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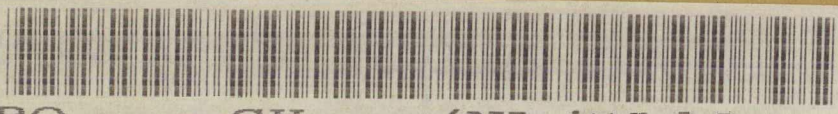
PART A

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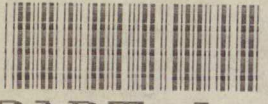
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notify REGISTRY of movement)

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PO -CH /NL/0183



PART A

Begin: 7/1/88

DD: 25 years

Ends: 21/12/88

*[Signature]* 6/9/95

CHANCELLOR'S 1988 PAPERS  
ON THE OPERATION OF  
BRITISH DOCKS

PO -CH /NL/0183

PART A

SECRET

bf to J for mtg folder

FROM: A R WILLIAMS

DATE: 7 January 1988

1. MR REVOLTA *1 agree. OR ST.*
2. CHANCELLOR

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Gilmore

11/1

#### DOCK LABOUR SCHEME

1. The Prime Minister has called a meeting for 12 January to discuss Mr Channon's minute to her of 5 December on the dock labour scheme. Mr Channon has proposed the preparation of legislation to abolish the scheme, a place for the Bill in the 1988-89 session, compensation arrangements for former Registered Dock Workers (RDWs) who lose their job after abolition, and the publication of a White Paper in April/May announcing the Government's intention.

#### Line to take

2. Strongly support early abolition of the scheme, including legislation in the 1988-89 session and a public announcement in the Spring of the Government's firm intention to proceed. Accept the principle of compensation for RDWs who lose their jobs in a specified period after abolition, but propose that the Government should make a smaller contribution to the cost than that proposed by Mr Channon. This should be contained within the existing provision of the Departments of Transport and Employment. You have already made these points in your minute of 15 December to the Prime Minister.

3. As a fallback, if necessary to secure agreement to the principle of early abolition, accept Mr Channon's proposed higher level of compensation. The public expenditure cost would be in the order of £20m. Leave details of compensation scheme (likely to be complex) to be discussed by officials.

4. A speaking note containing points which you may wish to make is attached.

Discussion

5. Mr Channon brought forward in June 1987 proposals to abolish the dock labour scheme which were discussed by a small group of Ministers. There was a difference of view on whether the benefits of abolition were worth the cost of industrial action by dock workers, and officials were asked to consider whether there were politically less difficult alternatives to outright abolition. A paper by officials, which concluded that there was no such alternative, was discussed in July. Ministers accepted that that the scheme must either be allowed to remain or be abolished, but a decision either way was not taken then. Mr Channon was asked to bring forward proposals for compensating RDWs should it be eventually decided to proceed with abolition.

6. The paper circulated with Mr Channon's minute fulfills this remit. It is, on the whole, helpful and sensible. It firmly rejects the idea of paying every RDW a lump sum in compensation for the loss of his "rights". Such payments would be expensive (up to £500m), or ineffective in persuading RDWs not to take industrial action against abolition of the Scheme, or (most likely) both. They would also be a bad precedent and very difficult to justify to workers who have never enjoyed the privileges of RDWs.

7. Instead Mr Channon proposes that former RDWs who lose their jobs following abolition should be compensated, to the extent of £25,000 a man for those going in the first year after abolition, reducing by £5,000 a year over each of the next 3 years, with nothing thereafter. The Government and the port employers would each contribute 50% of the compensation. You have suggested that the Government contribution should be only 40%, implying a maximum payment of £10,000 per person. This would cost about £15m, some £5m less than Mr Channon's proposal, on the assumption that about 2,000 RDWs, out of an overall total of some 10,000, would lose their jobs in the 4 years after abolition. It would probably make sense to fix the level of the Government's contribution in cash terms rather than as a percentage of total compensation. Officials will need to discuss the precise details when Ministers have agreed the general principles.

8. Compensation, however, is very much a secondary issue. The key question remains whether to proceed with abolition of the scheme and, if so, when. The arguments against abolition are the same as they were in the Summer: it is virtually certain to provoke a dock strike, whatever the precise terms of any compensation offered. The July paper by officials considered that the Government would need to be prepared to face up to patchy and short-lived action (say 2-3 weeks) in non-Scheme ports, a complete stoppage of at least 6-8 weeks in the majority of scheme ports with some of the major older ones (including London, Liverpool and Southampton) staying out for longer, and attempts by the TGWU to disrupt all seaborne trade by calling on other workers for support.

