

SUBJECT

CF base



Prime Minister
JS

10 DOWNING STREET

From the Private Secretary

19 May 1981

Kian Jonathan

As you know, the Prime Minister last night met Mr. Stephen Ross, MP, so that he could raise with her the threatened closure of Elliott Turbomachinery Ltd. of Cowes. Mr. Baker was also present.

Mr. Ross emphasised that Government had already been helpful as the issues had developed at Elliotts. He was not himself sure whether the Prime Minister could offer anything further. But closure of the company would lead to 12½-13 per cent unemployment in the island. He added that, if the rumoured cutbacks in defence procurement were to affect naval shipbuilding, the Isle would be hit even worse, given that some of the island workforce travelled to the mainland daily to work at Vosper Thornycroft and elsewhere.

In response to a question from the Prime Minister, Mr. Ross argued that the company's disappointing performance on their Sullom Voe order was not entirely their fault. There had been numerous specification changes, and the company had eventually received some compensation. But Elliotts had probably bitten off more than they could chew. Yet, despite the history of the Sullom Voe contract, the British oil majors did not want Elliotts to close. The company were fighting a battle against United Technologies' intentions. UT seemed reluctant to push ahead with a possible sale and licensing agreement. There was a fear that, given UT's under-utilisation of capacity elsewhere, they would rather close at Cowes and ship the Cowes' machinery back to the United States to install in a network of repair shops which were now being developed.

The company now desperately needed more time to allow its merchant bank to negotiate a possible sale. In addition to the known interest of Ruston Gas Turbines, there were other possible purchasers. Mr. Ross wanted to see pressure applied to the UT President, Mr. Harry Gray. He did not believe that the top management of UT had registered that it was possible to sell Elliotts on reasonable terms. A further extension of temporary short-time working compensation scheme arrangements, beyond the present June deadline, would help enormously.

/ Mr. Ross said

Mr. Ross said that orders were now being turned away. There was a Yugoslav order which had been on the cards for some time, and which could now in theory go ahead. There was a potential JET contract worth £100,000, but a decision on that was required the next day. Was it possible to extend the time limit? There was also a potential Russian order. Unfortunately, sales decisions were all handled in London, where the staff had apparently been told not to take orders for Cowes, but were apparently diverting them to other European plants.

Mr. Baker explained that the short-time working arrangements were already running for the maximum period allowed under legislation. He accepted that UT might well lean towards a run-down of the business. The negotiations with Rustons had got stuck on both the price (£4 million was being mentioned) and the terms of a licensing arrangement. But he believed that terms could be found which would be acceptable to both parties. UT would have to take into account the price of redundancy payments arising from closure, which could be of the order of £2½ million. There were still six weeks left of the present short-time working support arrangements. The licence issue seemed to be the key. In both cases, the negotiating companies could afford a deal. His officials had been in touch with Rustons at the end of the previous week. He proposed that they should continue to monitor the negotiations for a further ten days or so. If there was no sign of a satisfactory conclusion, he would then personally get in touch with United Technologies and would endeavour to speak to the President. He would keep in touch with Mr. Ross.

Mr. Ross agreed to proceed on this basis. He understood that Mr. Gray was likely to be in Europe for the Paris Air Show. There was a real possibility of saving Elliotts, and he was anxious to seize this. He also wished to put down a marker about Assisted Area Status in the unfortunate event of Elliotts closing. The Isle of Wight had been granted Assisted Area Status for a period in the past, and this had attracted major manufacturers. He also took the opportunity to mention one other project which could help the employment situation on the isle. This was the DHSS plan for an energy-saving hospital. It had been believed locally that the project was likely to go to Newport, but there now seemed to be some hitch.

Yours ever

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