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cc DTO

Prime Minister (2)
To note.
Agree to Ridley's line?
AT 26/1

PRIME MINISTER

Yes MT

I should forewarn colleagues that it is a very real possibility that the Hoverspeed ferry company will shortly go into receivership - perhaps by as soon as tomorrow.

Colleagues will recall that Hoverspeed was created in 1981 as a private sector company by the merger of BR's Seaspeed and Hoverlloyd - a subsidiary of the Swedish group Brostroms. Each parent took a 50% shareholding.

The two companies had both previously been consistent loss makers - and unfortunately Hoverspeed has failed to live up to hopes at the time of this merger that rationalisation might be the means of allowing a single viable hovercraft operation to survive.

At the end of the company's first year we reluctantly allowed BR to repeat a temporary guarantee for a share of the company's borrowing; but we made it clear that that process was not to be repeated. To allow further support of that kind would be contrary to our shipping policy of free fair competition, since it would give Hoverspeed an advantage over their private sector competitors. It would also be directly counter to specific assurances.

Brostroms came to see David Mitchell yesterday. If the company closes there will, regretfully, be a loss of some 600 jobs, and the only example of a major sea-going hovercraft ferry service will terminate. He explained the Government's firm view that privatised companies must stand or fall by their own efforts and that we could not

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accept that BR should give further guarantees, or should commit further money to Hoverspeed. BR had previously also taken that stance in their own discussions with the company. They have made it clear to Brostroms that they would be ready to transfer all their equity to them, if Brostroms agreed to meet the full guarantee requirements of the bank. The problem therefore now lies with Brostrom's and Hoverspeed's bankers, who must decide whether they can provide further support or should bring in a Receiver.

I am copying this to E(NI) colleagues, to the Foreign Secretary, the Secretary of State for Defence, and to Sir Robert Armstrong.

NR

NICHOLAS RIDLEY
26 January 1984

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c. HMT.
DoE
SO.
DTI
CS, HMT
D/N
D/M
CO
CDL.
+ others
+ bc.

bc Nick Owen

10 DOWNING STREET

From the Private Secretary

30 January 1984

Hoverspeed

The Prime Minister has seen your Secretary of State's minute of 26 January warning colleagues that the Hoverspeed Ferry Company might shortly go into receivership. The Prime Minister agrees that, should this happen, there should be no extension of BR's temporary guarantee.

I am copying this letter to the Private Secretaries of members of E(NI), Roger Bone (Foreign and Commonwealth Office), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Dinah Nichols,
Department of Transport.