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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
 Chancellor of the Duchy of Lancaster
 Department of Trade and Industry
 1 - 19 Victoria Street
 London
 SW1H 0ET

27th June 1988

Dear Ken,

BRITISH SHIPBUILDERS

Thank you for your letter of 23 June.

I am not unsympathetic to the problems you have faced in arranging the privatisation of Govan, and I welcome the improvements which your negotiations were able to secure in the final session. But I have to say that I do not think that the deal with Kvaerner is very good for our taxpayers in the longer term.

I agree with you that the costs of the Intervention Fund beyond the first four orders are bound to be uncertain, but I think you understand my scepticism about the likelihood of them being nil unless the UK regime were to vary unilaterally. I am also uneasy about the costs of IR on the first four ships, which seem to have jumped significantly in the course of the final negotiations. I hope you will be able to take a firm line limiting support if, later Kvaerner decide that the build-costs will be higher still.

I think that Kvaerner have done very well for themselves but I fear that if we count the costs in a few years time we shall find that the UK taxpayer has not. However, I quite understand the arguments which you and Malcolm advanced for concluding the deal, and on balance I agree with you that given where we had got to it was better to clinch the deal than to overturn it. Although my reservations remain, I am prepared to go along with you.

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I feel I have to register two concerns for the future, though. First, we must be robust against any further pressure from Kvaerner. There may be a temptation to regard the costs we have incurred so far in defence of employment in the Clyde as 'sunk', so that any further demands from Kvaerner are measured as a marginal cost against the employment benefits of seeing the yard continue. I think that would be wrong: there is no end to the expenses down that path. My other concern is the position of the other BS yards, where interested parties may see the Govan deal as a signpost.

Govan was exceptional in that there was so much expectation of privatisation (which it seems to me was fuelled at least in part by the way in which BS was negotiating) that to hold out for better terms could have caused a furore out of all proportion to what was really at stake. This gave Kvaerner a strong hand and made your negotiations more difficult.

Emotions will be no less high around the other yards, particularly NESL. I fully support the stand which you are taking against supporting further contracts for BS, which I know is not easy given the vigorous lobbying by which the BS Board is trying to undermine your position. But we must be equally wary of private sector interest in taking subsidised contracts there. No doubt you will keep me closely in touch with developments.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Your Ever,
John

JOHN MAJOR