

PA 47/84

370/10

m. Hynes

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UNDER/SEC 139/10
19 OCT 1988 cc
CENT SEC ①

PSDED 690/88

TO: PS/MR VIGGERS (L&B)

FROM: D FELL, DED

PS/Secretary of State (L&B)
PS/PUS (L&B)
PS/Sir Kenneth Bloomfield
Mr Burns
Mr Semple
Mr Gibson
Mr McDonnell

RW 140/10

② cc Mr Spence 19/10

③ DED 3

② *m. Hynes*

20/10

M. Burns

HARLAND AND WOLFF: DISCUSSIONS WITH MR TIKKOO

1. The Secretary of State, as planned, met Mr Tikkoo in London on 17 October 1988. I was the only other one present, and the purpose of this minute is to offer a fairly full record of the discussion.
2. The Secretary of State opened what turned out to be a really quite amicable meeting by noting that there had been a great deal of discussion about Mr Tikkoo's very exciting cruise liner project. A number of issues had been resolved, but we appear to have reached a crunch situation, and he felt it important that Mr Tikkoo and he sat down to see if there was a way forward. He noted that H&W was extremely important to Northern Ireland, but that the company had had an unhappy financial performance down the years, partly because Government could be relied upon to cover losses, acting as the ultimate banker, and Government now believed it best to return the company to the private sector. When Mr Tikkoo's Cruise Liner project had first come forward, it had been on the basis that the ship would be built by H&W in the public ownership, but the Government now believed that privatisation was the only basis upon which to proceed, and was grateful to Mr Tikkoo for his willingness to negotiate with Government on this basis.
3. Mr Tikkoo made it clear at the outset that he would still be more than willing to see the ship built by H&W in public ownership, and believed that he could provide 75% of the funding for the ship on that basis. But he went on to note that Harland and Wolff was not a very competent outfit; he believed that the company was sub-standard, and would need to improve greatly under private ownership if it was to succeed. Mr Tikkoo was therefore wholly in sympathy with Government's reasoning for moving the Yard to the private

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sector. The Secretary of State enquired whether Mr Tikkoo felt there was a way of taking the company forward into the private sector, to build the Ultimate Dream.

4. Mr Tikkoo made it clear to the Secretary of State that he must have an assurance, that day, that Government would be willing to give him a letter of intent indicating that it was willing to enable Mr Tikkoo to acquire the company, and that he had sole negotiating rights with Government. Until he had such an assurance, he would not be willing to discuss any details of the financial arrangements.
5. The Secretary of State reminded Mr Tikkoo that it was on his initiative that Government had announced the privatisation decision, and invited others to bid for the Yard. Mr Tikkoo agreed that that was so, but suggested that a cut off date of 30 September should have been set for all bidders. He pointed out that bankers could not wait forever, and unless he could tell them within a very few days that he had an agreement with HMG, they would simply lose interest. He went on to tell the Secretary of State that he was "wasting his time with Turks and other people who do not understand the tanker business".
6. The Secretary of State nevertheless indicated to Mr Tikkoo that he would like to go over all of the figures, so that there was no disagreement about the facts. Mr Tikkoo agreed. The Secretary of State then went through all of the figures in the first and third columns of the attached Appendix which was prepared by Mr Gibson for the meeting. Mr Tikkoo agreed all of the figures down to line 6 (line 7 was not, of course, within his purview). In agreeing them, however, he did make one significant concession, noting that the £96.8m figure which he had requested at line 2 was probably substantially overstated, and he felt that agreement could be reached at a figure of around £60m, which was very little more than the DED improved offer of £54m. (Indeed, later, he advanced the view that £57m would be a satisfactory figure from his point of view).

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7. The Secretary of State then raised the question of the request for a refund guarantee on the ship. Mr Tikkoo said it was normal practice for a shipbuilding Yard or "someone who is acceptable to the Banks", to provide such a guarantee. He confirmed that he had asked DED to provide the guarantee in this case, but he suggested that DED could get insurance from Lloyds that would remove 90-95% of the risk. The Secretary of State nevertheless suggested to Mr Tikkoo that he was essentially asking Government to take nearly the full risk, to which Mr Tikkoo replied that this was not so, since Government would be able to see a clear cut off point in the future, and that the risk to Government was not really as high as it was suggesting. The Secretary of State encouraged Mr Tikkoo to consider what would happen if there was, for example, a collapse in the Caribbean cruise market, to which Mr Tikkoo quickly responded that the cruise market was world wide, and he could simply switch to another geographical area. In a fairly long discussion on the question of the recovery guarantee, both sides largely stuck to their points of view, although Mr Tikkoo did note that he would personally be willing to explore with Lloyds whether they could provide insurance against all risks other than political strikes.

