



10 DOWNING STREET

Prime Minister

I understand that
Aero - Cammell are infant
also likely to win a
substantial proportion of
the BR order. - when

will that
be announced? DKS
25/9.

~~A~~ Prime Minister
Department of
Transport do not
know. It could be
a few weeks.

DKS
26/9.



DEPARTMENT OF TRADE AND INDUSTRY
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David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1

25 September 1985

Dear Mr Norgrove

THE LAIRD GROUP - METRO CAMELL

I mentioned to you this morning that Metro Cammell were successful in obtaining the KCRC contract. This means a further re-draft of the proposed reply by the Prime Minister to Mr Gardiner. Due to the urgency I have sent the attached direct to you although a copy has been sent to Mr Hosker in the Secretary of State for Trade and Industry's office.

Yours sincerely

B N STEELE

3JPAAP

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

J A Gardiner Esq
Chief Executive
The Laird Group
3 St James's Square
LONDON
SW1Y 4JU

Thank you for your letter of 30 August about the Kowloon and Canton Railway Corporation (KCRC) contract and British Rail's rolling stock purchasing policy. I am sorry for the delay in replying which was caused by my being out of the country.

I was concerned to hear from you of the threat to Metro Cammell's future. I am well aware of the company's past successes in Hong Kong and equally I recognise the company's importance as a supplier of the tube stock for London Transport and as a UK competitor for British Rail's requirements. I can assure you that the present situation of the company and the importance of winning early orders for its future are clearly understood and I well recognise the strenuous efforts you are making to achieve these. In your efforts overseas the Government has given substantial aid to help Metro Cammell's attempts to remain in such a difficult market including the offer of grants amounting to some £15m, of which £8m has been taken up, over the last six years to develop new vehicles and equipment together with the maximum help possible in overseas markets.



10 DOWNING STREET

THE PRIME MINISTER

I was very concerned to hear from you of the threat to Metro Cammell's future, which you described in your letter of 30 August.

X I know that Metro Cammell have made strenuous efforts to win orders ^{full} in order to close the long foreseen gap in London Transport orders for tube stock. The Government has also helped Metro Cammell with offers of grants amounting to some £15 million over the last six years to develop new vehicles and equipment. X ~~We have also given, and shall continue to give, all the help we can in overseas markets.~~

X X I understand that efforts are continuing at official level to push along the Metro Cammell bid for the Kowloon and Canton Railway Corporation contract, ~~and these will certainly continue.~~ You suggested that political pressure might now help. At this stage, however, ^{I am advised} ~~it seems likely~~ that efforts of this kind would be strongly resented and might be counter-productive, unless there is evidence of interference in the commercial decisions of the Railway Corporation. But the importance of this order to your Company is well understood. I believe that ECGD have been helpful in working out a buyer credit with your bankers which will enable Metro Cammell to improve its financial package.

I also understand that British Rail hope to announce soon the outcome of the tenders for Diesel Multiple Units. One of the objectives of the Public Purchasing Initiative is to give UK companies access to a home market which will strengthen their ability to export, and the nationalised industries have given their support to this. In the last resort, however, decisions upon where to place orders have to be matters for the commercial judgement of the business concerned, as I am sure you will ^{recognise} understand.

~~I know you will find this as disappoint
 I am sorry I cannot do more to help now.
 But I hope you will keep in touch with ^{Ministers} colleagues
 at the Department of Transport and DTI in~~

~~as
 Please keep if there please do not
 hesitate to get in touch again if you~~

~~I should like to do more to help,
 but~~

I am sorry ~~not~~ to be able to offer no more support ~~at this~~ at this stage. I hope you will ~~to~~ keep Nicholas Ridley at the ~~the~~ Secretary of State for Department of Transport in touch as with negotiations on the ~~to~~ Hong Kong without proceed.

J. A. Gardiner, Esq.

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CWO



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Secretary of State for Trade and Industry

20 September 1985

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David

THE LAIRD GROUP - METRO CAMELL

Mark Addison asked on your behalf for a re-draft of the proposed reply from the Prime Minister to Mr Gardiner which I sent you on the 13 September. The original draft has been amended, as requested, to make it fuller and more sympathetic.

