dti

the department for Enterprise

26 (A-F)

SECRET

Prime Minister

George Guise and I have no major comments on this.

Content:

(1) To note the state of play on the smaller yards? Yes

(2) To agree the announcement on 21 July of a date by which all bids for NESL (Sunderland) have to be submitted, probably in September?

(3) To note the position on a package of measures for Sunderland? (attached)

PRCG 18/7

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

18 July 1988

BRITISH SHIPBUILDERS

1 We last discussed the position on BS at E(A) on 10 May. Since then I have announced the successful completion of the sale of the Govan yard to the Norwegian company Kvaerner Industrier. You will wish to know the position on the remaining BS yards.

Yes PM. Agreed

Smaller Yards

2 Peter de Savary's Highland Participants are close to seeking main board clearance for a bid for Appledore. They are, however, looking for continued Intervention Fund support and in view of this the terms they have so far proposed are much more generous than I would be prepared to let BS settle for. The only other serious interest in Appledore is likely to

B.

be Stone Manganese, who manufacture propellers. BS could be in a position to enter final negotiations for a sale with one or other of these companies by about the middle of August.

3 The prospects for Ferguson at Port Glasgow are not as encouraging. The only interest is from Ailsa Perth who operate a yard at Troon. Ailsa's main interest seems to be in securing access to IF, with the bulk of any future business being carried out at Troon. I think this would be extremely difficult to get through the European Commission and in any event I doubt that we should be prepared to countenance the implicit extension of IF to another yard as a sufficient justification for disposal. There is only one order remaining to be completed at Ferguson. If no other interested parties identify themselves, it is possible the yard will need to close by the beginning of September, with the loss of some 500 jobs. I have alerted Malcolm Rifkind to this and suggested he may wish to consider whether there is a case for any remedial measures.

4 Several parties have expressed serious interest in the engine manufacturer Clark Kincaid on the Clyde. The future workload of the yard depends partly on where Kvaerner place their engine orders for the ships they will be building at Govan and, more importantly, on whether the Cuban order proceeds at a privatised North East Shipbuilders. The terms of sale for

C.

Clark Kincaid may need to reflect the risk that any new owner would be taking on with respect to the Kaverner and Cuban orders.

5 The only other small remaining BS facility, Marine Design Consultants at NESL and Aberdeen, will probably be the last to be privatised. Again the prospects for disposal, almost certainly to a UK concern, look reasonably good.

North East Shipbuilders Limited

6 The position here remains extremely difficult. Although a large number of parties have expressed an interest, the only real prospect in the short term appears to be a consortium involving Lloyds Bank and a design engineer named Peter Zacchi. It is possible that Sumitomo might be interested. This would be attractive but could take several months to bring to a head. In the meantime, the only work NESL currently has is the Danish ferries contract. The legal position is still complicated although the BS Chairman, John Lister, has announced to the workforce that they will only lay keels for 16 out of the original order of 24. As we agreed at E(A), I have not allowed BS to take any new orders. The main prospect for a further order is from Cuba. No deadline has been set by the Cubans but I believe they will not want a final answer before the end of the year provided we confirm in the meantime that satisfactory

D.

credit terms would be available. This will need to be looked at carefully.

7 My main concern at present is how we deal with the position at NESL. Doing nothing and letting matters drift does not seem to me to be a credible option. Costs are continuing to be incurred while work proceeds on the Danish ferries contract. This in itself is unsatisfactory. The position will become more acute, however, after the end of August. John Lister has advised me that he will then almost certainly need to transfer all of the remaining work to just one of the two main NESL yards with the loss of up to 1,500 jobs. It would be very difficult to defend this in the face of a possible order from Cuba and with no prior announcement. I have made clear that I would be prepared to offer future IF support provided NESL were privatised. Letting one of the main yards be mothballed without any announcement on privatisation would be seen as a de facto decision simply to close the yards down. Moreover, once one of the yards had been mothballed we would have seriously weakened our position prior to what I expect will be a difficult negotiation with the Commission on terms for any disposal of the remainder of NESL.

8 I have therefore decided to announce a date by which all bids for NESL have to be submitted. This would put a limit on the continuing losses at the yard. It would make clear that we

E

dti

the department for Enterprise

were maintaining the initiative. It would also ensure that any other potential bidders identified themselves so that we could secure the best possible deal. It carries the risk that Sumitomo will not be able to meet the deadline but I am not prepared to let the present uncertainty drag on indefinitely, particularly when this would leave us with even less negotiating flexibility and Sumitomo's interest is so uncertain. I will need to consider further the precise date to be announced. My present view is that this should fall in September, possibly in the first half.

Package of Measures at NESL

9 It remains probable, in my opinion, that whatever date is chosen no serious bidder will have come forward. We must also be prepared to face up to the likelihood of some 1,500 redundancies after the end of August and the possibility, if we are not to be put in an impossible negotiating position, of complete closure of NESL. Should either the mothballing of one of the two main yards or complete closure occur I would want to have in place a package of measures for NESL along the lines previously agreed by colleagues. I have agreed with John Major that I will find the cost of this for the current financial year from within my existing Departmental budget. My officials will be working up further details to put to the Treasury during the summer.

F

dti
the department for Enterprise

Presentation

10 On present forecasts, BS expect to exceed their current borrowing limit during the summer recess. I have therefore had to lay a new Borrowing Powers Order to increase the limit. This is due to be debated on Thursday 21 July. It will provide an excellent opportunity to announce the final date for all further bids to be submitted for NESL, since I will be able to point to the need to try to bring to an end the continuing losses, and also to outline the package of measures in the event that no successful bid is forthcoming. Members will obviously use the debate to ask about the position on the other yards. I will indicate generally the prospects for each of the yards but I will not go into detail, partly because of the need to preserve commercial confidentiality but also, for those yards where prospects are encouraging, so as not to disclose this until I am in a position to make an announcement on NESL where I expect the news to be far less than encouraging.

11 I am copying this minute to Nigel Lawson, Malcolm Rifkind, Tom King, Norman Fowler, Nicholas Ridley and John Major and to Sir Robin Butler.

KC

JY1ABR