9. However the assessment by officials that the potential benefits of abolition and associated reform of the ports industry were worth the risk of industrial action on this scale has been strengthened by recent events. A port employer at Liverpool has recently decided to deregister (ie cease business), making up to 247 RDWs surplus. As compulsory redundancy is impossible under the dock labour scheme, this means that one of three undesirable consequences follow: someone, and this effectively means the Government, has to offer sufficiently large severance payments to the surplus RDWs to persuade them to go voluntarily (the expenditure consequences are discussed in paragraphs 16-17 below); or the main port employer, the Mersey Docks and Harbour Company (MDHC), has to take on the surplus workers. If both the Government and the MDHC refuse to pay this price, the TGWU would, almost certainly, call a national dock strike.

10. This case demonstrates clearly that so long as the dock labour scheme continues there will be unpredictable demands on public expenditure, pressure on port employers to retain or take on surplus RDWs, and the constant risk of industrial action to enforce RDWs rights under the Scheme. Furthermore, the scheme inhibits the development of an efficient and internationally competitive UK ports industry, and represents a conspicuous distortion of the labour market.

11. The Government has on several past occasions agreed that the scheme should be abolished, but that the time was not yet right. There is unlikely to be a better time to proceed than this Spring.

12. In previous discussions Mr Clarke (in his former role as Employment Minister) argued quite strongly that the cost of a dock strike would outweigh the benefits of abolition. He will be attending this meeting in his present DTI capacity. We do not know what view Mr Fowler will take but his officials have expressed doubts about the value of abolition in comparison with the cost of a strike.

### Other aspects of a Ports Bill

13. Abolition of the dock labour scheme, if agreed, would be put in the context of a Ports Bill which also provided for the privatisation of public trust and municipal ports, and the elimination of central and local government subsidies to ports. Mr Channon has not yet put forward his latest thinking on these points and they are unlikely to be discussed at the meeting. They are, however, welcome in principle.

14. Abolition of the scheme would probably also have to go hand in hand with steps to ensure that there was no reversion to the worst features of casualism in the ports industry, which led to exceptionally poor industrial relations. The port employers as a group have said that they want to avoid this and the best way forward would be for the issue to be resolved by industrial agreement. However Mr Channon has kept open the possibility of legislative provision in his Bill.

### Shorter term problems

15. Although the meeting has been called to discuss the longer term, Mr Channon may raise two more immediate problems.

16. The first concerns what to do about the 247 surplus RDWs at Liverpool, mentioned in paragraph 9 above. Mr Channon would like to offer them severance payments of £35,000 per person (wholly funded by the Government) on the grounds that other RDWs at Liverpool have been offered this much, and he does not think that anyone will volunteer to go for less. The cost would be up to £8.7m.

17. The Chief Secretary wrote to Mr Channon on 6 January arguing that the Government should not contribute more than the £25,000 per person, on the following grounds:

*behind the divider,  
together with other pps.  
This letter  
and  
other  
related  
papers*

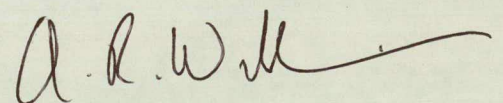
SECRET

(i) £25,000 is the normal maximum Government contribution to port severances when an employer deregisters. To pay £35,000 in this case would make it very difficult ever to return to the lower figure in future.

(ii) We cannot be sure, until the offer is made, that sufficient volunteers will not come forward for £25,000. Alternatively the MDHC, faced with the prospect of a strike, might be prepared to top up the £25,000 or absorb some surplus RDWs.

(iii) Even if the TGWU does call a strike, it is far from clear that it will be very serious outside Liverpool. RDWs at other ports and dock workers at non-scheme ports are not likely to feel particularly sympathetic towards Liverpool men who have been offered severance payments of £25,000.

18. The second issue, less likely to be raised, concerns Government contributions to RDW severances in 1988-89. Mr Channon and Mr Fowler have proposed £12,500 per person (50% of £25,000) in normal, ie non-deregistration, cases, the same amount as in 1987-88. The Chief Secretary is pressing for a maximum of £10,000, to continue the downward trend of Government contributions. To an extent this question is related to decisions about the longer term. If Ministers agree to Mr Channon's scheme of compensation after abolition (which involves Government contributions of £12,500 per person), the case for holding out for lower payments in the interim is that much weaker.



