes escalation to take account of inflation to 1990.
3. The increase in materials represents an extra contingency.

The company's view is that the latest estimate is prudent, though it has identified potential savings of £9m which could reduce the overall loss of £7m. Touche Ross however consider that a loss of some £16m while a reasonable estimate at this time could easily be exceeded.

F.R.

ANNEX 2

REVISED FINANCIAL COSTINGS FOR CLOSURE OPTIONS

OPTION 1 - CLOSE AFTER ATS (EARLY 1988) - TRANSFER AOR AND SWOPS TO OTHER YARDS ON CLOSURE

	1987/88	1988/98	1989/90	1990/91	TOTAL
	£m	£m	£m	£m	£m
TRADING REQUIREMENTS					
Latest Forecast	81	-	-	-	81
Contingency	12	10	-	-	22
Other Including Ship Finance	29	-	-	-	29
	<u>122</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>132</u>
PENALTIES					
BP	-	30	-	-	30
AOR	-	10	-	-	10
	<u>-</u>	<u>40</u>	<u>-</u>	<u>-</u>	<u>40</u>
REDUNDANCIES	-	87	-	-	87
CLOSURE COSTS					
Estimate of Costs	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>15</u>
TOTAL COSTS OPTION 1	<u>122</u>	<u>152</u>	<u>-</u>	<u>-</u>	<u>274</u>

IOR.

OPTION 2 - CLOSE AFTER SWOPS (MARCH 1989) TRANSFER AOR IMMEDIATELY

	1987/88	1988/89	1989/90	1990/91	TOTAL
	£m	£m	£m	£m	£m
<b>TRADING REQUIREMENTS</b>					
Latest Forecast	48	53	20	-	121
Contingency	12	-	-	-	12
Other Including Ship Finance	<u>-</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>21</u>
	<u>60</u>	<u>74</u>	<u>20</u>	<u>-</u>	<u>154</u>
<b>PENALTIES</b>					
BP	-	7	-	-	7
AOR	<u>-</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>
	<u>-</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>17</u>
<b>REDUNDANCIES</b>	41	37	9	-	87
<b>CLOSURE COSTS</b>					
Estimate of Costs	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>15</u>
TOTAL COSTS OPTION 2	<u>101</u>	<u>143</u>	<u>29</u>	<u>-</u>	<u>273</u>

172

FR.

OPTION 3 - CLOSE AFTER SWOPS (MARCH 1989) - TOW AOR TO ANOTHER YARD FOR COMPLETION AT THAT TIME

	1987/88 £m	1988/89 £m	1989/90 £m	1990/91 £m	TOTAL £m
TRADING REQUIREMENTS					
Latest Forecast	48	53	20	-	121
Contingency	12	-	-	-	12
Other Including Ship Finance	<u>-</u> <u>60</u>	<u>21</u> <u>74</u>	<u>-</u> <u>20</u>	<u>-</u> <u>-</u>	<u>21</u> <u>154</u>
PENALTIES					
BP	-	7	-	-	7
AOR	<u>-</u> <u>-</u>	<u>10</u> <u>17</u>	<u>-</u> <u>-</u>	<u>-</u> <u>-</u>	<u>10</u> <u>17</u>
REDUNDANCIES	12	59	16	-	87
CLOSURE COSTS					
Estimate of Costs	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>15</u>
TOTAL COSTS OPTION 1	<u>72</u>	<u>165</u>	<u>36</u>	<u>-</u>	<u>273</u>

R.

## OPTION 4 - CLOSE AFTER AOR (DECEMBER 1990)

	1987/88 £m	1988/89 £m	1989/90 £m	1990/91 £m	TOTAL £m
TRADING REQUIREMENTS					
Latest Forecast	48	43	70	30	191
Contingency	12	-	-	-	12
Other Including Ship Finance	<u>-</u> <u>60</u>	<u>-</u> <u>43</u>	<u>-</u> <u>70</u>	<u>15</u> <u>45</u>	<u>15</u> <u>218</u>
PENALTIES					
BP	-	7	-	-	7
AOR	<u>-</u> <u>-</u>	<u>-</u> <u>7</u>	<u>-</u> <u>-</u>	<u>-</u> <u>-</u>	<u>-</u> <u>7</u>
REDUNDANCIES	14	10	10	53	87
CLOSURE COSTS					
Estimate of Costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>15</u>
TOTAL COSTS OPTION 4	<u>74</u>	<u>60</u>	<u>80</u>	<u>113</u>	<u>327</u>

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IOR.

