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Treasury Chambers, Parliament Street, SW1P 3AG

Robert Atkins Esq  
Parliamentary Under Secretary of State  
for Trade and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON SW1H 0ET

*for*  
20 July 1988

*Dear Robert*

**SHIPBUILDING INTERVENTION FUND**

I am writing on behalf of John Major in his absence.

Your officials asked Treasury Officials yesterday for approval of Intervention Fund payments to support the new orders to be placed at Govan once it has been privatised. The disposal needs to be completed very soon now, and approval of the IF is an integral part of the deal.

You will have seen the correspondence John Major had about this with Kenneth Clarke, in which he expressed concern that the terms of IF on these orders should be no more generous than normally available. In particular he was concerned that there should be no guarantee of the rate at which support would be given on future orders up to 1993; and he was concerned that Kvaerner should not be able to make a profit out of our support payments, which are intended only to allow them to break even.

He was particularly concerned about a profit arising because he did not believe that the new owner of Govan and the customer for the ships would be at arm's length. Govan will be acquired by a subsidiary of the Kvaerner group. The customer will be a consortium in which the major interest is another subsidiary of the Kvaerner group. He was concerned that this was unlikely to produce arm's length prices, which were agreed as essential at a meeting held by the Prime Minister on 31 March.

Kenneth Clarke gave John Major assurances on these points. In the annex to his letter of 21 June he explained that the builder and the customer were sufficiently independent of each other. And in his letter of 23 June he assured him that there would be no generosity in the terms of IF for the first four ships.

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As you will see from John's letter of 27 June he was able to agree to the proposed terms of disposal of Govan on this basis only with serious misgivings. I am surprised, therefore, to find that the detailed IF terms which have now been put forward for approval do indeed seem to be unusually generous and do allow Kvaerner to make a profit from the support we will be paying.

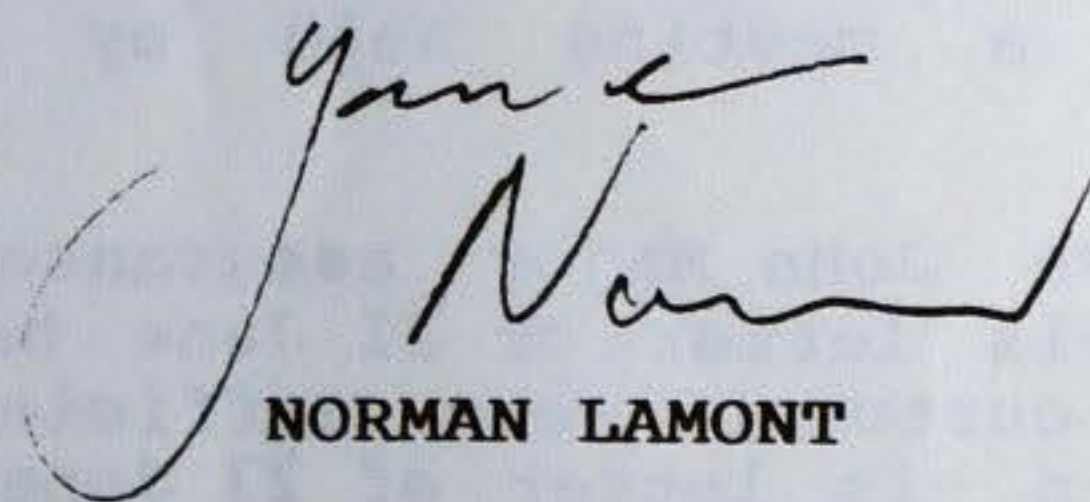
Specifically, it is proposed that approval in principle should be given for IF at the prevailing EC maximum on options rather than orders for ships. This allows Kvaerner protection against the consequences of any decisions we might take to reduce support below the EC maximum before those options are converted. Your department's case paper remarks that this is unusual. It is in fact what I am sure John Major would regard as unusually generous, contrary to what he had been led to expect.

It is also proposed that Kvaerner should receive support at levels which will allow them to make a profit, on the basis that this profit will arise only from interest earned on stage payments made by the customer in advance of the builder's needs. This payment pattern was apparently decided by the Kvaerner group and dicated to the customer consortium, in the group's overall interests. If, instead of making advanced stage payments to give the builder interest, the customer and simply paid a higher nominal price, the levels of IF support would have been lower. The interest of the Kvaerner group in this is therefore clear: they have instructed the builder subsidiary and the customer subsidiary to make a deal on terms which allow enough IF to be claimed as to make a profit.

This is precisely the kind of non-arm's length manouevre which he was led to believe we would not be entertaining. This confirms my fears about the terms of this disposals. Recognising the importance, to you and to Malcolm Rifkind in particular, of the Govan disposal now going ahead, I am prepared to approve the IF terms proposed. But I do so only because it is now too late to change them, and I am deeply disappointed at the way they have come out given the reassurance John Major and colleagues received earlier.

I must reiterate that the terms of the Govan disposal cannot be taken as a precedent for any further roles of BS yards.

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

  
NORMAN LAMONT