A R WILLIAMS

SECRET

## SPEAKING NOTES

- Any credible policy to encourage a more competitive and efficient ports industry must involve abolition of dock labour scheme. Rigidities imposed by scheme a constant drag on good management.
- Forthcoming deregistration at Liverpool a striking illustration of evils of scheme. All possible outcomes - expensive Government funding of severance payments, MDHC taking on unwanted RDWs, or a strike - highly unattractive. Will face recurrence of this sort of problem as long as scheme continues.
- Have agreed that scheme will not wither away by itself, and that there are no satisfactory half-way houses. Must therefore act on abolition.
- See no prospect of a better time to announce our intentions than this spring. Should make it quite clear that this is a firm commitment, and follow up with necessary legislation in 1988-89 session.
- Agree with Paul Channon that there is no case for compensating all RDWs for loss of "rights". Would be unjustified, expensive and very likely ineffective at buying off opposition.
- Accept that compensation payments to former RDWs made redundant within 4 years of end of scheme reasonable. But would like Government contribution to these payments to be a little smaller than Paul proposes. Leave officials to consider precise details.
- Cost of any compensation scheme to be met within existing provision, by offsetting savings elsewhere.





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

*ppp*

Paul Gray Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

CHIEF SECRETARY	
REC.	11 JAN 1988
ACTION	Mr MACANAN
CC: ES	Mr ANSON
	Mr KEMP, Mr ADAMS, Mr MOELLER
	Mr TRENKLE, Mr PLATT
	Mr PEARSON, Mr GRAY
	Mr A WILLIAMS
	Mr GALL

11 JAN 1988

Dear Paul,

*Mr BURNETT, Mr GURDIE, Mr PEARSON, Mr GRAY*  
*Mr HENNING, Mr POLLOCK, Mr A WILLIAMS*  
*Mr GALL*

**SURPLUS REGISTERED DOCK WORKERS AND THE DOCK LABOUR SCHEME**

The Prime Minister has called a meeting tomorrow to discuss my Secretary of State's minute of 5 December on the Dock Labour Scheme. She also had a copy of my Secretary of State's letter of 21 December to the Chief Secretary about the immediate problems of another 247 surplus registered dock workers (RDWs) at the port of London and possibly as many again at Liverpool.

The Chief Secretary and my Secretary of State have essentially reached agreement about severance payments in London. But my Secretary of State would like to bring colleagues up to date on the position at Liverpool. I therefore enclose for other Ministers a copy of his letter of 21 December.

The risk of trouble in the short term at Liverpool seems to have receded. The biggest independent stevedore, who employs 242 RDWs, announced last week that his business would close on 13 February. But the Mersey Docks and Harbour Company would like the stevedores' trade to remain in the port of Liverpool. If it does, many of the RDWs will need to be retained. It is not yet clear how many more RDW jobs in the port will actually become surplus, and how many more severances, if any, may be needed. The situation is very fluid. There could yet be industrial action at Liverpool; and it could become the latest in a succession of potential flashpoints over the Scheme as a whole. But at the moment the risk of the latter at least seems small. Officials here are in close touch with the Mersey Docks & Harbour Company, who face some difficult interrelated problems, and will clarify the position as quickly as they can.

Copies of this letter go to the Private Secretaries to the Leader of the House of Lords, the Chancellor of the Exchequer, the Lord Privy Seal, the Secretaries of State for Employment and for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary and to Sir Robin Butler.

Yours sincerely,  
*Neil Hoyle*

N T E HOYLE  
Private Secretary



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EE

01 212 3434

37

(3)

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

21 December '87

Dear Chief Secretary,

SEVERANCE OF REGISTERED DOCK WORKERS IN LONDON AND LIVERPOOL

There has belatedly come my way a copy of your reply of 11 December to Norman Fowler's proposals to increase the statutory limit of his funding of severance payments to registered dock workers (RDWs) at ports other than London and Liverpool and to extend the existing severance arrangements for another 12 months from 1 April 1988.

I entirely support Norman's view that, whatever may be decided on wider issues, we must be prepared to continue contributing to the cost of RDW severance payments in 1988/89 and that we should do so on the existing terms of paying 50% of up to £25,000 and 100% where an employer deregisters. I should want to be able to do this in London and Liverpool. I note your wish to delay a decision on these terms for a little while. There is however a procedural point I should like to make progress on meanwhile. We need to secure the approval of the European Commission under state aid rules to any continuation of support to the ports of London and Liverpool after 31 March 1988. As you know, the Commission's wheels often grind slowly; so I hope you will agree that I can submit a case to the Commission immediately after Christmas, in terms that do not prejudice your decision.

