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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon John Major MP
Chief Secretary
HM Treasury
Great George Street
LONDON
SW1

Price Mark 2
Looks increasingly as if
nothing will come of Ravi
Tikkoo.

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14/9
mt

John

HARLAND AND WOLFF PLC

Ministers agreed in E(A)(88)10th of 13 July that I could negotiate with potential purchasers of H&W within the parameters I had previously proposed subject to my officials checking with Treasury and DTI that the parameters were consistent with the basis of the Govan deal; and to my officials agreeing with yours the estimated cost of closing H&W. I reported at the meeting that the front-runner for purchase of the yard appeared to be Tikkoo Cruise Lines (TCL), a company run by Ravi Tikkoo.

Since that discussion, TCL have come forward with an offer to acquire the shipyard, based on an order for a cruise liner (P3000). I have considered the terms of this offer but they are simply not acceptable. But if we cannot proceed on this basis, I

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cannot simply reject TCL's terms outright. The importance of the yard within Northern Ireland, not least in political terms, and our understanding that TCL is considering instead placing the order with a French yard (which our embassy in Paris has confirmed is in a position to execute it) make it essential that we can show that we were prepared to deal very fairly with the yard in an effort to save the industry and jobs involved for Northern Ireland. I therefore propose to make counter-proposals to TCL, the terms of which have been discussed with your officials and are summarised in the attached Annex. I regard these proposals as very fair, but it is probable that TCL will reject these counter-proposals as a basis for further negotiations. Even if this assessment is proved wrong, however, it seems very unlikely from our discussions with TCL so far that the company would be able to raise sufficient finance to proceed with purchase. It also looks increasingly unlikely that ECGD will be able to offer terms on the P3000 alone which would enable TCL to proceed with the order - without which of course the wider proposition is impossible. I am meeting Tony Newton later today in order to discuss the position more fully with him, but whether anything further can be done by ECGD is a matter for them.

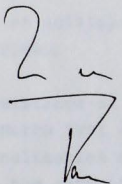
If, despite all these serious doubts, TCL should be able to raise sufficient finance for both the ship and the wider deal and decide to accept my suggested counter-proposals as a basis for further negotiation, I believe that those proposals are well within the parameters set by colleagues in E(A) - chiefly that any sale should be on the lines of the Govan/Kvaerner deal and fall within the costs of closing the yard.

I am not in this letter seeking approval to the counter-proposals since I believe that they are within my negotiating remit from colleagues, but I am anxious to keep you in touch with major

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developments. If, however, you have any comment on my counter-proposals, I should be grateful if you could let me have your observations by lunchtime on Thursday, 15 September, so that I might go back to TCL without undue delay.

I am copying this letter and enclosure to the Prime Minister, to Tony Newton and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to be 'TK' with a stylized flourish above it.

TK

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H&W/TIKKOO CRUSE LINE LTD: TERMS OF COUNTER PROPOSAL

Provision of intervention aid for P3000 at the rate of 28% on standard terms (approximately £100m). TCL to arrange finance for the vessel. Future intervention aid, if any, to be available on the terms applicable at the time of receipt of an order.

TCL to acquire the fixed assets and stocks of H&W at book value (£9.76 million at 31 March 1988).

TCL to provide evidence of ability to fund the new company at least to completion of P3000.

DED to provide grant assistance at the rate of 30% on expenditure in the two years to 31 March 1991 covering normal capital replacement, some rationalisation costs and deferred maintenance and replacement; and at the rate of 100% on those aspects of rationalisation costs which include physical concentration and on under-utilisation costs. Expenditure on marketing/product development and retraining to be grant-aided under standard IDB/DED schemes. Government assistance estimated at £30/£40m.

DED to retain ownership of the existing company and pay its residual liabilities as they come due.

DED to sub-contract completion of SWOPS and AOT to TCL on the basis of budgeted completion costs with bonuses (and penalties) for achievement (or failure to achieve) agreed targets.

DED to fund redundancies down to an agreed level but no further.

SMITHSONIAN COMMISSION TERMS OF SERVICE AGREEMENT

1978
M.M.

Provision of investigative aid for 1980 at the rate of 2% of the total amount of the loan (approximately \$100,000) to arrange for the vessel. Future investigative aid, if any, to be available on the same basis as the first year of the loan. (See 1978-79 Annual Report of the Commission, p. 10.)

TCL to provide evidence of ability to fund the new company at least to completion of 1980.

DEC to provide grant assistance at the rate of 30% on expenditures in the two years to 31 March 1981 covering normal capital equipment, some operational costs and delayed maintenance and replacement; and at the rate of 100% on those aspects of operational costs which are not covered by the grant. (See 1978-79 Annual Report of the Commission, p. 10.)

DEC to retain ownership of the existing company and pay the residual liabilities as they come due.

DEC to sub-contract completion of SWMS and AOT to TCL on the basis of budgeted completion costs with bonuses (and penalties) for achievement (or failure to achieve) agreed targets.

DEC to fund administrative costs to be agreed (goal has no target).