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COPY NO. 6620th December, 1965CABINETFAIRFIELDS SHIPYARDMemorandum by the First Secretary of State and  
Secretary of State for Economic AffairsPresent Situation at Fairfields

There is a great deal of uncertainty in the yard. The Receiver has managed to persuade the Committee of Creditors not to take action towards liquidation for a few days.

2. Reardon-Smith are proceeding with their discussions with foreign builders, but will not take any irrevocable decision without first informing the Department of Economic Affairs in the hope that the yard can be saved.

3. The Receiver has written to say that he cannot hold the position beyond this week.

Progress of Financial Negotiations

4. It has always been the intention to find an important industrialist with interests in Scotland to come in jointly on a fifty-fifty basis with the Government.

5. Sir Isaac Wolfson offered his participation through the Chancellor for a fifty-fifty company. When it came to completing arrangements he decided that he could not proceed.

6. On his return from the West Indies, Lord Thomson and his senior colleagues expressed interest. Negotiations proceeded to a point where Lord Thomson was prepared to contribute for half the equity of £1.5 million, a loan of half a million pounds being made available by the Government, and a conditional agreement having been arranged with the Receiver for the purchase of the assets of the yard (see Annex for details of arrangements with the Receiver). An announcement was about to be made in the House. At the last minute Lord Thomson was persuaded by his junior colleagues on the Board and his financial advisers not to go ahead.

7. Thus, after sixteen days spent in abortive negotiation, we had twenty-four hours in which to find an alternative before the time limit set up by Reardon-Smith expired at the close of Friday, 17th December.



8. Mr. Harold Lever, M. P., and Captain Robert Maxwell, M. P. were anxious to help in any way they could, but this was eventually thought impractical for political reasons. However, at a meeting attended by Mr. Lever and Captain Maxwell as well as national officials of the six more important Unions concerned, on Friday evening, the union representatives expressed their willingness to try to persuade their executive committees to make an equity investment in Fairfields.

9. The only remaining possibility of a Government partnership now appears, therefore, to be a consortium of up to five separate interests, to contribute £ $\frac{3}{4}$  million equity as in the proposed arrangements with Lord Thomson. At the present time this might be made up as follows:-

Iain Stewart & Associates	£ 150,000
Lord Thomson	150,000
Sir Isaac Wolfson	150,000
The Trade Unions	150,000
Another syndicate	150,000

This would purchase Fairfields shipyard (but not Fairfield-Rowan) from the Receiver for £ 2 million (and provide sufficient normal working capital; but, like any other, the new company would need cover for any additional temporary requirements for working capital from time to time. This could be provided by a commercial bank but I think it would be better to provide for drawings up to £ $\frac{1}{2}$  million for this purpose from the Treasury).

#### Alternatives available

10. There thus appear to be the following alternatives:

(i) (a) To proceed on the basis outlined in paragraph 9 as follows:

	£ m.
Government	. 75
Consortium (including Trades Unions)	. 75
Loan capital provided by the Government	<u>. 50</u>
	<u>£ 2. 00 million</u>

(b) If £. 75 million is not forthcoming from non-Government sources (but £ $\frac{1}{2}$  million is), to reduce the total equity to £ 1 million and increase the loan capital supplied by the Government to £ 1 million.

- (ii) Total nationalisation, which is unlikely to get satisfactory support from either the shipbuilders or the shipowners and it may thus prove difficult to run the shipyard as a viable commercial concern.
- (iii) Inform the Receiver that every effort has been made without success, in which event he will be forced to close the yard.



11. If my colleagues agree to (i) in principle, I will make one final effort to achieve this before the end of this week. If not, I am not myself attracted by alternative (ii) and I think I should announce today to the House that we have failed to save the yard despite the most strenuous efforts.

G. B.

Department of Economic Affairs, S. W. 1.

20th December, 1965



ANNEXArrangements with the Receiver

Shortly before the announcement that Lord Thomson was coming in for half the equity, a conditional agreement was made with the Receiver to acquire the fixed assets, stores and work in progress of the shipbuilding company for £1.9 million. This figure was based on a valuation commissioned jointly by the Receiver and the Department of Economic Affairs for the fixed assets and a certificate from Peat, Marwick, Mitchell and Co. for the stores and work in progress. The valuation gave the value on break-up of £.79 million and on the sale as a going concern assuming a return to profitable trading conditions within a period of five years of £1.855 million. The Receiver obviously expected an offer between these two figures, but in practice the chances of his obtaining an offer from anyone else at the higher figure was remote. Yards which closed down recently have been realising substantially higher figures than was expected and, therefore, the offer had to be somewhat above the break-up value and one which the Receiver was able to defend if challenged. The offer of £1 million for the fixed assets was supported by Mr. Leach of Peat, Marwick, Mitchell. The stores and work in progress were assessed at £.859 million by Peat, Marwick, Mitchell. As soon as the assets have been acquired and the rights to the contracts have been transferred there is £1.3 million due to be paid in respect of payments on account from shipowners.

2. There are losses for tax purposes of approximately £1.9 million for the shipyard, which will be inherited by the new company.

3. The Receiver has been informed that the Government will not be able to acquire any of the assets of Fairfield-Rowan, the engineering subsidiary company. The Receiver will endeavour to sell Fairfield-Rowan as a going concern.

20th December, 1965







