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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

22 September 1988

Dear Chancellor of the Duchy of Lancaster,

BRITISH SHIPBUILDERS: CLARK KINCAID

Thank you for your letter of ²⁰ September replying to mine of 8 September. I am sorry that we do not have more time to discuss the points which you make, before Friday when Kvaerner will require a firm bid from British Shipbuilders for the engines if they are not to be sourced elsewhere.

I understand the importance of securing a sale of this yard if we can do so within the policy framework we have agreed, and without damaging repercussions for our policy on other yards. You say that you are able to give assurances on all the points I raised. However, what you are proposing seems to fall rather short of what I asked for.

I am still concerned that if we allow Clark Kincaid to take a new order under BS ownership to improve its disposal prospects, there will be pressure to extend the same treatment to other BS facilities. Indeed I gather that your officials are already considering a proposal for BS to take a new order for Appledore. The way to be sure that there are no such repercussions is to take a clear decision that in no other case will BS be allowed to take new orders. But the limited assurance you offer would allow similar cases to come forward.

I am also concerned that the disposal of CK may not actually go through, not least because the preferred bidder is not yet committed, and that the new order would substantially add to the closure costs we would then face. It may now be too late to make the new order conditional on disposal but John Lister is surely

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wrong in advising you that detailed negotiations could only commence once the engine order was settled. I do not see why, present pressures timing apart, it should not have been possible to negotiate on the basis that acceptance of the order was contingent on a firm commitment to disposal.

There is also the point that nothing will prevent the bidders from increasing their already substantial demands once the order has been accepted. As I said, if our aim is to contain disposal costs within the limit of estimated closure costs, it is a strange policy to be increasing those potential closure costs, visibly. Whilst negotiations are still underway.

I therefore still have serious reservations about your proposal. On principle, I believe that the right course is for you to refuse to be put under pressure to agree to this new order. On presentation, I regard the absence of any commitment as to disposal as more than a mere technicality. The fact is that you are proposing that BS should now enter into new contractual commitments in the hope that this will facilitate an acceptable disposals package.

But I recognise the difficulties of your position and I would be prepared to agree to BS confirming its bid for the engine order on Friday on the terms proposed on the following conditions: First, that no other orders will be taken by BS for any facility except as part of the conditions of a sale of the facility (that is, there would need to be an enforceable disposal commitment, contingent on the new order, before any other new order were taken for Appledore); second that in no circumstances should the costs of disposal of CK be allowed to exceed £5.5 million, including the value of the tax losses to be inherited and the loss on the new engine order; and third that BS should not be allowed to make on unsecured loan to the MBO team. Fourthly before final approval to the CK disposal is given there would need to be close scrutiny by both DTI and Treasury officials of all aspects of the deal, and it would be helpful to have assurances from Price Waterhouse and your own independent advisers that the estimates of closure costs being produced by BS for CK and other facilities are actually the lowest that we could expect if the businesses were in the hands of a competent liquidator.

What I have in mind on the final point is that as, rightly we have no confidence in BS' management of its ongoing business, it is difficult to have confidence that it will be as affective and efficient as best practice when it comes to managing closures. This is particularly worrying when we look to the prospects for NESL.

I would be content for BS, exceptionally, to take the engine order for CK without a commitment to disposal from the bidders. But I would do so with considerable reservations, and I could not contemplate these arrangements for CK setting a precedent for other disposals and I could do so only if you were able to agree to the points above.

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On a general point about BS facilities, I am anxious that any disposal or closure costs which we may face should if at all possible be suffered in this financial year rather than next. This points to urgent decisions on Ferguson and NESL. I shall be writing separately about Appledore.

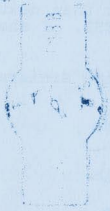
I am sending copies of this letter to the Prime Minister, and Malcolm Rifkind and to Sir Robin Butler.

Yours sincerely,
P. Wailes

PP JOHN MAJOR

[Approved by the Chief Secretary
and signed on his behalf.]

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