

PRIME MINISTER

BRITISH SHIPBUILDERS - GOVAN

Kenneth Clarke mentioned at Cabinet this morning the possibility of an announcement next week about the agreed terms for the purchase of Govan by Kvaerner.

Kenneth Clarke and the Chief Secretary have been having exchanges over the last couple of days about the detailed terms. The basic package is set out in Kenneth Clarke's letter of 21 June. The Chief Secretary raised some doubts in his letter of 22 June, to which Kenneth Clarke has responded in his further letter of 23 June. I understand the Chief Secretary has now said that he is content.

As Kenneth Clarke says the terms are not ideal. The basis of the deal has been switched, as agreed by E(A), from an initial dowry to one involving continuing Intervention Fund support. But the terms still include a significant initial dowry element, and there is an inevitable uncertainty about the possible scale of Intervention Fund support as we look forward to the mid-1990s. But the deal can still be presented as a lower cost solution than closure; and it satisfactorily achieves the primary objectives of privatisation of Govan and ending the heavy losses channelled through British Shipbuilders.

As the DTI and Treasury have now reached agreement on the terms, I assume you will not want to intervene. Content?

Recd.

PAUL GRAY
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 EL3CWK