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FROM: CHIEF SECRETARY
DATE: 5 September 1984

PRIME MINISTER

HARLAND AND WOLFF LTD (H&W)

In his minute of 28 August Jim Prior seeks your and colleagues' agreement that H&W should take two orders, from BP and BSC. He sees these orders as interdependent.

2 The deal proposed cannot be reconciled with our agreed guidelines for this yard, and would not be acceptable for a BS yard. I believe we should meet to discuss them. There is no reference to how the deal fits in with the objectives of Mr Parker's corporate plan which we approved earlier this year. The subsidy for the two orders combined is a little above the limits we have set on what I believe to be the correct accounting presentation: it will be far above it if (as we have to expect) delivery targets for the BP vessel are not met. As to EFLs, if the distorting effect of soft credit is removed we are offered no improvement as between 1984-85 and 1985-86, contrary to the declining profile we are looking for. But I am above all concerned that the smaller yard strategy, which was to be ready by midsummer, has been held up by work on these orders - which, by keeping the workforce at its present size, would preclude any option of putting that plan into effect for about two years.

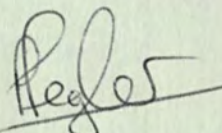
3 It is common ground that a substantial and continued reduction in current levels of support must be a precondition of keeping H&W in operation. The present proposal seems to me inconsistent with that aim. I believe we should discuss the scope for renegotiating the terms of this deal: the BSC order has an unacceptably high subsidy cost, but the BP one is actually worse in terms of the work content that

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the subsidy buys, since so much is to be bought in. We should also discuss the scope for finding alternative work for the yard. If both of those are out of the question, then I believe we should only consider approving the deal in return for explicit and quantified improvements to H&W's existing productivity targets, leading to a more sharply declining EFL profile, and a properly thought-through contingency plan for a smaller yard, with agreed criteria which should activate that plan or a more drastic alternative.

4 I am copying this minute to other E(NI) colleagues, Geoffrey Howe and Sir Peter Armstrong.

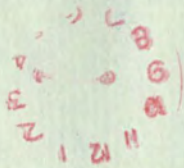


PETER REES

(Approved by the Chief Secretary
and signed in his absence)

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Not ind: Ship-building A77.



5 SEP 1984

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