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P 03179

PRIME MINISTER

HARLAND AND WOLFF PLC

E(A)(88)35

DECISIONS

Mr King seeks agreement to the negotiating brief for discussions with potential buyers of Harland and Wolff (H&W). He proposes that the ceiling in these negotiations should be the estimated cost of closing the yard, around £240m.

2. You will wish to consider:

i. whether you are content for negotiations to start with Mr Tikkoo, and any other bidders, on broadly this basis. You will in particular wish to check that Mr King's proposals are broadly consistent with the terms for other disposals in Great Britain. If you are content, you may wish officials to work up the negotiating position ('the parameters') in more detail, as the Chief Secretary is expected to propose. You may want to press Mr King to commit himself to a timetable for final decision;

ii. whether a privatised H&W should be allowed to tender for the forthcoming Aviation Support Ship and other MOD work, as Mr King requests.

BACKGROUND

3. E(A) last considered H&W in May, as part of a wider discussion on shipbuilding (E(A)(88)7th meeting). It was agreed then that the Government's first priority was to transfer all its remaining shipyards to the private sector. Mr Tikkoo was therefore told that the only way the Government could support his proposal for a large cruise liner was if H&W was transferred to private ownership.

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Following completion of the sale of Govan to Kvaerner, Mr King wrote to the Chief Secretary on 29 June seeking permission to negotiate with Mr Tikkoo along broadly the same lines as DTI and British Shipbuilders had followed with Kvaerner. You commented that it would be appropriate to discuss the proposed negotiating parameters at E(A), in view of the large sums involved. Mr King subsequently announced to Parliament on 30 June that he would be prepared to consider proposals from Mr Tikkoo and anyone else prepared to take over H&W.

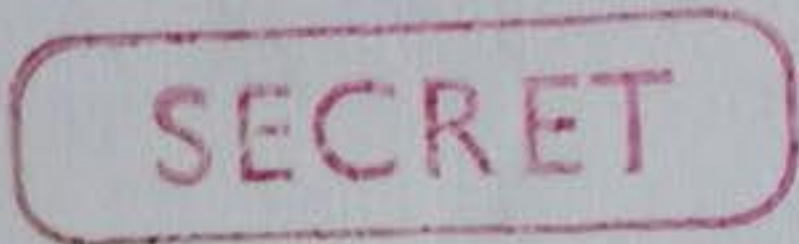
ISSUES

Negotiating Parameters

4. Mr King sets out in the second page of his letter of 29 June (attached to his paper) five parameters for the forthcoming negotiations. He offers to meet the cost of any support from his Block, and he does not anticipate guaranteeing the availability of Intervention Fund support indefinitely into the future; both are helpful points. The Chief Secretary may ask that officials set out the proposed parameters in greater detail, and that further work should be done to revise the estimated cost of closing H&W (by expanding the note sent from Mr King's office to the Chief Secretary's on 11 July). Subject to resolution of these points, you will wish to consider whether you are content for negotiations to proceed as Mr King proposes.

5. Mr King says that the Government commitment would be £240m, including Intervention Fund (IF) support of up to £100m for the cruise ship. There could be further IF support for future orders in addition. This looks consistent with the terms on which Govan was sold and which would apply to other disposals in Great Britain but you will wish to check that this is so, in particular by inviting the views of the Chancellor of the Duchy.

6. You may wish to ask Mr King whether in his view Mr Tikkoo is prepared to take over the yard at a cost within the negotiating parameters? This may well become the crucial question. You could also ask whether any other credible purchasers have expressed an interest since his announcement on 30 June. It might be



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interesting to explore the implications of Mr Tikkoo's reported statement that he would only build the cruise liner at H&W if the yard is owned by the Government or himself.

7. The policy of disposal implicitly assumes that if after privatisation the yard runs into difficulties the Government will be able to resist pressures for intervention, at least beyond IF support. You may wish to discuss how far, in the special circumstances of Northern Ireland it would be practical to resist pressure to rescue a privatised H&W if it ran into trouble. Presentation of an agreement to sell the yard might need to make it clear that its future was thereafter a matter for its purchaser.

8. Finally, you may wish to check that there would be no European complications in sale on the terms described.

Timetable

9. Mr King said in his paper to E(A) in May that July was the likely time for real decisions. H&W applied to Mr King for intervention support for Mr Tikkoo's ship on 17 June, and Mr King's officials are now examining preliminary costings. An application for support from ECGD is on the point of being submitted. You may wish to press Mr King to propose a timetable for future decisions.

Announcement

10. Mr King's paper explains that he has not yet publicly announced that Mr Tikkoo's order will only receive support if H&W is privatised. Mr Clarke pressed Mr King to make this clear in his letter of 30 June. It would appear helpful to make the position clear before long, to avoid unrealistic expectations being built up in Northern Ireland. You may therefore wish to press Mr King to make a further announcement about the privatisation of H&W before the recess. This could for example say that the cruise ship would be built only if the yard were transferred to private hands. Mr King says in his paper that he has already told Mr Tikkoo this, but has not yet made it public.

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Aviation Support Ship

11. Mr King wants H&W to be able to tender for the forthcoming Aviation Support Ship (ASS) and for other MOD work, so that it is a more attractive privatisation prospect. At E(A) in May you supported Mr Younger's proposal that H&W should not be invited to tender for the Aviation Support Ship whilst in the public sector. We understand that Mr Younger and the Chief Secretary may be prepared to allow a privatised H&W to tender for MOD work, as any contract losses would not be a cost to the Exchequer. MOD would of course need to be satisfied that H&W could supply to time and specification before awarding any contracts. As the contract for work on the Aviation Support Ship is already under consideration, it may not be possible for H&W to be privatised in time for it to compete. It may be wise to wait until it is clear that H&W will be sold before allowing it to tender for further MOD work. You will wish to consider whether, once privatised, H&W could be allowed to tender for MOD contracts.

HANDLING

12. You may wish the Secretary of State for Northern Ireland to introduce his paper. The Chief Secretary, Treasury may wish to comment first. The Chancellor of the Duchy of Lancaster will be especially interested in the comparison between what Mr King proposes for H&W and what is in mind for shipyards in Great Britain. The Minister of State for Defence Procurement (Lord Trefgarne) has been invited for this item. Other Ministers may wish to contribute to the discussion.

RJW

R T J WILSON
Cabinet Office
12 July 1988

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12. The way in which the Secretary of State for Northern Ireland is to be advised in the event of a change of opinion on the part of the Chief Secretary, Treasury may also be considered. The Council of the Lords of the Treasury will be especially interested in the comparison between what Mr. King has said for the fact that it is also for the purpose of the Minister of State for Defence Procurement (Lord Selkirk) has been invited for this case. (The Ministers are to be invited to the discussion.)



12 July 1952
 Colonel Elliot
 S. T. Wilson