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

JF4AEX

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

J A Gardiner Esq
Chief Executive
The Laird Group
3 St James's Square
LONDON
SW1Y 4JU

Thank you for your letter of 30 August, about the forthcoming Kowloon and Canton Railway Corporation (KCRC) contract and British Rail's rolling stock purchasing policy.

was very
I ~~was~~ concerned to hear from you of the threat to Metro Cammell's future. *which you described* I am aware of the company's *has enjoyed successful* past successes *in Hong Kong* and recognise its importance as a supplier of tube stock to London Transport and as a UK competitor for British Rail's requirements. *Hong Kong and British Rail orders* The present situation of the company and the importance of these potential orders for its future are clearly understood.

know that
I am well aware of the strenuous efforts made by Metro Cammell *have made* to obtain these and other orders in order to close the long foreseen gap in London Transport orders for tube stock. Equally the Government *also* has made very strenuous and substantial efforts to help Metro Cammell, with offers of grants amounting to some £15m over the last six years to develop new vehicles and equipment, together with the maximum help possible in overseas markets.

JF4AEZ

Political pressure by the United Kingdom Government on the Hong Kong Government is likely to be strongly resented and result in the opposite effect to that intended. It may well rebound also on other UK companies seeking business in Hong Kong. In the absence therefore of any evidence of interference in the commercial decisions of the Kowloon and Canton Railway Corporation I feel that it would be unwise to attempt to use political pressure to obtain this order. In the meantime the present efforts at official level to encourage a favourable view of the Metro Cammell bid both in the Hong Kong government and the Railway Board will be continued. I also understand that Export Credits Guarantee Department have been helpful in working out a reimbursable buyer credit with your bankers which will enable Metro Cammell to improve its financial package.

also
I understand that *British Rail* BR hope to be in a position to announce the outcome of the *DMU* tenders *for Diesel Multiple Units* very shortly. I cannot of course anticipate that announcement. The need for a consistent and coherent purchasing policy by nationalised bodies to give UK companies access to a home market base on which to found their export ability is well recognised by the Government. It is the basis of the Public Purchasing Initiative to which nationalised bodies have given their support. In the last resort however decisions such *as* *when and where* to place orders *have to be* matters for the commercial judgement of the *business* body concerned, *as I am sure you will understand,*

Yours sincerely

JF4AEZ

Metro Zumbell:

Hong Kong, Aug 8)



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CF pps ?



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Secretary of State for Trade and Industry

13 September 1985

David Norgrove
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Mark
D715 parole relett. 16/9/85
The draft letter is much less sympathetic and helpful than the covering letter. We are doing a great deal to help. The draft should put that out & say how what to do now would be counterproductive, at least in Hong Kong. David.

Dear David

THE LAIRD GROUP - METRO CAMMELL

Thank you for your letter of 2 September. I enclose a draft reply to Mr Gardiner.

Metro Cammell (Metcam) are indeed in a serious position. The company has little work and employment has dropped from 2,000 some two years ago to only 150 now. The bedrock of the company in the past has been a steady flow of orders for tube stock from London Transport. However it was long foreseen that the company would have a serious problem between 1985 and 1990 due to a gap of at least five years in London Transport orders. Of necessity Metcam has made efforts to break into highly competitive export markets and have been most successful in Hong Kong where they have supplied cars for the Mass Transit Railway and coaches for the Kowloon Canton Railway. During this period they have received Government assistance, financial and otherwise. Recently Metcam's hopes have been pinned on obtaining the Tuen Mun (Hong Kong) Light Rail contract, now lost to an Australian consortium, the Kowloon and Canton Railway Corporation (KCRC) order and orders from BR.

