



~~cc cc~~
Prime Minister (A)

MS 26/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior
Secretary of State
Northern Ireland Office
Great George Street
London SW1P 3AJ

26 May 1983

Dear Secretary of State

HARLAND AND WOLFF

Thank you for your letter of 23 May.

The revised terms of the proposed Blue Star order are far worse than might be regarded as normal for shipbuilding contracts, and worse even than was assumed by E(NI) last September (although I accept that your paper then noted that some deterioration might occur). Moreover, the extent of the risk being borne by the Government is such that, particularly in the case of Hambros, the banks appear to be getting a considerable return without taking any risk at all. I understand that these are the best terms that can be obtained and that the full cost, including any contingent liability, will be borne within your block.

You point out that a decision on Blue Star cannot be postponed, and that to block the deal would have consequences that require more thorough discussion by Colleagues than is possible in the time available. In the circumstances and with great reluctance, I am with two provisos prepared to agree to the deal going ahead; and to agree that a further £6.7 million tranche of interim funding, bringing the total to £16.1 million, should be issued to the company to take it to the end of July.

The first proviso is to make it clear that Treasury agreement to such unattractive terms will not be granted for any future order at Harland and Wolff. The second proviso is that we should hold to the E(NI) timetable you offer - a full discussion by the Committee before the end of July of the 1983-84 funding proposals, accompanied by the officials' report on the future development of the business - even if the new Chairman's strategy for the longer-term future of the yard is not available by that date.

I am sending copies of this letter to the Prime Minister and to other recipients of yours.

Yours sincerely

J. G. G. (PS)

J. LEON BRITTAN

[Approved by the Chief Secretary]

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Mr. Hurd FCO
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CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

24 May 1983

The Prime Minister has seen your Secretary of State's letter to the Chief Secretary to the Treasury about Harland and Wolff. Subject to the views of colleagues, she is content with Mr. Prior's proposals for the funding of Harland and Wolff and for their acceptance of an order for four ships for Blue Star on the terms proposed.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI), Douglas Hurd, Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

(Tim Flesher)

Derek Hill, Esq.,
Northern Ireland Office
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Secretary of State for Industry

cc ~~AD~~
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

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27 May 1983

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The Rt Hon Leon Brittan QC
Chief Secretary to the Treasury
Great George Street
London SW1

NBPM
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Dear Chief Secretary

HARLAND AND WOLFF: 1983/84 FUNDING FOR THE BLUE STAR ORDER

I refer to Jim Prior's letter to you of 23 May.

2 I am sure that it is right to postpone a decision on the funding of Harland and Wolff for the whole of 1983/84. It makes sense to take this decision in the context of the proposals for the future development of the yard which Jim Prior has undertaken to bring forward in July. Proposals on the funding of and future support for British Shipbuilders are to be considered at about the same time. Thus we shall have the opportunity to review our strategy for the UK shipbuilding industry as a whole. I agree therefore that Harland and Wolff should be given interim funding on a drip-feed basis until end-July.

3 I recognise that Harland and Wolff needs the Blue Star contract if the risk of an unacceptably sharp contraction of its workforce is to be averted. In view of the general economic situation in the Province I cannot but agree to Jim Prior's proposals on this deal.

4 I am concerned, however, about its effect on our handling of British Shipbuilders. The Corporation has in the past felt badly treated because we have allowed Harland and Wolff to take contracts on terms which BS has not been permitted to offer. Our position here becomes more embarrassing with every successive relaxation of the rules in Harland and Wolff's favour. If, as is likely, BS gets to know the terms of the Blue Star order it will certainly feel better placed to press us to allow equally generous terms for its contracts. I shall look for support from colleagues in coping with such pressure.

5 Following my letter of 15 March to Jim Prior concerning security for the initial repayments of the Section 10 loans, it has been agreed that the cost of any loss which may result from the absence of a bank guarantee will be borne by the Northern Ireland vote. I note that the terms of contract now envisaged



would involve no additional cost, or risk of additional expenditure, for my Department beyond that resulting from the normal application of the Home Credit Scheme formula to the increased prices of the vessels.

6 I am copying this letter to Jim Prior and to the other recipients of his letter.

Your sincerely
Stephen Wilber

PP

PATRICK JENKIN

(approved by the Secretary of State
and signed in his absence)

7 MAY 1961





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CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

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Qa 06374

25 May 1983

The Rt Hon James Prior MP
Northern Ireland Office
Great George Street
SW1

Dear Jim,

Harland and Wolff: 1983/84 Funding and
the Blue Star Order

Thank you for sending me a copy of your letter to Leon Brittan of 23 May.

I agree that we should provide interim funding of £16.1 million until the end of July. I hope that by then we will have been able to have a full discussion on future strategies for, and appropriate funding of, Harland and Wolff in the longer term, against the background of alternative economic strategies for Northern Ireland as a whole.

Meanwhile, I recognise the importance of the Blue Star order, and the delicacy of the situation. There is only one point therefore which I wish to raise. It appears that Hambros have negotiated a transaction which is totally risk-free for themselves and their syndicate. Risk-free transactions normally attract lower interest rates, or are done on a fee basis. Do the rewards that the Hambros syndicate are to get properly reflect the absence of risk? If not, might the Government attract criticism on this score at some future date?

Copies of this letter go to the recipients of yours.

Yours sincerely,

John.

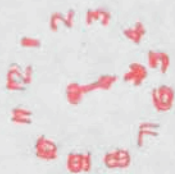
John Sparrow

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24 MAY 1983



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Foreign and Commonwealth Office

London SW1A 2AH

1 June 1983

From The Minister of State

Rt Hon Douglas Hurd CBE

Dear Secretary of State,

HARLAND AND WOLFF: 1983/84 FUNDING AND THE BLUE STAR ORDER

I have seen a copy of your letter of 23 May to Leon Brittan.

I am very conscious of the importance of this order to Harland and Wolff. As far as the EC dimension is concerned, I know you have taken account of the discussion in E(NI) last September and I am pleased that it has been possible to restructure the assistance along the lines suggested at that meeting. I agree that we should authorise Harland and Wolff to accept this order on the terms set out in the annex to your letter without notification to the European Commission. As your letter points out, there are risks, but I agree that the balance of advantage continues to lie in not notifying the assistance.

I am copying this letter to the recipients of yours.

Yours sincerely

(Approved by Mr Hurd and signed in his absence by his Assistant Private Secretary)

The Rt Hon James Prior
 Northern Ireland Office
 Great George Street
 LONDON SW1P 3AJ

NAT-IND: Shipbuilding

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JUN 1983

