

47/84C

RW 62/11

- PS/Secretary of State (L&B)
- PS/Mr Viggers (L&B)
- PS/PU (L&B)
- ① PS/Sir Kenneth Bloomfield ✓ 9/8
- Mr Burns
- Mr Semple
- Mr Gibson
- Mr Watkins
- Mr McDonnell
- Mr McConnell ESL
- Mr Roberts

DEPARTMENT OF ECONOMIC DEVELOPMENT  
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SECRET  
 106/4  
 - 9 NOV 1988  
 CENT SEC

② Mr. Spence 9/11

③ W Wilson for 15/11

PSDED 737/88

8 November 1988

T J Parker Esq  
 Chairman and Chief Executive  
 Harland and Wolff plc  
 Queen's Island  
 BELFAST BT3 9DU

*Mr. Spence*  
*Mr. Viggers*  
*Mr. Burns*  
*Mr. Semple*  
*Mr. Gibson*  
*Mr. Watkins*  
*Mr. McDonnell*  
*Mr. McConnell*  
*Mr. Roberts*

SUBJECT TO CONTRACT

Dear John,

Having consulted the Secretary of State and Mr Viggers prior to our meeting on Friday 4 November, I was able to outline to you verbally at that meeting the principal criteria against which DED will need to consider a proposal for a Management and Employee Buy Out (MEBO) of Harland and Wolff PLC. I undertook that Lazards would confirm the criteria in writing to Morgan Grenfell but, in the event, I thought it more appropriate that I should write direct to you.

The structure which we have in mind is that the MEBO team would acquire a new company (H&W 1988) into which the assets of H&W PLC would be transferred; contributions would be made by Government towards redundancy costs, unrecovered overheads during the first two years, necessary expenditure on rationalising or contracting the yard, and new capital investment; Government would provide full intervention assistance towards any new orders taken at the time of privatisation (and you have made it clear that the only major such order currently in contemplation is the Ultimate Dream cruise liner); and Government, which would retain H&W PLC, would sub-contract from that company to H&W 1988 the completion of the existing SWOPS and AOR orders.

The criteria which we have in mind are as follows:-

- (a) We will expect you to be able to satisfy us and our financial advisers that TCL has firm commitments for the financial resources to complete and operate the Ultimate Dream. None of DED's financial assistance towards the privatisation may be applied by H&W 1988 to invest in, or provide credit for, TCL or the Ultimate Dream.
- (b) The new company, H&W 1988, must be established on a proper financial footing with adequate equity to be provided by the new owners and other investors. The sum is for discussion.

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- (c) Government recognises that no investor is likely to invest in H&W 1988 unless the acquisition terms provide in some way for the generation of profit. Government is willing to discuss arrangements by which this might be achieved.
- (d) We would wish to be assured by you that the costings for the Ultimate Dream are reliable. If they are currently not so, then we would look to you to re-cost the vessel, and if necessary seek to obtain from TCL a higher price for the vessel than has been provisionally negotiated to date.
- (e) In reconsidering the costing of the vessel, you will wish to bear in mind that, if there are cost overruns, it will be the new owners and investors in H&W 1988 who will have to meet such overruns. The MEBO will need to take into account in its own financing plan that DED will not provide recourse, refund, performance or other guarantees for H&W 1988, nor meet cost overruns. It will be for the MEBO to consider carefully and explain to Government how such cost overruns will be accommodated.
- (f) An overriding consideration for Government is that its total exposure, in both cash and contingent liability terms, should be clearly identified at the outset.
- (g) We will need to review detailed cash flow forecasts, with appropriate sensitivities, for H&W 1988 over the build period for the Ultimate Dream, and a business plan which demonstrates how the MEBO is expected to be able to achieve international levels of productivity to ensure the yard can compete effectively for further orders and be profitable in the medium to longer term.
- (h) Government would wish to be satisfied that the MEBO had the support of a substantial majority of the workforce.
- (i) Government is prepared in principle to consider favourably future applications for intervention and other industrial development aid on the terms available in the UK at the time of the applications.
- (j) DED will support H&W 1988 efforts in seeking future MOD contracts.

You will wish to satisfy yourself on all of these points before proceeding with the MEBO.

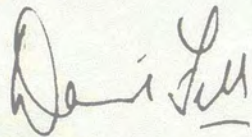
I confirm that my colleagues and I stand ready to meet you and your colleagues to progress our discussions on the MEBO further.

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These proposals are made without prejudice to DED's position and rights as the owner of H&W PLC. We will of course have to clear any proposal with both Ministers and the EC.

Yours sincerely

A handwritten signature in dark ink, appearing to read "David Fell". The signature is written in a cursive style with a large initial "D" and a long, sweeping underline.

DAVID FELL

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