Meanwhile, however, I have a more urgent problem for 1987/88. The Port of London Authority has just decided to close down a heavily loss-making facility at Tilbury, making 247 RDWs surplus on top of a surplus of 25 it is already carrying as a result of riverside wharves having gone out of business earlier this year. This amounts to 22.5% of its labour force. In Liverpool the biggest independent stevedore, Liverpool Maritime Terminal (a subsidiary of Ocean Transport and Trading) has decided to close down its operation and deregister as an employer of RDWs leaving

CONFIDENTIAL

242 RDWs to be reallocated; and a smaller employer, with 5 RDWs, has made a similar decision. This is about one-sixth of Liverpool's labour force. In both ports the employers want to press ahead rapidly in January with the closures.

Under the terms of our existing agreement with the port employers the Government is expected to contribute to the cost of these severances. But I have no financial provision. When our officials discussed during the summer the additional £13m requirement for severances then forecast at the two ports (and since increased to £14.5m), we hoped to find at least partial offsetting savings on other subheads, and it was agreed to leave the question of a call on the Reserve until later. We are still refining our figures for the outturn report which is due at the Treasury shortly, but it looks as though we shall be able to identify savings of only about half the requirement and will have to seek a call on the Reserve for the balance. To that would therefore, I fear, have to be added the cost of these 494 new severances if the Government is going to contribute towards them at all.

Both ports are convinced - and so, very reluctantly, am I - that there is no hope of securing the numbers of severances needed unless the maximum payment offered is £35,000. The reasons are that in London the present maximum of £25,000 has manifestly not succeeded in attracting enough volunteers for the severances that had already been required this year; and in Liverpool the Mersey Docks & Harbour Company are still in the middle of a much delayed severance programme based (with our agreement) on a £35,000 maximum, so no docker would be prepared to go for less. Even if £35,000 is offered, no one can be certain that enough volunteers will be forthcoming at either port.

The PLA has asked me to contribute up to £25,000 per man (as we did in a special scheme to clear a huge surplus just over a year ago). I would propose, however, to stick at no more than £12,500, leaving them to find the rest. It will mean a very tough control of budget and cash flow by them in 1988, but though it will be painful I believe they can manage it. I would, however, be prepared, in respect of the 25 severances left over from the closures of wharfingers earlier in the year, to increase our maximum payment from £25,000 to whatever higher figure the PLA decides to pay to the generality of its RDWs, subject to a ceiling per man of £35,000. Bearing in mind what I propose below for Liverpool, this would slightly soften the blow to the PLA of not meeting their main request. The maximum total cost to the Government would be £3.35m.

At Liverpool I fear I see no practical alternative to our being prepared to meet the full cost of the severances, at up to £35,000 a man. If we stick at a ceiling of £25,000, neither LMT nor the MDHC has any obligation to pay anything towards the severances, nor will they do so. I am in no position to put any pressure on them. LMT can close down and walk away from the

problem with impunity, whenever they choose. The end result would be a dock strike. The dockers would spurn the offer of £25,000; MDHC would refuse to absorb them; and the dockers would have to be placed on the temporarily unattached register, which the TGWU would be bound to make the cause of a national strike. The cost of our paying up to £35,000 a man would be between £4.4m and £8.6m, depending on whether MDHC were willing and able to negotiate satisfactory terms for handling LMT's cargo elsewhere in the port. If they were, they think they would need to take on about half of LMT's RDWs.

In total, therefore, I am proposing an additional cost to the Government in 1987/88 of between £7.75 and £12m, depending on whether LMT's business is retained in Liverpool. Trying to put off the cost until 1988/89 is of little avail. While in London it would result in a continuing drain on the PLA's finances and a souring of relationships for no very good purpose, in Liverpool we are powerless to prevent LMT pulling the plug whenever they choose. We should need to think most carefully before setting off down a road that would lead to a national dock strike.

I must therefore ask you to give this very urgent consideration. I am under pressure from both the PLA and the MDHC for an early decision: it will take them the best part of three months to secure the severances, and they need to initiate action early in January if they are to succeed before the end of March. Whatever our eventual decision, I also need to put in hand an approach to the European Commission regarding 1988/89.

Because of the link with other matters, I am sending copies of this letter to the Prime Minister, Norman Fowler and to Sir Robert Armstrong.

