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Our ref

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Date 20 September 1988

Dear John,

BRITISH SHIPBUILDERS: CLARK KINCAID

Thank you for your letter of 8 September. You sought a number of assurances. I think I can respond positively on all of them.

On the question of BS taking other orders prior to disposal of a facility, I have repeatedly made clear that North East Shipbuilders would have to be in private hands before support were confirmed for the Cuban cargo ships. More generally, I would certainly not contemplate seeking the agreement of colleagues to BS taking a further order unless we had received a firm bid from at least one credible party to acquire the facility, that we could be confident the purchaser was committed and that the final details would be acceptable to ourselves and the Commission. As an essential condition I would also expect, as in the present case, that taking the order would result in an improvement to the overall position of the Exchequer.

BS have made further progress towards a sale. They have recommended the Management Buy-Out team as preferred bidder. Your officials have details, including information covering the points on costings raised in your letter which supports what I

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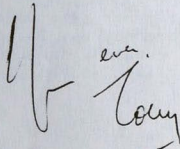
said in my previous letter. It will not, however, be possible for BS to reach Letter of Intent stage by the deadline for the present order which is now 23 September. My officials have pressed John Lister on this but he has pointed out that detailed negotiations cannot effectively commence prior to a decision on these engines. Nevertheless, it should certainly prove possible for the Buy-out Team to be agreed as preferred bidder before the engine contract is signed.

My officials have also pressed BS on the possibility of their being able to purchase at least one engine from overseas at a later stage in the unlikely event that it should prove impossible to dispose of Clark Kincaid. I am pleased to confirm that BS have made clear they would have the flexibility to do this.

You said you would see merit, if BS were to be allowed to take this order, of linking it to a decision to close Ferguson if a bidder had not been identified by then. I cannot agree with this. There is no reason in logic why the two should be linked. Moreover, bids for Ferguson have yet to be invited by BS whereas the final date for decision on the present engine order is 23 September. I have to repeat, however, that the prospects for Ferguson do not look encouraging and I see little prospect of a disposal that would meet the terms we are applying to other BS facilities. That said, having completed a successful sale of Govan and with the firm prospect of a satisfactory sale of Clark Kincaid, we will have succeeded in retaining the bulk of the Scottish yards and the vast majority of their employees which, as I pointed out in my last letter, would greatly ease the presentation of a decision to wind down Ferguson should no satisfactory bidder emerge.

Finally, I must urge you to bear in mind the political point that it would be extremely difficult to present a decision to allow Clark Kincaid to close essentially because of a timing point regarding a further order. This would be seen as a mere technicality. I would not wish to defend it on this basis I am sure Malcolm would not either. I therefore hope you will be able to give your urgent agreement in time for BS to take the present order by the 23 September deadline.

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



TONY NEWTON



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