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the department for Enterprise

cc: PL  
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Dear Chief Secretary

APPLEDORE FERGUSON SHIPBUILDERS: DEVON YARD

Following Kenneth Clarke's announcement to the House on 21 July that British Shipbuilders were expecting bids for Appledore from at least two parties, two proposals for taking the yard into private ownership have been received by BS. You will want to know that John Lister has recommended Langham Industries to me as the preferred bidder, and I have agreed that he should commence negotiations with Langhams, subject to our receiving some further information about the financial strength of the company.

The other bidder was Highland Participants, of which Peter de Savary is the Chairman. Langhams' bid would have an associated cost to BS of £2.1m, in contrast to £4m if Highland Participants were to take the yard. Closure costs to BS, in comparison, would amount to some £8m. My officials are in contact with yours on the details of the bids.

Both bidders would pay a small consideration for the assets, and both would want BS to pay for initial redundancies and an *ex gratia* payment to buy out the BS redundancy scheme. Beyond this, Langhams are asking for no financial concessions, but Highlands are also requesting a management fee for completion of existing work and help with capital investment. I regard their terms as excessively demanding. Langhams, through their

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subsidiary Stone Manganese, have a good standing in the marine sector and are familiar with market conditions. They have a credible business plan, based on around two new orders per year, and show more evidence of commitment to the Appledore yard than do Highland Participants, whose own business plan for some four new vessels per year BS see highly optimistic. We agree with this view. While there is no significant difference in financial viability between the bidders, as advised by Lazards, I have told John Lister that I would like to see some more information on Langhams, eg how they would sustain the yard through a lean order period.

On possible Intervention Fund needed by any new owner of the yard, it is not possible to go beyond conjecture. Unlike Govan, there are no specific orders directly related to the proposals, so Intervention Fund spend will depend on the orders won. To the extent that Langhams' plan envisages a lower order intake than does that of Highland Participants, then IF payments to Langhams may be expected to be less than any such payments to Highland Participants. At current prices for the sorts of vessel which Langhams might build, mainly dredgers, I should not expect the amounts of IF to be paid to bring the costs of disposal out of line with the costs of closure, particularly when discounted. A closure, besides costing BS the £8m I have mentioned, would bring in its wake wider Exchequer costs and perhaps costs of a remedial package, if we decided to introduce such a package of measures in the Appledore area.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

Yours sincerely  
R. A. W. F.

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approved by the Chancellor and  
signed in his absence.