8. The Secretary of State then moved on to the ECGD aspects. He noted that normally ECGD might have offered up to 50% guarantee against a first mortgage on a standard ship like a tanker; but, he argued, the Ultimate Dream was a one-off special ship, and not a tanker. Mr Tikkoo became rather angry at that juncture, and noted that if that was an ECGD view, "ECGD were very ignorant". He indicated that at present, no one could get a first mortgage of more than 20% on a tanker, whereas cruise liners can attract a first mortgage of up to 65%. Under questioning from the Secretary of State, he agreed that this referred to ships already in existence, rather than those which might be existence in 4 or 5 years time.

9. The Secretary of State then asked Mr Tikkoo if he could deliver what he had promised, namely 75% funding against a first mortgage. Mr Tikkoo told the Secretary of State that he was confident that 75% could be raised on a loan/equity mix, which would include a first mortgage cover. The Secretary of State reminded Mr Tikkoo that ECGD had asked to see evidence of this 75% funding arrangement, but had not yet done so. Again Mr Tikkoo became angry, and retorted

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that he would not be ordered about by ECGD; that they were "minority interests in this game"; that they are badly informed; that they write rude letters and are totally incompetent. He indicated that his French bankers, BSFE had confirmed to Lazards that very morning that they could raise 75% as promised. (Subsequently in discussion with Mr Roberts of Lazards, the Secretary of State ascertained that what BSFE had said was that they thought that it would "probably be do-able" to raise 75% of the costs of the ship". Mr Roberts also confirmed that BSFE would not wish to mix Lloyds cover and the Government guarantee on the repayment issue: they would require the full repayment guarantee from Government).

10. Mr Tikkoo then asked the Secretary of State to focus back on his request for a letter of intent to transfer ownership of H&W to TCL. The Secretary of State replied that Government had made a very generous offer to TCL of £154m (line 6 in the table) as well as offering to write off all of the accrued loan debt of H&W. He asked Mr Tikkoo directly whether he thought it was possible to do business on the basis of that generous offer. Mr Tikkoo answered equally directly that it was not. He went on to forecast that if that offer were to be accepted, H&W would be bankrupt in 6 months. He indicated that if H&W had no reserve capital it would not exist, and insisted that Government must provide that capital, in the form of the requested cash reserve of £62.5m. He noted that it would take him some considerable time under his new ownership to "rid H&W of its current incompetence".
11. The Secretary of State noted that there would have to come a time when Government's continuing liabilities in respect of H&W would cease. He noted that he had major concern about Mr Tikkoo's belief that the Cruise Liner would probably be delivered 6 to 9 months late, with all of the cost over-runs that that would imply. Mr Tikkoo asked how, on the historical record of H&W, one could believe otherwise. He said that the outside world knew that H&W were always late, and that costs were higher than contract. New

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owners would have to have a buffer against that. He was not interested in taking a penny out of the Yard, but it was essential that the Yard built up reserve capital of about £100m in due course. If that target could be achieved, he would be willing to repay the £62.5m which he now requested from HMG.

12. The Secretary of State indicated that the cost to Government was really too high already, to contemplate going that further step. If he were to accede to all Mr Tikkoo's requests, it would be worth more than £200,000 per man employed in H&W. That would create many new ID projects in Northern Ireland. He indicated that what had been put forward to Mr Tikkoo was just about as far as Government could go.
13. In response, Mr Tikkoo said that in that case his view was that the shipyard was finished. The Secretary of State again asked Mr Tikkoo if he was saying that he would not be prepared to proceed on the basis of what Government had offered. Mr Tikkoo confirmed that that was the case.
14. Pressing the matter further, the Secretary of State asked Mr Tikkoo if he would be prepared to find any way of putting some investment of his own into H&W. Mr Tikkoo replied that he would not be prepared to do so over the first 4 or 5 years: after the Ultimate Dream was built, he would "support" the Yard. But he noted that he must keep his equity for the ship itself. He repeated that in his view the Yard had no future unless it had adequate capitalisation.
15. Both sides then agreed that it was not going to be possible to take the matter further forward, and the Secretary of State asked Mr Tikkoo what he would now wish to do. Mr Tikkoo said that he would be guided by the Secretary of State. Replying, the Secretary of State indicated that Government could no longer require Mr Tikkoo to restrict the options for building the Cruise Liner to H&W, and he accepted that Mr Tikkoo would have to negotiate with H&W an arrangement for passing on the design to other potential ship builders. The Secretary of State also told Mr Tikkoo that he respected the fact that he had hung on beyond the 30 September