Yours Sincerely,

Jon Cunliffe

P.P. PAUL CHANNON

(Approved by the Secretary of State and signed in his absence)

CONFIDENTIAL

2502/3/11

SECRET

FROM: A R WILLIAMS

DATE: 11 January 1988

CHANCELLOR

*Ch*  
*Main brief is in*  
*Mr W's note of 7/1, behind.*

cc Chief Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Gilmore  
Mr Revolta

*AR*  
*11/11*

**DOCK LABOUR SCHEME**

1. Mr Channon has written again (11 January) about severance of registered dock workers (RDWs) in Liverpool, referred to in paragraphs 9, 16 and 17 of my brief of 7 January.

2. The latest news is that in order to gain the business currently handled by the employer who has decided to deregister, Liverpool Maritime Terminal (LMT), the Mersey Docks and Harbour Company (MDHC) might have to take on the larger part of LMT's RDWs. If so, and if as a consequence the increase in the number of surplus RDWs at Liverpool is fairly small, Mr Channon suggests that he might be able to go along with the Chief Secretary's proposal that the Government should offer severance payments of no more than £25,000 per person. We will not know whether this rather satisfactory outcome is achievable, however, until Mr Channon has received the MDHC's assessment of the position.

3. So far as the brief is concerned, it is still fair to quote the Liverpool case as an example of the problems that could be inflicted by the dock labour scheme at any time. But I have slightly amended the second paragraph of the speaking note (revised version attached) to take account of the latest development. It now seems unlikely that Mr Channon will wish to spend much time at the meeting discussing the Liverpool problem, though in principle the Treasury arguments remain as set out in paragraph 17 of the brief.

*A.R. Williams*

A R WILLIAMS

SECRET

## SPEAKING NOTES

'Last bastion of established TV practices'

- Any credible policy to encourage a more competitive and efficient ports industry must involve abolition of dock labour scheme. Rigidities imposed by scheme a constant drag on good management.
- Forthcoming deregistration by LMT at Liverpool a striking illustration of evils of scheme. Unless, ~~fortunately~~ <sup>seriously (inuitash)</sup> MDHC has need of most of LMT's RDWs, all possible outcomes - expensive Government funding of severance payments, MDHC taking on unwanted RDWs, or a strike - highly unattractive. Will face recurrence of this sort of problem as long as scheme continues.
- Have agreed that scheme will not ~~with~~ <sup>with</sup>er away by itself, and that there are no satisfactory half-way houses. Must therefore act on abolition.
- See no prospect of a better time to announce our intentions than this spring. Should make it quite clear that this is a firm commitment, and follow up with necessary legislation in 1988-89 session.
- Agree with Paul Channon that there is no case for compensating all RDWs for loss of "rights". Would be unjustified, expensive and very likely ineffective at buying off opposition.
- Accept that compensation payments to former RDWs made redundant within 4 years of end of scheme reasonable. But would like Government contribution to these payments to be a little smaller than Paul proposes. Leave officials to consider precise details.
- Cost of any compensation scheme to be met within existing provision by offsetting savings elsewhere.



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

CH/EXCHEQUE	
REC.	11 JAN 1988
ACTION	CST
COPIES TO	

Paul Gray Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

*Other pp. in Liverpool  
behind the divider. - 11 JAN 1988*

*Dear Paul,*

**SURPLUS REGISTERED DOCK WORKERS AND THE DOCK LABOUR SCHEME**

The Prime Minister has called a meeting tomorrow to discuss my Secretary of State's minute of 5 December on the Dock Labour Scheme. She also had a copy of my Secretary of State's letter of 21 December to the Chief Secretary about the immediate problems of another 247 surplus registered dock workers (RDWs) at the port of London and possibly as many again at Liverpool.

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*Yours sincerely,*  
*Neil Hoyle*

N T E HOYLE  
Private Secretary



*[Handwritten signature]*

Ch,

You asked about the state of play on the Dark Labour Scheme.

It rests as recorded in Mr Gray's letter of 12 January i.e. "review the position again in the Autumn after the Queen's Speech" ('X' overleaf).

HE are keeping a close eye to make sure this does not slip.

*[Red handwritten signature]* 1/13





10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	13 JAN 1988
ACTION	MRA.R. WILLIAMS
COPIES TO	CST SIR P. MIDDLETON MR ANSON MR GILMORE

From the Private Secretary

12 January 1988

Dear Sir,

DOCK LABOUR SCHEME

The Prime Minister held a meeting this morning to discuss your Secretary of State's minute of 5 December and subsequent correspondence. There were present the Chancellor of the Exchequer, the Secretaries of State for Employment, Trade and Industry and Transport, the Chancellor of the Duchy of Lancaster, the Lord President, Sir Robin Butler and Mr. Wilson (Cabinet Office) and Mr. Wybrew (No. 10 Policy Unit).

