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C.(65) 165COPY NO. 6629th November, 1965CABINETFAIRFIELDS SHIPBUILDING AND ENGINEERING CO. LTD.Memorandum by the Chancellor of the Exchequer

The First Secretary of State proposes in C.(65) 162 that we should decide now to buy out the Fairfields' creditors and take over the yard. While I agree that our object should be to take the firm over, perhaps in association with private industry, I am sure it is essential that we should avoid taking on the encumbrance of the firm's present liabilities (which could be up to £8 million) and thus responsibility for bailing out the creditors.

2. If we are to avoid paying a grossly inflated price for the firm as a going concern we can only contemplate a take-over after bankruptcy, thus acquiring only the physical assets. I am told this would be very difficult to achieve since during and after bankruptcy operations the yard would probably have to close down, creating, apart from immensely tangled legal questions, precisely the problems of labour wastage and unemployed plant, equipment and site which we are striving to avoid. This leads me to consider whether a take-over might be arranged to take place more or less simultaneously with the declaration of bankruptcy at a price to be determined by arbitration. This would have the obvious advantages of circumventing the need to negotiate with the creditors and preventing any running down of activity. It also has the attraction of leaving open the possibility of flanking our stake in the enterprise with a contribution from private industry. In this connection Sir Isaac Wolfson told me that he had spoken today to the Receiver to the effect that he was still interested in the possibility of his (Wolfson's) participation, though he felt that the only means of keeping Fairfields going would be through a radical reconstruction, involving a new company and renegotiated contracts. Sir Isaac Wolfson is meeting the Receiver again on Thursday, 2nd December; and I feel that it would be desirable to await the outcome of this meeting before taking final Government decisions.

3. I am advised that recourse to the arbitration solution outlined above would also present serious difficulties, but I think it merits very careful examination before we become committed to any of the alternatives.

L. J. C.

Treasury Chambers, S.W.1.

29th November, 1965





