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c: Mr Redwood

MR TURNBULL

SCOTT LITHGOW

We are not entirely content with the shape of the conditional agreement reached between British Shipbuilders (BS) and Trafalgar House (TH).

Firstly, TH's wish initially to lease the assets of Scott Lithgow will appear publicly as - and indeed may be - a lack of commitment to the yard. We would urge that BS try to secure a purchase agreement.

Secondly, we would like detailed negotiations to tighten up several details:

- A provision of £7 million for retraining and reorganisation seems to us excessive on top of redundancy costs.
- There is no incentive for TH to chase debtors of £7.4million and repay to BS the equivalent loan.
- The cost of a transfer payment to cover staff employees moving from the BS pension fund to the TH pension fund could be a sizeable liability and is not quantified.

All this aside, at £5 million the gap between the cost of closing Scott Lithgow and the cost of disposing of it to TH is not very wide. We believe that Ministers will have difficulty in defending a hasty deal with TH which is thought to block other bidders.

The gap could be narrower still, because the officials' paper deals with costs to BS rather than costs to the Exchequer. Depending on TH's Advance Corporation Tax position and whether a good deal more profitable work can be channelled through Scott Lithgow, TH could gain (and the Exchequer would lose) upwards of £10 million - and possibly two or three times that amount - from Scott Lithgow's accumulated tax losses. Likewise, repayment of £1 million in Regional Development Grant is a loss to BS, but not to the Exchequer. On the other hand, the additional PSBR costs of closing Scott Lithgow tip the balance towards the deal with TH. We cannot yet know whether the eventual cost of the TH deal will be more or less than the cost of closure.

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In these circumstances, we strongly support Mr Lamont's view that BS should be advised to hold the door open to other bidders while making sufficient progress to keep TH warm. TH put their proposal together with commendable speed. Other allegedly interested parties could do likewise - say by the end of next week, 17 February. Our aim should be to conclude a deal with TH which is commercially and presentationally defensible.

RJ.

ROBERT YOUNG
10 February 1984

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