



the department for Enterprise

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*NBM at his desk.
RCCG
1/7*

Dear Tom,

NEGOTIATIONS FOR SALE OF HARLAND AND WOLFF TO MR RAVI TIKKOO

Thank you for copying to me your letter of 29 June to John Major. *WITH PC?*

I understand that your draft reply to the PQ from Dr Lewis Moonie has since been amended in discussion with Treasury so as to refer only to the sale of the yard and not to the P3000 project as well. I am sure this is right.

I have some comments on the terms you propose for the sale of the yard. I think it is important that, so far as possible, we apply the same policy to shipbuilding in Northern Ireland as to elsewhere in the UK. The position you are currently facing with the P3000 is not dissimilar to that for the potential Cuban order at North East Shipbuilders Limited. I have indicated that I would only be prepared to countenance support for the Cuban order if NESL were to be privatised. I would certainly not want to run the risk of further losses on such an order while NESL remained in public hands. I hope you will be prepared to take a similar position on the P3000 and make clear that you would only be prepared to offer Intervention Fund support if Harland and Wolff were to be privatised.

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You comment in your letter that you would only want to go forward if the initial assessment of the P3000 was favourable. This leaves open what might happen in the event that the assessment is not favourable. In those circumstances I am sure you would wish to consider seriously the option for early closure of the yard.

On the proposed parameters for the sale of the yard, I note these are broadly consistent with the Kvaerner/Govan arrangements. You say that, for orders after the P3000, IF support would be in conformity with then current EC and UK policy and that there would be no guarantee of 28% IF, which is the current limit, for future orders. I think we must leave open the possibility that we may wish to apply a stricter regime than exists elsewhere in the EC. I have therefore been careful, in negotiations with Kvaerner, not to give any commitment that in future they would necessarily receive support at EC levels but that the UK regime at the time would be the determining factor. I hope you will adopt a similar approach.

Finally, I note you would expect to make available appropriate aid for any new capital investment. I think it is important to try to restrict so far as possible any offer we might make here. As I commented with respect to the Govan sale, the remaining terms covering overheads, redundancies and IF support for current orders, are an attractive package in themselves. I also think a distinction can be drawn between meeting what might be called the 'cost of the past' - overheads on current orders, redundancies, etc - and the investment that one would expect a firm to make as part of a future programme. In the end, however, I recognise that some very modest contribution may be necessary to close a deal.

I am copying this letter to the Prime Minister, E(A) colleagues and to Sir Robin Butler.

KENNETH CLARKE

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