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10 DOWNING STREET

From the Private Secretary

28 July 1982

Dear Caroline,

Cunard/ACL Order

The Prime Minister held a meeting of Ministers last night to discuss your Secretary of State's minute of 27 July to the Chancellor of the Exchequer about the Cunard/ACL order (Atlantic Conveyor "replacement"). As well as your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Defence and Trade, the Minister of State for Industry (Mr. Lamont) and Mr. Mumford (Assistant Under-Secretary of State, MOD) were present. Mr. Atkinson and Mr. Parker of British Shipbuilders were also present.

Discussion centred round the table attached to your Secretary of State's minute which set out a number of ways of closing the \$24.2 million gap between British Shipbuilders' and the Korean yard's contract prices. It was noted that Lord Matthews had already indicated that Cunard might be ready to go \$2.3 million above the Korean price, to a contract price of \$50 million. British Shipbuilders would undertake a further round of efforts to persuade their suppliers to cut their prices (BSC had already knocked £1 million off its £6 million contribution to the material cost). The Prime Minister referred to her meeting earlier in the day with the TUC, and urged British Shipbuilders to seek a further contribution from their workforce towards reducing costs and bringing forward the delivery date of the ship. Mr. Atkinson indicated they would do all they could on these fronts.

It was agreed that the measures set out in (a) to (d) of the Annex to your Secretary of State's minute should be pursued, strictly on condition that the order would in fact be placed with British Shipbuilders. It was noted that (d) in the Annex might have an impact on BS's EFLs; but the amount in question would be sufficiently small as not to require an adjustment. In view of Cunard's willingness to go to \$50 million these measures should close the gap with a small margin to spare, without any need to pursue the measure at (e) in the Annex. Mr. Lamont should arrange a meeting with Lord Matthews on 28 July to reach final agreement on closing the gap in this way, and to clearing up any other outstanding points, including two on the Ministry of Defence contribution: the Ministry of Defence were seeking that their contribution of £4 million (plus a further £2 million which would be required to pay for modifications

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to the structure of the ship) should be subject to a condition that Cunard would refund - or seek MOD agreement otherwise - in the event of their selling the new ship to an overseas owner; it would also be necessary to ensure that the MOD contribution was made in such a way as not to attract tax. The aim should be to reach agreement on all these points so that an announcement could be made before lunchtime on Thursday 29 July.

I am sending copies of this letter to John Kerr (HM Treasury), David Omand (Ministry of Defence), John Rhodes (Department of Trade), John Alty (Minister of State's Office, Department of Industry), Bill Mumford (Ministry of Defence) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Ms. Caroline Varley,
Department of Industry.

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