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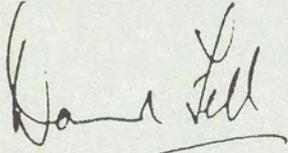
deadline in the Heads of Agreement with H&W, and suggested that it would be desirable that a joint statement be made indicating that the two parties had not been able to come to terms. Mr Tikkoo agreed with the Secretary of State's suggestion that the statement should come later the same week, and indicated that he would be content for Hambros to act on his behalf, while he was in India, to agree the content.

16. However, he made it clear that in his view, neither side should refer to any of the figures. If they did, he would feel the need to go public with his view that the Yard could not survive, following the breakdown of discussions. In further discussion, the Secretary of State explained that he thought he would have to say something at least about the generosity of the package, and the headings of the assistance offered. He thought it would be difficult not to mention any figures, but we would consider that, provided Mr Tikkoo did not say that he thought the Yard would now close.
17. Following further discussions involving the Secretary of State, Mr Parker and Dr Maloney, Mr Perrin of Hambros, and Messrs Roberts and Shrager of Lazards, it was agreed that an attempt would be made to finalise the agreed statement in the course of the next day, with John Parker announcing the decision to his work force at around 11 am on Wednesday 19 October, with the joint press release being issued very shortly thereafter, and the Secretary of State being available for lunch-time interviews. In the course of his discussions with Mr Parker and Dr Maloney, the Secretary of State stressed the need for both Government and H&W to be seen to be on the same side, and not making life difficult for one another. Mr Parker agreed that he would do this and give the other bidders for the Yard his support, provided that he could be satisfied that that held out a genuine prospect for the future of H&W. At present he did not have that level of confidence. Nevertheless,

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the Secretary of State did stress upon him the need to present a confident face to the work force, and indicate that there were others still interested in acquiring the Yard, and that everyone was working to try and achieve a good future for the company.

A handwritten signature in cursive script, appearing to read "David Fell", with a horizontal line underneath the name.

DAVID FELL
17 October 1988

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APPENDIX

TIKKOO CRUISE LINE PROPOSAL AND COUNTER PROPOSALS

	Tikkoo Proposal of 27.7.88	DED Counter Proposal of 16.9.88	DED Improved Proposal of 30.7.88 and 3.10.88
	£m	£m	£m
1. Intervention Aid on P3000	100 (later £104m)	100	100
2. Grants on unrecovered overheads, surplus capacity costs and future capital expenditure (Note 3)	96.8	35	54
3. Cash Reserve	62.5	-	-
4. Assistance with redundancies after completion of P3000 (Note 1)	-	-	10
5. Purchase of assets by Tikkoo Cruise Line	-	(10)	(10)
6. Value of proposal to Tikkoo Cruise Line	259.3	125	154
7. Residual liabilities to be paid by HMG (Note 2)	65.7	55	55
	325	180	209

NOTES

- DED has agreed to pay for redundancies within the first 2 years down to an employment total of 3,090. Mr Tikkoo would like us to bear the cost of any future redundancies so far as they involve employees at the date of transfer to ownership and accrued service at the date. HMT will resist this. The item is not costed separately but included in line 7.

2. These figures are approximate. We are in discussion with H&W and HMT to agree more accurate figures. They are cash figures and exclude write-off of £400m loans.
3. The reasons for the big difference in TCL's proposal and our counter proposal is that while TCL sought 100% grants on expenditure in a five year period from 1 April 1988 to 31 March 1993, we proposed a mixture of 100% and 30% grants in a two year period from 1 April 1989 to 31 March 1991. We reasoned that most of 1988/89 will be past before the deal could go through. On the main items, 100% grants on underutilization costs, there were no differences.