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Treasury Chambers, Parliament Street, SW1P 3AG  
 The Rt Hon Tony Newton OBE MP  
 Chancellor of the Duchy of Lancaster  
 1 - 19 Victoria Street  
 London  
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cc P.O.  
 nblm  
 at min steps.

R/CB  
 9/9

8 September 1988

Dear Chancellor of the Duchy of Lancaster

BRITISH SHIPBUILDERS; CLARK KINCAID

I am very uneasy about the proposal in your letter of 2 September for a number of reasons.

First, there is at this stage no commitment from anyone to take Clark Kincaid off our hands. The two tentative bids could just evaporate. Or the bidders could increase their demands in the knowledge that the new order would make the avoidable closure costs much greater. I am surprised that both of the bids should be conditional on BS taking the engine order from Kvaerner when as I understand it the order is going to be placed in Poland unless BS are prepared to suffer heavy contract losses by bidding for it at the last moment. I do not know why the bidders should have presumed that will be the case.

Given that we shall have to weigh the costs of disposal of CK against the costs of closing it, it seems a very strange policy to take a new order now which in the event of closure would significantly increase closure costs and possibly prolong the agony of closure for up to a year. I am not sure how the estimate of £5 million to dispose of CK and £10 million to close it has been devised. My officials believe that the disposal costs will be much closer to closure costs and that it would be a finely balanced judgement whether to accept either of the bids. Taking the new order would expose us to much higher closure costs. It might also, of course, frustrate future disposals if the European Commission took too bad a view of it. It certainly would not help our standing in Brussels, in matters such as the Finsider complaint.

It would also be visibly at odds with our policy towards NESL, where the same logic which would lead us to take a risk on loss-making orders for CK to improve disposal prospects, might seem to point to BS taking the Cuban order for NESL. This is a very slippery slope. I do not share your view that failure to make a special case for CK will damage the presentation of our policy towards Govan. On the contrary, the indisputable fact that we are paying a lot of money to save Govan should make it easier to present a prudent approach to the problems of CK. I cannot accept that the Govan disposal, about which I had serious

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reservations, should now be allowed to lead us into increasingly generous treatment for each other BS facility as it comes along.

I do not wish to be unhelpful to you, but the risks in your proposal are very great. I certainly could not agree to it without a firm undertaking that it will not have repercussions for other BS facilities. This would mean an assurance that in no circumstances would any other loss-making orders be taken by BS. In this context I would regard an order which required a facility to remain open with unrecovered overheads for longer than it otherwise would as excluded. I should also welcome an assurance that BS will actually have progressed to a Letter of Intent before the new orders are taken. There would be further comfort if in extremis BS were able to satisfy the order by buying in an engine from the Far East instead of building it: this possibility was mentioned by your officials. I should be grateful also if my officials could be given the detailed costings supporting your estimate of disposal and closure costs, with particular attention in the former case to the valuation of tax losses and the unsecured loan required by the MBO bid; and in the latter case to how much of the costs of closure represents the cost of support until present work is finished and how much of this is now avoidable by disposal. I shall be replying separately to your proposals for Appledore but for Ferguson where, as you say, the prospects of an acceptable bid are receding, I think we must take a decision very soon now. Certainly if CK were to be allowed to take this new order I would see merit in linking that with a decision to close Ferguson if by that time a basis for disposal had not been established.

If you were able to offer me assurances on these points I should be happy to look urgently at them. I hope that we can find a satisfactory way through this.

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

Yours sincerely,  
P. Wainwright

PP JOHN MAJOR

[Signed by the Chief Secretary  
and signed in his absence]

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