The meeting noted that no immediate decisions were required at this stage but that your Secretary of State wanted guidance about the basis on which work should be proceeding.

On timing, it was argued that it would be tactically unwise to publish a White Paper in April 1988 announcing the abolition of the Dock Labour Scheme, when there was no prospect of securing the passage of legislation in the 1987-88 session. This would allow too long a period in the run-up to the winter in which opposition could build up. It would be much better only to make an announcement when it could be followed swiftly by legislation. This pointed to February or March 1989. It was also argued that, although there was a case for a single comprehensive Ports Bill, it would be better to confine the legislation to provisions which were directly essential to abolition of the Scheme. The privatisation of trust and municipal ports and the elimination of central and local government subsidies could then be dealt with separately in a second Bill in the 1989-90 Session of Parliament on the basis of consultations undertaken once the first Bill had received Royal Assent.

Summing up the discussion, the Prime Minister said that the proposal for a White Paper in April 1988 should not be pursued. Further work should be directed to a possible announcement in the early part of next year, probably without a White Paper, followed by the quick introduction of legislation confined to what was needed to achieve the abolition of the Scheme. No reference to the legislation should be made in The Queen's Speech and no Instructions should be sent to Parliamentary Counsel for the time being,

but a suitable slot in the legislative programme should nonetheless be reserved. On the substance of your Secretary of State's proposed scheme of compensation payments, she favoured a maximum Government contribution of 50% of £25,000, leaving it to the employers to top that figure up to, say, £35,000 if they wished to do so. The costs of the scheme would need to be contained within existing public expenditure provision.

In conclusion the Prime Minister said that no decision had been taken and the group would need to review the position again in the Autumn after The Queen's Speech. Your Secretary of State was of course free to bring the issues back before then if he needed further guidance or if an emergency were threatening. It was important to ensure that the papers were handled on a strict need-to-know basis and departments should keep the sensitivity of the proposals in mind during their further work. Ministers would maintain the same line as before in public, subject to any improvements in presentation which those concerned might be able to suggest.

I am copying this letter to the Private Secretaries of those who attended the meeting, and to Sir Robin Butler and Mr. Wilson.

*Your sincerely,*  
*Paul Gray*

PAUL GRAY

Roy Griffins, Esq.,  
Department of Transport.

SECRET

~~DT~~  
FROM: D C W REVOLTA  
DATE: 8 February 1988

FINANCIAL SECRETARY

cc Chancellor  
Chief Secretary  
Sir Peter Middleton  
Mr Anson  
Mr Monck  
Mr Gilmore  
Miss Evans

**QL BRIEFING: NATIONAL DOCK LABOUR SCHEME**

The Prime Minister held a meeting in January on the National Dock Labour Scheme attended by the Chancellor and others, at which it was decided to keep a space in the 1988-89 programme for a short Bill to abolish the dock labour scheme. The Prime Minister has instructed that because of the sensitivity of the subject this information is to be handled on a need to know basis; and has also decided that no mention of the proposal should be made in the Queen's Speech.

2. For the purposes of discussion at QL, the Cabinet Office have agreed that DTp should bid for a Ports Bill, the stated purpose of which is to modernise the legislation affecting the UK ports industry. If the NDLS abolition Bill goes ahead in 1989, the Prime Minister intends that the Ports Bill should be postponed to the following session; but the current bid will serve as a marker for discussion at QL, and the Chairman will explain the position orally to committee members.

3. Briefing on the main Ports Bill will be included with the main QL briefing package; but in order to ensure that information on the dock labour scheme proposal is kept on a need to know basis, I am submitting the attached standard format brief on an abolition Bill separately. This handling has been agreed with Miss Evans, who will be submitting the main briefing package tomorrow.

*DWR*  
D C W REVOLTA

**Title:**

BILL TO ABOLISH DOCK LABOUR SCHEME

**Sponsor:**Either Department of Employment or  
Department of Transport**Background information**

(i) Objectives: to abolish dock labour scheme and licensing of employers in scheme ports.

Ministers have decided that a slot for Bill should be reserved in 1988-89 legislative programme but a final decision on whether to go ahead will not be taken until after Queen's Speech.