So far KCRC has placed all orders with Metcam who in February expected to land the current order through a negotiated contract. In the event no order has so far been placed. In the meantime currency changes have opened a wide price gap (15 per cent) between Metcam and the Japanese competition. Metcam feel rather aggrieved, possibly with some justification since there has been a recent suggestion that the Hong Kong Government - the 100 per cent owners of KCRC - had understood that the order was almost certain to be placed with Metcam. Our concern about events should certainly be

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expressed to the Hong Kong Government but a political approach could well backfire. We prefer instead to pursue the matter at official level. This is also FCO's attitude.

There is no means by which any direct financial help could be given to Metcam to close the price gap. However ECGD have reacted positively to a proposal from Lazards, Metcam's bankers, which will enable Metcam to offer KCRC a financial package which KCRC might consider as offering the equivalent of a price reduction.

As far as orders from BR for Diesel Multiple Units (DMUs) are concerned, BR currently has authority from Department of Transport to order 240 and is almost ready with a request for authority to order a further similar number. Later, perhaps 600-700 more will eventually be needed, but the timing for these further tranches is uncertain. The likely purchasing pattern by BR of DMUs and EMUs (Electric Multiple Units) which are Metcam's product range is on average perhaps 300 per year over the next 4 years. However the preferred rate of build is not uniform and the combined capacity of the industry as a whole is greatly in excess of that workload. In such circumstances Metcam's request for a firm base of 200 units a year is unrealistic. BR are committed to the principle of purchasing rolling stock by competitive tendering, but they cannot give guarantees of future workload, particularly when the total numbers needed are relatively small in relation to the guarantees that are being requested.

Nor can they easily give the whole order to one supplier, if they want to maintain competition the future. Metcam's concern about the delay by BR in placing an order is understandable. But BR, while conforming with the Public Purchasing Initiative, have to base decisions on the Board's best long-term commercial interest. They have to have in mind the need to ensure that there can indeed be genuine competition when they come to invite their next tenders, and that may influence where they allocate the current orders. All this takes time, but it is understood that the order could well be announced within the next few weeks, provided existing discussions between BR and suppliers come to reasonable conclusions. The most likely outcome would be to share the bulk of the order between BREL and Metcam with some 30 going to BL, a new entrant in this field.

I am copying this letter to Tony Kuczys (HM Treasury), Colin Budd (Foreign and Commonwealth Office) and Sarah Straight (Department of Transport).

Yours ever
Edmund Hosker

EDMUND HOSKER
Private Secretary

Mr J A Gardiner
Chief Executive
The Laird Group
3 St James's Square
London
SW1Y 4JU

Dear Mr Gardiner

Thank you for your letter of 30 August about the forthcoming Kowloon and Canton Railway Corporation contract and British Rail's rolling stock purchasing policy.

Metro-Cammell's present situation and the importance of these potential orders for the company's future are clearly understood. Equally the strenuous efforts made by Metro-Cammell to obtain these and other orders are well recognised.

At the end of the day the customer must be guided in purchasing decisions by commercial considerations. This is our policy for our own nationalised industries: it would be impossible to justify asking the Hong Kong Government to take a different line in respect of the KCRC.

The present efforts at official level to encourage a favourable view of the Metro-Cammell bid both in the Hong Kong Government and the Railway Board will be continued but in the absence of any evidence of interference in the commercial decisions of the Kowloon and Canton Railway Corporation, it is difficult to see the justification for the sort of political pressure by the United Kingdom Government on the Hong Kong Government which you are suggesting. Indeed such pressure is likely to be strongly resented and result in the opposite effect to that intended. In the meantime I understand that Export Credits Guarantee Department have been helpful in working out a reimbursable buyer credit with your bankers which will enable Metro Cammell to improve its financial package.

I understand that BR hope to be in a position to announce the outcome of the DMU tenders very shortly. I cannot of course anticipate that announcement. The need for a consistent and coherent purchasing policy by nationalised bodies to give UK companies access to a home market base on which to found their export ability is well recognised by the Government. It is the basis of the Public Purchasing Initiative to which nationalised bodies have given their support. In the last resort however decisions such as when and where to place orders must be matters for the commercial judgement of the body concerned

Yours sincerely

Hong Kong:
Metro Cammell.

August 1981