## ANNEX 3

## IMPLICATIONS OF REMOVING AOR 01 FORM H&amp;W

There are two basic options available as regards AOR if H&W should be closed in the near future. These are:

1. Have the ship completed to H&W's design by another yard (Swan Hunter, Cammell Laird or possibly Scott Lithgow). This could result in a delay in the delivery of AOR 01 of 1 to 1½ years.
2. Cancel AOR 01 (and follow on ships built to H&W's design) and hold a competition for a replacement allowing yards the freedom to offer their own designs. This could delay the programme by two or three years. Since H&W's design meets MOD's requirements this option would lead to unnecessary duplication in design work.

The main considerations in assessing these options are:-

- MOD will have spent £20m on AOR 01 by the end of the year and, with steel work already under way, sunk costs will increase by £2-2½m per month. Most of the sunk costs would not be recoverable (eg because steel work could not be transferred economically to another yard).
- H&W has entered into materials and other sub-contract commitments amounting to £50-60m. If AOR 01 were to be transferred to another yard there could be problems about transferring the sub-contracts. In particular if AOR 01 was to be cancelled (with a new competition between other yards) it is probable that H&W would face substantial claims for damages from sub-contractors.

I.R.

- If completion of the ship was to be given to another yard then, as MOD have the rights to all H&W's drawings, it should be possible to supply the other yard with a considerable amount of information, although extra costs would be incurred in adapting the drawings to suit a different building methodology. The overall net costs would not be fully clear until a contract for a replacement ship had been let.
- Even if Swan Hunter won the contract for completion of AOR 01 there would be at least a 6 month delay in their starting work on any AOR, compared to the current special opportunity they have been offered for AOR 02.
- George Younger's letter of 3 November to Kenneth Clarke makes clear that the current AOR 02 contract could not be let if AOR 01 was removed from H&W because it relies on continued design information from H&W.
- Since construction of AOR 02 needs to proceed at least a year behind the first ship there would be a delay to the construction of the second AOR.
- H&W has not defaulted on the contract and there are no legal grounds for MOD to terminate it.



FROM: M SHARRATT  
DATE: 17 NOVEMBER 1987

1. MR A M WHITE ✓ *MSW*
2. CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Monck  
Miss Peirson  
Mr D J L Moore  
Mr Colman  
Ms Seammen  
Mr M Richardson  
Mr Hood  
Mr Call

**HARLAND AND WOLFF**

I attach briefing on Harland & Wolff for the Prime Minister's meeting on 19 November.

2. It has been agreed with DM, PE, and GEP.

*M Sharratt*

M SHARRATT

**HARLAND AND WOLFF**

Mr King continues to argue that Harland and Wolff should be closed only after completion of AOR1. This is despite the company's latest forecasts which show the delivery date slipping by nine months to December 1990 and contract outturn exceeding budget by £16 million, triggering the monitoring regime commitment to review both the contract itself and the future of the company.

2. This new development, less than two months after Mr King's last report on the AOR1, adds weight to our view that Mr King's softlanding approach to closure contains major risks of greater losses and longer delays both on the AOR1 and the SWOPS contract for BP.

3. You will wish to argue that the yard should close before 1990 and that AOR1 should be built elsewhere. In principle the yard should close immediately to minimise the risk of further escalations in the cost of support, but Mr King is unlikely to be prepared to see H&W treated more severely than BS. You should fall back to Mr King's option 2 for immediate transfer of AOR1 and closure of the yard on completion of SWOPS in March 1989 on the condition that closure should be advanced if there is further slippage on the SWOPS contract.

