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CSJ  
Transport



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister (2)

Ms 21/12

21 December 1982

The Lord Cockfield  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
LONDON SW1

Dear Arthur

MS

You will recall that I wrote on 4 November to E(EA) colleagues explaining the cash flow problems of Hoverspeed. There was agreement that we should refuse to allow the £2½m guarantee of their borrowing by British Rail then proposed, on the grounds that such a guarantee would damage the credibility of the Government's stance on other privatisations. The Bank of England were subsequently asked if they could bring the parties together to try to devise a package which would avoid this problem.

I understand that they now feel that the best package we can expect would be one in which BR were allowed to repeat a temporary £4m guarantee they gave last winter. Without this gesture, the Bank of England judge that the most likely outcome would be that the clearing bank (Nat West) would put in a receiver. Nat West would still need to increase their commitment substantially, and they would wish both shareholders (BR and the Swedish Company Brostroms) to demonstrate their commitment in some tangible fashion. Whether Brostroms would need to commit more than BR would depend on the extent of Nat West's contribution. Only if this was insufficient would it be necessary to look to Brostroms for more and in that case they could be compensated by BR by a transfer of securities in the company.

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I have concluded that in the circumstances the Government should not be seen to be the cause of early failure of this newly privatised company, which seems to have a prospect of achieving modest success, once its immediate cash difficulties are overcome. I therefore propose to agree to a repeat of BR's guarantee of last winter, but to specify that it should be similarly time limited, and that if any question of compensation to Brostroms arose it should take the form of equity in the company. This would have the advantage of placing Brostroms in a clear lead in any future problems of the company and should minimise the size of any future calls for BR guarantees. It would also emphasise the private sector nature of the company, by reducing the current 50% BR shareholding.

I am copying this to the Prime Minister, E(EA) colleagues, the Foreign Secretary, the Secretary of State for Defence, and to Sir Robert Armstrong and John Sparrow.

Yours  
David

DAVID HOWELL