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@ this stage*

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Anthony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H 0ET

19 August 1988

Dear Tony,

BRITISH SHIPBUILDERS

Malcolm Rifkind copied to John Major his letter of 28 July. In John's absence on leave, there are two points in Malcolm's letter on which I should comment.

First, there is the question of new orders that might be taken by the Ferguson yard in Port Glasgow. Malcolm asks that the yard be allowed to continue actively seeking new orders, including the possible ferry for the Mauritian Government, which would be supported through the overseas aid programme if the order is placed in the UK.

I am concerned that Malcolm's request implies a disparity between our treatment of Ferguson and of BS's other yards, NESL in particular. In the case of NESL we have made it plain publicly that we could not make any further offers of support for orders at the yard while it is in public ownership without being fully satisfied that no additional contract losses would be incurred, beyond Intervention Fund support, and that Sixth directive limits would be complied with. In practice, the yard's history of contract losses and cost overruns is so poor that we could never be sure that orders would be completed without additional contract losses so long as it remains part of BS. As BS management are aware, support for new orders at the yard is thus clearly dependent on its privatisation.

I can see no case for treating Ferguson differently. The yard's history of contract losses over and above IF support has not been good, and there are serious deficiencies in its management and cost control. Without a firm prospect of privatisation, it would be folly to allow the yard to continue taking orders. Invidious

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comparisons would be made with NESL. And there would still be no guarantee that the yard would be sold: indeed, if the orders are incorrectly costed, as has happened so often in the past, the prospects for privatisation may even be damaged. I hope that you can, therefore, agree that, as with BS's other yards, further support for new orders at Ferguson should be conditional on the successful disposal of the yard.

I am sure that this condition should also apply to the possible order for a ferry for Mauritius. I am aware that this order would not be supported through the Intervention Fund but through the overseas aid programme. However, the danger of BS incurring additional contract losses will remain; and it was agreed at the Prime Minister's meeting on 31 March that no new orders should be taken by this yard, the Mauritian ferry included.

Secondly, Malcom asks that we keep an open mind on the availability of Intervention Fund to Ailsa-Perth, the one company that has expressed an interest in acquiring Ferguson. While it is obviously necessary to establish the company's exact intentions, I am sure that we have to rule out from the start any question of IF being made available for orders that would be built at yards other than BS's current subsidiaries. I agree strongly with the view expressed in Kenneth Clarke's minute to the Prime Minister of 18 July, that we should not be prepared to countenance the extension of IF to another yard in order to achieve a disposal.

Copies of this letter go to the Prime Minister, David Young, Tom King, Norman Fowler, Malcolm Rifkind and Nicholas Ridley and to Sir Robin Butler.

*J
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PETER BROOKE

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