**Argument**

4. A background note on the company by Treasury officials is attached at Appendix A. This makes it clear that the company will never be commercially viable and Northern Ireland Ministers accept that it must close; the issue is how and when.

5. You and the Chief Secretary have argued that immediate closure is the best option. This is justified both from the public expenditure standpoint and in terms of the use of national resources. It is also arguable that closure now is in the best long-term interests of the Northern Ireland economy, especially if allied to increased training and enterprise initiatives. A long and drawn-out closure process would be debilitating both for the workforce and for local initiative.

6. The decision is complicated by MOD's position over AOR1 and the parallel decision being taken about BS. MOD would prefer that Harland be allowed to complete AOR1 because it is a complete ship contract with only limited cost increase clauses. But the worst outcome for MOD would be if Harland's were allowed to continue and proved unable to manage the contract so that disruption and delay led to the subsequent cancellation of the contract before the ship was floatable with possible extra costs of £80-90 million. (Even if the ship was floatable at cancellation, substantial extra costs would be incurred in arranging for it to be completed at another yard.)

7. We would regard such disruption - MOD's worst case - as the most likely scenario if Mr King's preferred option (option 4) is adopted. Terminal bonuses (which could only add to costs) would be so distant as to provide little incentive to effort over the next year or two. Similar problems are also likely under option 3, where work on AOR1 would continue until SWOPS was completed.

8. If BS are to be allowed to complete existing work before closure, Mr King will argue that Harland receive corresponding treatment. While he may get some support from colleagues, any concession should not extend to the company staying in business until completion of the AOR1. The costs of that would be excessive and Harland are in breach of the monitoring regime specially agreed for AOR1. If terminal bonuses are to be offered they should be in respect of the SWOPS contract, with the yard closing on the completion of SWOPS, and AOR1 should be transferred now.

#### Affordability

9. Mr King estimates the costs of either immediate closure or closure on completion of SWOPS to be about £274 million over the period to 1990-91, and closure after completion of AOR1 to cost £327 million over the same period. These do not include the cost of measures to promote new jobs which he guestimates to be significantly larger than the £96 million indicated by Mr Clarke for Sunderland in view of the larger scale of the job losses (4000 compared to about 3000 in Sunderland).

10. Mr King indicates that he probably could not afford any of the closure options and may need to make a bid on the Reserve for substantial extra resources. As the table at Appendix B shows, he would require extra resources as early as this year (1987-88) for either closure now or after SWOPS is completed.

11. However, although his costings suggest that his preferred option would postpone most of the extra cost until after next year (1988-89), that is not an argument in favour of the option. In the first place, it would be an advantage to advance as much of the cost as possible into the current year (1987-88) given the slack in the Reserve: that favours options 1 and 2. Secondly, although options 1-3 have heavy costs in 1988-89 and option 4 apparently does not, it is all too likely that under option 4 (and option 3) "trading requirement" costs will escalate rapidly compared with Mr King's forecasts, so that total costs in 1988-89 will still be heavy. It would be preferable to avoid those losses and instead face the closure costs earlier.

### Recommendations

12. I recommend that you argue for closure after completion of the ATS early in 1988 and that the AOR1 and SWOPS should be transferred (option 1).

13. If colleagues feel that is not in line with the BS decision, you may wish reluctantly to go along with option 2, immediate transfer of AOR1 and closure after completion of SWOPS, but only on condition that if there is further slippage on SWOPS Mr King will advance closure.

14. You should resist Mr King's preferred option 4 because of the high cost and risk of slippage and hence still higher cost. You should also resist option 3 (there is a half hint in Mr King's paper that, recognising the high cost of option 4, he may be prepared to fall back to option 3) because it affords the same opportunity as option 4 for long drawn-out opposition to closure, with all the political consequences that entails.

**HARLAND; AND WOLFF: NOTE BY TREASURY OFFICIALS****History**

1. Harland and Wolff has declined over many years from its former eminent position in both national and world shipbuilding. The company's present work force of 4,000 is less than 20 per cent of the work force in the 1950s. It has made losses on all work carried out since 1963, has received special Government assistance since 1966, and was taken into full public ownership in 1975. Since 1966 the company has received total Government support of well over £500m (over £1 billion at 1986 prices), nearly half of this since 1983.