(ii) Priority: no public commitment yet, but will be high priority if Ministers decide to proceed.

(iii) Short Bill. Could be ready by early 1989.

(iv) Urgent if Ministers decide to proceed.

(v) Very controversial.

**Line to take:**

Support (high priority)

**Background Note Supporting Line to Take:**

Dock labour scheme was established by Dockworkers Regulation of Employment Act 1946, and severely curtails flexible use of labour by port employers as surplus registered dockworkers cannot be made compulsorily redundant. Government is faced with unpredictable periodic demands for public expenditure on voluntary severance payments. Treasury has interest in repeal of scheme, for both supply side and public expenditure reasons. Chancellor strongly supports repeal. Cost about £20m in over 4 years for severance compensation, plus possible small cost from winding up National Dock Labour Board. Repeal likely to lead to dock strike, with significant economic costs in short term.

**Contact:** A R Williams, HE1 x 4721



1. Jonathan  
2. 65 10 Oct or with advice

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

COMMERCIAL IN CONFIDENCE

COPY NO. 1 OF 14

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Dear John,*

CHIEF SECRETARY	
REC.	- 5 OCT 1988
ACTION:	<i>Mr Kerolla</i>
COPIES TO	<i>Cx, Mr Anson, Mr Phillips, MSC case Mr Budge, Mr Turnbull, Mr Bunn, Mr Southwain's</i>

- 4 OCT 1988

MERSEY DOCKS & HARBOUR COMPANY (MDHC)

*Mr Call*

I wrote to you on 15 October last year about the possibility of the MDHC becoming the subject of a takeover bid by Mr John Whittaker, Chairman of the property development company Peel Holdings plc, which had acquired just over 10% of MDHC's shares. You agreed that I should inform the MDHC that the Government did not rule out the possibility of selling its shareholding in the company and was prepared to discuss the terms of an offer with them or any prospective purchaser. I also told the Company that in any such discussions I would be guided by the need to safeguard the interests of the taxpayer and the future of the port of Liverpool.

Mr Whittaker's initial approach to the MDHC was rebuffed, but eventually in June he sought exploratory discussions with my officials about the terms on which I, as the biggest shareholder and creditor, might be prepared to accept a general offer to acquire the MDHC. My officials have, as you requested, been keeping yours informed of developments. As a result of these discussions, Mr Whittaker has now notified my officials that he is prepared to make an offer to the MDHC of a minimum of 360p per share, and before doing so would like an indication of what the Government's position would be. The share price today stands at 368p.

If you agree, I propose to tell him that I would be minded to accept the offer, subject to certain provisos. I enclose a memorandum which gives details of the proposition, my assessment of the offer against my objectives for the future of the MDHC, and the conditions on which I am prepared to accept the offer. We should receive at least £14.89 million for my shares.

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The effect of a takeover on these lines would be to sever the existing special links between the Government and the MDHC, and put the MDHC in the same general relationship with the Government as any other company-owned port. That would be in line with my overall policy for ports, and should be welcomed by our supporters; though I should expect Labour MPs to criticise the full-blown privatising of MDHC. It would extricate us from what is likely to become an increasingly difficult relationship with the Company over the relative claims on its profits of stockholders and taxpayers and over its continuing pressure on me for a financial reconstruction. To turn down any form of reconstruction, however, will leave us locked into the Company, which I also regard as unsatisfactory. A takeover by Mr Whittaker would also open up the possibility of a merger with the port of Manchester, which he already controls, in a more efficient and cost-effective operation. I believe this would be sensible and to Merseyside's advantage.

There are four aspects of Mr Whittaker's to which I would particularly like to draw your attention.

First, he asks that we should agree to forego the repayment of the whole of the £110 million of repayable grants that we have made to MDHC since 1981 for severance payments to surplus employees and, initially, to sustain the Company's cash flow. This may seem to be accepting a big loss for the taxpayer, but I do not believe anyone has been under the illusion that much of the money would ever be repaid. The grants are shown in MDHC's accounts as a contingent liability, off the balance sheet. Price Waterhouse, who are advising us on Mr Whittaker's bid, have calculated the net present value of the grants to the Government as about £8 million, at an annual discount rate of 15% (or £15 million, if discounted at 10%). This makes no allowance for the likelihood that the grants will be adjudged to be taxable, especially if their repayment is waived, with the consequence that the MDHC would lose almost all their accumulated tax losses and the net present value of the Government's total financial interest in the MDHC apart from its shareholding would be much diminished. On Price Waterhouse's estimation, it would fall from £13.3 million (at 15% discount) or £21.2 million (at 10% discount) to £4.6 million or £5.2 million respectively. So to receive almost £15 million from the sale of our shares would be good value. Waiving repayment would have no PES effect; there is no provision for any repayments to be made. Any further grants that the Government made to the MDHC towards the severance of

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registered dock workers would be non-repayable, as they are now both in Liverpool and at all other dock labour scheme ports. I therefore think that in the context of the package as a whole it is acceptable to forego repayment of any of the grants.

