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**SUBJECT CC MASTER**

Filed on PRIME MINISTER  
Meeting with Garrett MP, and  
Brown MP, 3/86

10 DOWNING STREET

From the Private Secretary

20 March 1986

Dear Jan,

SWAN HUNTER

Mr. Ted Garrett, MP and Mr. Nick Brown, MP, saw the Prime Minister this afternoon about the order for the First of Class AOR. The Parliamentary Under Secretary of State for Defence Procurement was also present. Mr. Garrett had sent the Prime Minister the letter attached, immediately before the meeting.

The Prime Minister said Mr. Garrett had mounted a compelling argument. But there was a considerable gap between the tenders offered by Swan Hunter and by Harland & Wolff. The Government were concerned that there should be equal treatment of shipyards - she noted however that there had on occasion been more than equal treatment when a shipyard was in difficulty - and the Government were very concerned to make sure that there were no cross-subsidies involved on the Harland & Wolff bid. Mr. Lee said MOD had a good opinion of Swans but their price was high both for the AOR and also on the Type 23 which had been offered to them, on which it was possible compare their price with that of Yarrow. It seemed unlikely that there was cross-subsidy within Harland & Wolff. Some of the price gap might well be explained by the partners Harlands had chosen as opposed to those chosen by Swan Hunter. Seventy per cent of the work on an AOR placed at Harland & Wolff would be done on the mainland, by Yarrow and Yard.

Mr. Garrett and Mr. Brown pointed to the risks to the design team if the first AOR were not awarded to Swan Hunter. This could lead to 400 redundancies and remove Swan's ability to bid for first of class ships. Total redundancies might eventually amount to some 2,000. There was a feeling that political factors were playing a part, and that camouflaged subsidies were involved and also that Harlands would expect and receive financial support if the contract went wrong. Mr. Brown enquired whether it would be possible to place the first AOR with Swan Hunter and the second with Harland & Wolff, which would not be running out of work until 1987.

In reply Mr. Lee said that the second AOR would also have to go to competition. However, he undertook to see what might be done to speed up the negotiations over the

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Type 23 for Swan Hunter. The Prime Minister recognised the strength of feeling over the way a Type 22 order had been placed with Cammell Laird rather than with Swan Hunter. She also undertook that the Government would study the tenders with scrupulous care to make sure that no cross-subsidies were involved.

After Messrs Garrett and Brown had left, Mr. Lee explained that HERMES might need major boiler work. If this were agreed with the Indian Government, one possibility might be for the work to be carried out at Swan Hunter. The Prime Minister asked that this should be considered urgently. In view of the way the Type 22 order had gone to Cammell Laird, and because damage to a newly privatised yard should be avoided if at all possible, the Prime Minister feels very strongly that MOD should also consider more generally and urgently what might be done to provide work for Swan Hunter.

I am copying this letter to Jim Daniell (Northern Ireland Office).

*Yours sincerely,  
David Norgrove*

DAVID NORGROVE

Ian Lee, Esq.,  
Ministry of Defence.