2. By 1982, the increasing support required by the company led to an assessment of closure costs which identified immediate closure as the least cost scenario although allowing a gradual rundown to closure in 1985 did not add greatly to the cost. Allowing the yard to remain open indefinitely was shown to require a continuing high level of assistance.

3. In the event no decision on closure was reached and the company was allowed to seek further heavily subsidised orders. These have become more and more difficult to obtain and in recent years Harland have attempted to move into the specialist ship sector. In April 1986, the yard was awarded the contract to design and build the first of class auxiliary oil replenishment (AOR1) ship for MOD. It won the competition with Swan Hunter on the basis of both design and price although the tender assumed that the company would obtain a merchant order which would carry a share of the overheads. Such an order has not materialised and, as the Prime Minister feared at the time, Harland's contract price for the AOR1 contains an element of subsidy in respect of the support provided to meet these unallocated overheads.

4. An EFL of £49.5m for 1987-88 was agreed by E(NI) in March but by July the company was on the point of breaching that limit because of its failure to secure a SWOPS instalment from BP. Furthermore, the company was unable to give a satisfactory

assessment of the financial position for 1987-88. Consequently, Deloittes were retained to undertake an urgent review of the company's financial management and its immediate financial position.

5. Deloittes reported that the chairman and chief executive was not performing satisfactorily either of these tasks. The directors and senior management had no real appreciation of the Government's concern about the company's finances and believed that support would continue to be provided as in the past. The other principal conclusions were:

(i) the company's cash forecasts were unreliable, it could not estimate accurately the cost to complete ships; and it did not have in place the financial disciplines to ensure that any forecasts were met.

(ii) tenders have been based on over-optimistic assumptions and the resulting losses have been ignored until late in the cycle of the contracts;

(iii) the 1987-88 estimated cash requirement of £63.2m is not derived from an integrated financial system, but is the best Harland and Wolff can do in the circumstances, and is a realistic estimate;

(iv) Harland and Wolff's latest production plan was unrealistic, and was effectively a target for its middle management.

(v) Harland and Wolff could not forecast accurately the cost to complete AOR1, but Deloittes considered that it is behind schedule.

6. Following Deloitte's review, the Board has been restructured with the departure of four executive and three non-executive directors and a new commercial director is being recruited. Deloitte's recommendations for improving production and financial

control systems are being implemented. But it is all too late and on the basis of Harland's track record, these developments are unlikely to bring about significant improvements in the company's management and performance.

7. In parallel with the Deloitte's review, Touche Ross have examined the strategic options facing the company and conclude that closure is inevitable. The Secretary of State has accepted that view and the options (set out in Annex 2 to Mr King's paper) range from immediate closure (early 1988) to closure after completion of the AOR1 in 1990.

#### Existing work

8. While Harland is ill-equipped managerially to assume "full ship responsibility" it has been forced in this direction to obtain orders and in addition to AOR1, the company has work outstanding on two contracts. The air training ship (ATS) for MOD is due to be completed by the end of the year although full trials will continue until the Autumn of 1988. There has been extensive slippage and cost overrun on this contract and although Harland claim MOD is partly to blame, there is no doubt that mismanagement and poor productivity are largely responsible. The single well oil production ship (SWOPS) for BP is well behind schedule caused both by delays on the ATS and technical problems with this sophisticated vessel. On present forecasts SWOPS should be floatable by the end of the year although it could not be completed until March 1989.

#### AOR1

9. Despite the Secretary of State obtaining colleagues' agreement in March 1987 for work to be started six months ahead of plan, shortages of resources due to delays on the ATS and SWOPS have led the company to forecast a delay of 9 months in completion of this contract to December 1990. The company has forecast also that outturn costs will be £15.9 millions or 12 per cent over budget.

