

NBP 07  
AF 2817

MR TURNBULL

26 July 1984

PROSPECTIVE ORDERS FOR BRITISH SHIPBUILDERS  
C. Y. TUNG FOR GOVAN  
B.U.E FOR SMITH'S DOCK

This minute is intended for your own use only.

The mounting pile of correspondence between DTI, D/En and Treasury over these two prospective orders is leading nowhere. The delays look pretty bad from every point of view, and I guess that the Prime Minister may have to break the deadlock - absurd though it is that she should become involved in minor matters.

In the case of the C. Y. Tung prospect for Govan, DTI's proposition is to sell for little over £23 million a perfectly conventional ship which will cost nearly £33 million. The BUE/Smith's Dock proposition, engineered jointly in DTI and D/En, is to sell more than £17 million of ship for under £14 million, on terms of Byzantine complexity. Both prospective orders are stated to be in the national interest.

On objective grounds Treasury are quite right to resist. They need help to do so.

1. Govan/C. Y Tung

Firstly, if Govan is a 'core yard' of BS, why is its prospective performance not better? A core yard surely should not be one which needs a handout of over 40% to stay in business?

Secondly, there is a speciousness about the argument that the 'extra' subsidy involved (£3 million) is less than the £6 million of overheads it would recover. If Govan don't take Mr Tung's order, they can eliminate some over-heads.

Thirdly, it is not clear:

- i. what happens to BS' commitment to a £7 million balloon payment if the lease collapses within 15 years; or
- ii. what happens if the EC objects retrospectively to the excessive level of Intervention Fund offered.

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2. BUE/Smiths Dock

This is the most 'iffy' proposition we have seen for a long while. The argument appears to run as follows:

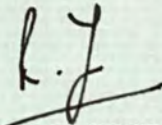
- If
- i. BUE Ships secures a diving services contract from Hamilton Bros;
  - and ii. BUE Ships orders a complex vessel on Smith's Dock in order to fulfil the contract;
  - and iii. BS builds the vessel for £17 million but sells it for £13 million;
  - and iv. BS subsidises a commercial bank loan to BUE ships;
  - and v. BS guarantees £5 million for at least four years as part security for the bank loan;
  - and vi. the vessel performs;
  - and vii. BTG sells part of its majority shareholding in BUE Ships' parent to a minority shareholder;
  - and viii. BTG raise new equity in BUE to dilute further BTG's own stake;
- then BTG might then be able to dispose of its holding in BUE. When, and for how much, is not clear.

This seems to me like trying to become a nurse because you like grapes!

The risks and rewards are wildly out of proportion, and the interventionist intentions of DTI and D/En grossly out of tune with the Government's determination to make its own corporations behave commercially.

3. We recommend no more than existing levels of aid to either prospective contract.

If either goes ahead on the terms proposed, we will have encouraged the shipbuilding industry in the belief that the old psychology and never ending subsidy are acceptable. We will also have set back E(A)'s decision of last week to cut BS' merchant capacity to a third of its current level.

  
ROBERT YOUNG

- 2 -

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