



10 DOWNING STREET

Prime Minister (2)

Trinity House are replacing  
the lights "MERMAID".  
The Korean offer is £9.6 million  
and the UK offer is £12.5 million

Both D/Tsp and DTI believe  
the gap is too large to bridge  
by subsidies. Nevertheless  
the Opposition may well complain.  
We will seek backing when the  
announcement is made.

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AT

12/6



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186  
GTN 215) .....  
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

**CONFIDENTIAL**

David Mitchell Esq MP  
Parliamentary Under Secretary  
of State  
Department of Transport  
2 Marsham Street  
LONDON SW1P 3EB

11 June 1985

*Dear David*

**TRINITY HOUSE "MERMAID" REPLACEMENT**

Thank you for your letter of 23 May setting out the case for allowing Trinity House to place an order for a light house tender with Hyundai.

I reluctantly accept your conclusion that the order should go to Hyundai. My officials have already done what they can to lower the expectations of the domestic bidders. Recent conversations at official level indicate that BS are reconciled to losing this order.

If there is any complaint about the Trinity House decision, I think the cost differences between the UK and Korean bids should be publicised in defence of that decision. Publicity for the high proportion of UK-sourced components Hyundai intend to buy for the order - totalling some 56% of the contract price - would also help diminish criticism.

I am copying this letter, as you did yours, to the Prime Minister, Tom King and John Wakeham.

*Norman Lamont*

NORMAN LAMONT

TUEATD

GOVT. MACH : General Lighthouse Authorities,

June 1982

12/4



NIS 207  
AT 4/6

Government Chief Whip  
12 Downing Street, London SW1

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11 June 1985

TRINITY HOUSE: "MERMAID" REPLACEMENT

The Chief Whip has seen your Minister's letter of 23 May 1985 to the Minister of State for Industry about this Order. Mr Wakeham has no observations on the decision itself, but he believes that any announcement should be made when the House of Commons is sitting, and not during a Parliamentary recess.

I am copying this letter to the Private Secretaries to the Prime Minister and the Secretary of State for Employment. As well as the Minister of State for Industry.

M MacLean  
Private Secretary

Tony Poulter Esq

GOVT MACHINERY: General

Lighthouse Authorities: June 1982

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NBPM AT 27/5



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

Norman Lamont Esq MP  
Ministry of State for Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1

23 May 1985

*Dear Norman,*

TRINITY HOUSE : "MERMAID" REPLACEMENT

In your letter of 29 January to Nicholas Ridley you suggested that our officials should look at a number of detailed points bearing on the order for the replacement of the "MERMAID", a Trinity House lighthouse tender.

Since then there have been extensive discussions and Trinity House have secured revised bids from Appledore, Richards and Hyundai. All are now lower than those put forward in October last, but Hyundai have increased their lead and (at first glance) Richards are in second place, a little ahead of Appledore. Richards, however, are not really in the running: they require a longer construction period, and a less favourable payments sequence than Appledore; and these factors together, in the full investment appraisal, put them in third place. Trinity House, too, have always had misgivings about Richards' contract terms. So the competition (such as it is) is between Appledore and Hyundai.

The Hyundai basic ex-yard price is £7.9m, but a further £1.7m has to be added to cover all the miscellaneous costs, making their total project cost £9.6m. This bid is based on 50% being paid in sterling - reflecting a high UK component content in construction - and 50% in US dollars at a rate of 1.27. The all-sterling or all-dollar bids would not be greatly different. Because of exchange rate fluctuations it is impossible to provide figures that are accurate from one day to the next, but it may be helpful to say, that for each percentage point shift in the rate above or below 1.27 the sterling price changes by about £35,000. (Today's rate is 1.26.)

The Appledore basic ex-yard price is £12.5m. I am told that under existing EC rules the maximum Intervention Fund support Appledore might get is 22½% of the Hyundai price of £7.9m, ie, £1.8m. But even with that help Appledore would still be £2.6m more expensive than Hyundai. I am told, too, that there is no significant prospect of additional Intervention Fund support that would reduce Hyundai's lead.

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Trinity House have declared that they are satisfied on merits that the quality of Hyundai's work is at least as good as that of Appledore, and that they have a much higher confidence in Hyundai's ability to deliver on time (which has important cost implications because of the savings expected from operating the new vessel). Another important point is that 56.7% of the vessel by value will be procured in the UK if it is purchased from Hyundai; this is for engines, electronical equipment, navigation aids, cranes, boats and air conditioning.

On costs, we have no defensible alternative but to place the order with Hyundai. To go to Appledore would mean spending £2.5m more from the GLF; it is private money and any expenditure requires the statutory consent of the Secretary of State: his role is that of a quasi-trustee, exercising prudent stewardship, having due regard to the interests of the shipowners who pay the light dues, and the GLAs who depend upon them for their income. The shipowners fully appreciate the Government's concern with the plight of UK shipbuilders, but do not see it as a justification for imposing unwarranted additional costs on the GLF. If we were to approve an unnecessarily expensive order the shipowners would be outraged and I cannot see what defence we could make if the facts were put before the PAC.

The gulf between the bids is such that we see no sensible alternative to placing the order with Hyundai. This conclusion is not affected by the availability of "soft" loan finance. The cheapest method of financing would be to borrow the bulk of the basic price from the Bank of Korea: for a contract placed with Hyundai they would advance 80% of the basic price at 9% repayable (in US dollars) over 8 years (and it is reported in "Lloyds List" that the Bank is being pressed hard by Korean shipbuilders to agree to softer terms).

If Trinity entered such a contract the most satisfactory way of meeting these repayments would be for the GLF to buy at the outset tranches of US Treasury stocks with matching maturity dates and amounts. The sale of each tranche on maturity would yield the sum (in dollars) required to meet the repayment instalment. This would eliminate any uncertainty about the GLF's liabilities because of movements in exchange rates during the repayment period. Quilter Goodison, who manage the GLF investments for us, advise that the purchase would be a straight-forward operation; the only cost incurred would be Quilter's commission for buying and selling the stocks. Quilters have told us that if the Bank of Korea advance 80% of Hyundai's basic price (£6.3m) at 9% then at today's prices and exchange rates it would cost £4.2m to purchase US Treasury stocks to produce a dollar stream to repay the principal and interest over 8 years. The remaining 20% (£1.6m) of the basic price would be paid in dollars at the appropriate contractual date. In addition, the £1.7m miscellaneous costs would have to be met during the construction period. (Nearly all this expenditure is in sterling). On that basis, the cash cost to the GLF would be about £7.5m, falling in 1985/86 and 1986/87. (Soft loan finance is available, on slightly better terms, from UK

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sources for an order placed in a UK yard, but the Hyundai lead, on a full investment appraisal basis, would still be £1.7m ahead of Appledore).

I fully appreciate and indeed share your concern to do all that reasonably can be done to support the British ship-building industry. I know, too, that Trinity House are strongly disposed to place an order in the UK. It gives me no pleasure at all to see this work go to a foreign competitor. But the arguments in favour of Hyundai are so strong that I do not think there is any real choice. I propose, therefore, to authorise Trinity House to place the order with them.

I am sending a copy of this letter to the Prime Minister; to Tom King in case he has observations on the employment implications; and to the Chief Whip in view of the political "banana skin" implications of Trinity House buying a foreign vessel with Ministerial consent.

*Yours ever*  
*David*

DAVID MITCHELL

PS. Since dictating the above I learn that Appledore have increased their bid by £484,000 (4½%).

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Gov. Mack: Lighthouse Authority.  
June 22