10. This is a breach of the AOR1 control regime which Ministers imposed on the company to mirror as far as it is possible the

regime of a private sector yard such as Swan Hunter, which would not have the ready recourse to government support which H&W has enjoyed. If costs, which it has been agreed should be interpreted as an agreed forecast contract outturn, overrun by more than 10 per cent there is to be an immediate review by Ministers of both the AOR1 contract and the future of the yard itself.

11. Touche Ross consider the present forecast overrun of £16 million will be exceeded. While the Secretary of State has accepted that the yard must close, he argues that this should be after completion of AOR1 at the end of 1990. This is the most costly option even on the basis of his estimates of closure costs which for his preferred option are likely to be optimistic. The company should not be allowed to continue with AOR1 construction.



**ADDITIONAL RESOURCES REQUIRED BY MR KING**  
(Order of magnitude estimates by Treasury officials)

	1987-88	1988-89	1989-90	1990-91	1991-92
<b><u>Option 1</u></b>					
Closure costs	122	152			
Job measures(1)	10	30	30	30	30
	-----	-----	-----	-----	-----
Total	132	182	30	30	30
Provision(2)	63	63	63	63	63
	-----	-----	-----	-----	-----
Possible bid	69	119	--	--	--
	-----	-----	-----	-----	-----
<b><u>Option 2</u></b>					
Closure costs	101	143	29		
Job measures(1)	10	30	30	30	30
	-----	-----	-----	-----	-----
Total	111	173	59	30	30
Provision(2)	63	63	63	63	63
	-----	-----	-----	-----	-----
Possible bid	48	110	--	--	--
	-----	-----	-----	-----	-----
<b><u>Option 3</u></b>					
Closure costs	72	165	36		
Job measures(1)	10	30	30	30	30
	-----	-----	-----	-----	-----
Total	82	195	66	30	30
Provision(2)	63	63	63	63	63
	-----	-----	-----	-----	-----
Possible bid	19	132	3	--	--
	-----	-----	-----	-----	-----
<b><u>Option 4</u></b>					
Closure costs	74	60	80	113	
Job measures(1)	--	30	30	35	35
	-----	-----	-----	-----	-----
Total	74	90	110	148	35
Provision(2)	63	63	63	63	63
	-----	-----	-----	-----	-----
Possible bid	11	27	47	85	--
	-----	-----	-----	-----	-----

**NOTES**

1. Assumed to be £130m over 5 years.
2. Based on forecast outturn in 1987-88.

FROM: A M WHITE  
DATE: 18 NOVEMBER 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Miss Peirson  
Mr D J L Moore  
Mr Colman  
Ms Seammen  
Mr M Richardson  
Mr Hood  
Mr Call  
Mr Sharratt

**HARLAND AND WOLFF: SUPPLEMENTARY BRIEFING: JOB PROMOTION PACKAGE**

In his further minute of 17 November the Secretary of State for Northern Ireland does no more than reiterate that vigorous action to promote new jobs should be associated with the decision to close Harlands.

2. He makes no attempt to outline or quantify what measures he has in mind - beyond saying that they would be similar to those proposed for Sunderland and Govan and that as more jobs would be lost in Belfast than in Sunderland, the costs are likely to reflect this.

3. Our understanding is that work by Mr King's officials is at a very early stage and that proposals will only firm up when they have a feel for what is likely to be agreed for British Shipbuilders (on which Mr Hood advised in his submission of 17 November).

4. It would be difficult to agree less by way of a package for Harlands than for British Shipbuilders but - paragraph 12 of Mr Hood's submission - we would expect the agreed a package there to be much more modest than Mr Clarke's proposals. If that proves so, then the costs of a job measure package for Belfast would be

lower than the figures suggested in Appendix B to Mr Sharratt's brief of 17 November.

5. I recommend that you should do no more than accept that measures for Harlands should parallel those for British Shipbuilders, while drawing on the arguments in Mr Hood's submission to make it clear that those should be relatively modest in scale.



