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Prime Minister 14/9

MR TURNBULL

(Cabinet Office brief  
to come)

14 September 1984

cc Mr Redwood

HARLAND & WOLFF - ORDERS FROM BP AND BSC

E(NI), 18 SEPTEMBER 1984

1. E(NI) should treat these two available orders separately. It will undoubtedly help HW to have the BSC order to provide continuity of steelwork before the BP order can start, but this is another case of "would be nice" rather than "must have".

2. The BSC order is the weaker proposition. The customer is as bankrupt as the supplier, so, looking at it from the taxpayer's point of view, the true subsidy is 100%. In these circumstances, the Prime Minister might start by asking Mr Tebbit whether BSC needs and/or can afford the vessel.

Even in shipbuilding only terms, this is not a good deal. Officials think that the subsidy level, at 48.92%, is higher than for the previous identical ship. (There is a problem of comparability here which I have asked them to clarify.) The negotiated price has fallen from £28.9 million to £28.5 million despite a hardening of charter rates. To approve Mr Hurd's proposal would treat HW very

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much more generously than E(NI) was prepared to treat British Shipbuilders' merchant shipbuilding activities.

So we suggest that Mr Hurd should go back and tell HW to work on a subsidy level no higher than before. Precedent is the only fig leaf of decency which will stick even to that expenditure.

3. The BP SWOPS order has at least some presentational attractions. It is a novel ship design, and it should, by adding to HW's technical expertise, give them competitive advantage for further orders. Conversely, it is possible to foresee nationalistic outcry if clever stuff like this is procured from overseas yards which are thought to enjoy even heavier subsidies than HW.

We fully support the Chief Secretary's view that HW must manage the project so tightly as to earn the incentive payments which BP have offered. John Parker has transformed management systems at HW, so he should not object if Mr Hurd tightens the screw. After Lear Fan and De Lorean, NIO cannot afford their own version of Scott Lithgow.

With this proviso, we would support Mr Hurd's subsidy proposal.

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The Strategy for HW

4. There is no objective method which would enable E(NI) to find the optimum trade-off between subsidy reduction and keeping the workforce (and therefore large parts of Belfast) quiet. Gradualism seems right. We therefore agree that Mr Hurd's proposed maximum EFL's of £37.5 million, £35 million and £30 million - all in cash terms, over the next three years - should be adopted.

R.J.

ROBERT YOUNG

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