



the department for Enterprise

CONFIDENTIAL

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Date

31 August 1988

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**BRITISH SHIPBUILDERS**

Thank you for your letter of ~~28~~<sup>28</sup> July. I am also grateful to Peter Brooke for his letter of ~~19~~<sup>19</sup> August which comments on yours.

While completion of the deal with Kvaerner has to be excellent news for you in particular, I quite understand your concern about the future of British Shipbuilders' remaining facilities in Scotland.

On Clark Kincaid you express particular concern about the timetable for bids. Two serious bids have now been received, one from the Management Team you mention. I hope it will prove possible for BS to reach satisfactory terms, preferably including the opportunity for Clark Kincaid to supply the first two engines required by Kvaerner. Whether this will be possible will depend on careful consideration of the bids.

On Ferguson, the prospects are less clear. You wrote of further orders. Our decision in E(A) on 10 May and the earlier decision to which Peter refers clearly restricts the scope. I share the reservations Peter enters and have already told John Lister that

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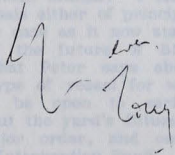
I would by far prefer any further order to be secured by a new owner. He understands the significance of this given the stand we have taken on the Cuban order at NESL.

BS have received enquiries about a further dredger order that Appledore could not deliver on time but which a new owner for Ferguson might secure during October. This points to a bid date for the yard during September. But the Mauritius Ferry Programme has slipped yet again with bids now invited by 4 November possibly resulting in an order early next year. Although Ferguson is still on the shortlist, Meyerwerft of Germany represents strong competition among the field of five. Both the timing and the winning of the order have to be regarded as uncertain.

There are now, I understand, three parties interested in Ferguson: Ailsa Troon is so far talking of terms that are quite unacceptable to BS and I suspect to our colleagues. The other parties have yet to show their hands, though the Norwegians would probably build fishing boats they presently deliver to Scottish owners from Norway.

I will of course bear your concerns about Ferguson in mind, but on Intervention Fund I go further than Peter's reminder about not countenancing the extension of IF to achieve a disposal. Any question of Intervention Fund for Troon raises a spectre of similar treatment for all previous BS yards from whom this support was normally excluded as a term of disposal. Quite apart from difficulties in Brussels, I would not regard renewed support for these yards as a realistic or affordable proposition. My officials have therefore advised Ailsa Perth that they should plan and bid on the basis that support would be available only towards new building at the Ferguson yard, and they have 'gone back to the drawing board'.

Copies of this letter go to the Prime Minister, David Young, Tom King and Peter Brooke, and to Sir Robin Butler.



TONY NEWTON

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