A M WHITE

*phj*

FROM: AM WHITE  
DATE: 22 FEBRUARY 1989

CHIEF SECRETARY

cc Chancellor  
Mr Anson  
Mr Monck  
Miss Peirson  
Mr Robson  
Mrs Burnhams

**HARLAND AND WOLFF**

At E(A) on 2 March Mr King will be reporting to colleagues the latest position on Harland and Wolff. In advance of this I think you should be aware of the deteriorating situation in the shipyard and the likely cost of closure, as I understand Mr King may try to have a word with you tomorrow morning.

**Current work**

2. The yard has orders for only two ships - the SWOPs vessel for BP and the AOR for MOD. The latest estimated handover date for SWOPs is October 1989, but expected completion dates have slipped a number of times already (in December Mr King reported an expected completion date of June 1989) and significant cost penalties have been incurred already. Touche Ross who monitor Harlands for DED estimate the final loss on this order could be £60m.

3. Work on the AOR is less advanced but the expected delivery date has fallen back to February 1991 from December 1990. Further slippages may well occur and the total loss on the contract could increase to £70m. The main problem on both contracts seems to be poor estimation on behalf of the company, but productivity and quality control also play a part in the escalating costs.

**Prospects for disposal**

4. Since Mr King reported progress to E(A) in December negotiations with UM Holdings have come to nothing and those with Bulk Transport look equally unpromising. Discussions over a possible MEBO are continuing with the Chairman and a recent

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development is the participation of Fred Olsen who is willing to invest up to £12m in the MEBO. The prospect of a viable MEBO cannot be good and it must be extremely doubtful whether Mr Parker will be able to secure the necessary additional financial backing for his scheme.

### Closure

5. I have been pressing NI officials to produce updated costs for the closure of the yard against which any offer for the yard can be considered. Harlands have provided a new estimate and Touche Ross have been asked to review it. A breakdown of the costs is annexed. We can be fairly confident about some items included in the calculations (those starred) but others are much more open to doubt and they must be viewed simply as a best guesses at this stage. The costing has been done on the basis of an orderly rundown and if this cannot be achieved costs will inevitably rise but it is difficult to put any meaningful figure on the extra costs of disruption.

6. Harlands estimate a closure cost of £244m, but suggested a further £40-50m should be allowed for contingent costs such as labour unrest and damage to work in progress. Touche while reducing the identifiable costs to a total of £220m would wish to add a further £25m on account of a further reduction of productivity once closure is announced, and a possible £30m for other unquantified contingencies.

7. These figures compare with an estimate made in July last year of £240m. At that time Mr King confirmed that he would be able to meet costs of up to £60m a year from his own resources, and his officials have confirmed that the profile of the costs indicate this figure is unlikely to be exceeded by any significant extent in any one year based on the latest estimates, and that he will stand by his earlier commitment to contain costs

feb.25

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The way forward

8. Mr King must be pressed to bring negotiation to a head with the last remaining contender - the MEBO. He should do so on the basis of a cost constrained within the cost of closure and on the basis of a potential package that colleagues would be prepared to accept and which could be steered through Brussels in a way consistent with the Governments' stand on the Sixth Directive.

9. If as is probable, no such deal can be struck, he should come back to E(A) with costed proposals for an orderly rundown and closure, which he should then announce.

10. I would also recommend that he should be pressed to agree to consider a more radical closure option if costs should escalate significantly further. But I do not think that at present there would be a sufficiently clear balance of cost advantage in favour of a radical closure option to warrant the risks that it would entail. (I will cover this point more fully in briefing for EA).

  
A M WHITE

feb.24

ANNEX

	Harland Est £m	Touche Ross Est £m
Cost to complete	53.1	80*
Underutilisation	54.3	30*
Capital costs and development	2.6	-
Redundancy and Terminal Bonus	76.7	40*
Incentive Scheme	-	10
General closure costs	20	25
BHC leases	7	6.3*
Ship financing and other costs	30.3	28.7*
	<hr/>	<hr/>
	244	220
	=====	=====
Contingency	40 - 50	30
Additional costs as a result of announcement		25
	<hr/>	<hr/>
Total costs	284 - 294	275
	=====	=====