



PM/79/60

PRIME MINISTER

Ships for Vietnam

1. You will remember the question of the four ships contracted for by Vietnam with Austen and Pickersgill (A & P), one of which was paid for and delivered. About one quarter of the order was to be financed by aid, of which £2.3 million has still to be paid. We discussed this question a few days ago as one part of the Vietnam refugee problem, but came to no conclusion. Since then two instalments, totalling about £350,000, have matured and are now overdue to be paid out of aid funds direct to Austen and Pickersgill under the terms of the relevant agreement (copy attached at Flag A). They have been held up by administrative action, but the firm are pressing for their money and are concerned about the future of the order. They have already sent a telegram to Neil Marten protesting about the suspension of payments and asking for a very urgent decision.

2. I have looked further into the costs of cutting off the aid. These are difficult to predict, but the following is the order of magnitude:-

Estimated Cost

- |   |              |
|---|--------------|
| (a) Vietnam would probably not only cancel the outstanding order for three vessels but also refuse repayment on ECGD and commercial loans for the ship already sold | £3.7 million |
| (b) Lazard's cancellation charges on commercial loans already taken up for the remaining three vessels  | £1.5 million |





	<u>Estimated Cost</u>
(c) Further costs would depend on whether or not construction of the additional three vessels was completed. Substantial commitments have already been entered into and abandonment would incur penalties (loss of profit, redundancy payments, etc) probably no lighter than the cost of continuing construction.	
(d) If the vessels were completed, the total cost would be .....	£13.5 million
(e) It is highly uncertain when or at what price they could be sold. There would be a heavy charge in interest payments on the capital involved until they were sold. ....	£ 2.3 million
Sub Total	<hr/> £21.0 million
(f) Against this would be set the resale value .....	£ 9.0 million
(g) An offsetting saving would arise from cancellation of ODA's obligation under the ATCP .....	£ 2.3 million

The approximate overall cost of rescinding the ATCP commitment would thus be £9.7 million.

3. In the Department of Industry's view, which seems to me to be valid, if action is taken to abrogate the aid agreement or to prohibit the export of the ships it would:-

/(a)





(a) Give the Vietnamese the one ship already delivered for no payment and the financial loss would fall on the taxpayer;

(b) In addition it would intensify the serious anxiety now felt about the future of the merchant shipbuilding industry before the Government is ready to make a response on its shipbuilding policy. The Government would be seen to be jeopardising the present employment and prospect of the best merchant shipbuilding yard in the industry;

(c) At the same time it would damage the efforts of British shipbuilders to obtain overseas contracts for merchant and naval ships. Possible buyers would be worried that the Government could prevent the fulfilment of their contracts.

4. I do not believe that we would gain any leverage over Vietnam by depriving them of our ships. They could quite easily get hold of ships elsewhere. Indeed they might be prepared, at some stage, to denounce their agreement with us as a sign of their dissatisfaction with our policy over refugees; but they would claim that their action resulted from the delays in our implementing the agreement.

5. To continue with what is, at least in form, aid to this regime sticks in the gullet: nor does public opinion like it, although it has not yet become a major issue. Once a decision is made we should take steps to make it better known that the aid passes direct to our own shipbuilders and cannot be misapplied by Vietnam.





6. I conclude that we should:-

(a) Pay the outstanding installments (£350,000) at once;

(b) Meet the remaining installments (rather under £2 million) as they fall due over the next year or so.

7. I am sending copies of this minute to the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Industry and Trade, the Attorney-General and Sir John Hunt.

*C*  
(CARRINGTON)

Foreign and Commonwealth Office

26 June 1979

27 JUN 1979





MINISTRY OF OVERSEAS DEVELOPMENT



Annex A

Excellency

19 February 1979

UNITED KINGDOM/VIETNAM GRANT 1979

I have the honour to inform you that it is the intention of the Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as "the Government of the United Kingdom") to make available to the Government of the Socialist Republic of Vietnam (hereinafter referred to as the "Government of Vietnam") by way of a grant a sum not exceeding £4.5 m (four and one half million pounds sterling) (hereinafter referred to as the "grant") being £4.454 m in respect of four SD14 (Series IV) cargo vessels to be purchased from Austin and Pickersgill Limited of Sunderland, England (hereinafter referred to as the "Contractors") together with the charges and commissions payable under paragraph 7B of this Note.

2. The arrangements and the procedures described in the following paragraphs of this Note, which, insofar as they relate to things to be done by or on behalf of, or to matters under the control of the Government of the United Kingdom, my Government intend to adopt. It is the understanding of the Government of the United Kingdom that the Government of Vietnam intend to adopt the arrangements and procedures so described insofar as they relate to things to be done by or on behalf of, or to matters under the control of, the Government of Vietnam.

3. Subject to the overall limit shown in paragraph 1 and subject to paragraphs 4, 5, 6, and 7 of the Note, drawings from the grant will be applied to payments to the Contractors and will become due and payable for each vessel as follows:-

	<u>£ Sterling</u>
(i) On the coming into operation of the United Kingdom/Vietnam Grant 1979	179,000
(ii) Commencement of Steel deliveries	179,000
(iii) Commencement of Assembly	179,000
(iv) Keel Laid	179,000
(v) Launch	179,000





(vi) Completion and acceptance  
by the Government of Vietnam 218,500

Initial Procedure

4. For the purpose of these arrangements, the Government of Vietnam will, by a request in the form set out in Appendix A to this Note, open a Special Account (hereinafter referred to as "the Account") with the Crown Agents for Oversea Governments and Administrations, 4 Millbank, London SW1P 3JD (hereinafter referred to as "the Crown Agents"). The Account will be operated solely for the purposes of the grant and in accordance with the instructions contained in the said request.