My officials will be urgently sounding out the EC Commission on whether they require formal notification of this waiver of repayment, under the state aid rules. My best estimate is that they are unlikely eventually to raise any objection, since they accepted that the original grant payments were permissible. But they would take a few weeks to decide, so we should have to make it clear to Mr Whittaker - and publicly - that our agreement to the waiver of repayment was subject to the Commission's approval.

Secondly, I have considered very carefully the risk that the port of Liverpool might yet again get into such difficulties that the Government would come under pressure to help it out. Such a situation could arise if there were a collapse in the cargo-handling business of either the MDHC or one of the bigger employers of dockers, too few dockers volunteered for severance, and the remaining employers refused to take on the surplus labour, thus precipitating a crisis over the Aldington-Jones agreement. As long as the dock labour scheme remains in place there must be some risk - as indeed there is at any scheme port - that a sudden decline in fortunes will produce acute strains. It is a risk that would be there if the MDHC continued as an independent concern. In fact, I consider that the risk will be smaller if the MDHC is under Mr Whittaker's control, because his ability to rationalise some aspects of the ports of Liverpool and Manchester should strengthen their competitiveness, and because he will provide additional asset backing to the Company. There are no worries at present. The business of the port of Liverpool seems to have stabilised or to be slightly increasing, and the labour force in the port is said to be in balance for the first time for a decade or more. The undertaking we shall secure from Mr Whittaker should protect MDHC against asset-stripping for the next five years. Generally, therefore, I consider the circumstances to be more favourable to our trying to extricate ourselves from our involvement with the MDHC than they have been for years.

Thirdly, there is Nicholas Ridley's interest in the regeneration of Merseyside. The recent extension of the Merseyside Development Corporation's designated area includes substantial areas of old docks and related land owned by the MDHC. I personally doubt whether the MDHC has either the human or the financial resources to redevelop by itself land that is surplus to its operational needs. It has no incentive to sell

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it off, since the whole of the proceeds must go to its stockholders and cannot be used by the Company for port development. The Company has submitted an outline planning application for the redevelopment of its potentially most lucrative large site in conjunction with P&O's property arm, but I understand that it will be some months yet before any detailed scheme is prepared. Mr Whittaker has the expertise and the financial strength to be an effective private sector partner of the Corporation in regenerating the Liverpool waterfront. I understand that David Trippier, who has seen something of Mr Whittaker would very much like to see a developer of his experience and commitment to the North West actively engaged on Merseyside. If he were one of the biggest landowners, that would be of great benefit to the Corporation's task.

Fourthly, to be able to demonstrate that I have secured the best possible deal for the taxpayer, I intend to give an opportunity for any other potential purchaser of the MDHC to come forward. Peel's interest became public knowledge a year ago and did not prompt anyone else to enter the lists then or later. However, recently we have been given some reason to suppose that Mr de Savary's Highland Participants, which has been rapidly acquiring a number of small ports in Britain and a site for a potential large port, just might also be interested in the MDHC; though unlike Peel it has not bought any shares in the Company, as far as we know, or approached my Department. We have therefore agreed with Mr Whittaker that my undertaking to accept his offer, which will be announced when he makes the preliminary public announcement of his offer, will be conditional among other things on no better bid for the MDHC being received within a specified period, which will be between 31 and 36 days. We should of course have to offer any other bidder the same terms regarding the repayable grants as we undertake to Mr Whittaker. That should be time enough to flush out any potential competing bid. If one appears within the time limit, my undertaking to accept Mr Whittaker's offer lapses.

To sum up, I believe that Mr Whittaker's bid offers us as good a chance as we are likely to get of cutting the Government's long-standing special links with the MDHC on terms that are both reasonably advantageous to the taxpayer and likely to secure a reasonable future for the port of Liverpool. If we should get a better offer, that would be all to the good. But if I reject the bid, or if it fails, the only options will be to carry on as now, locked into the MDHC, or try to disengage ourselves from the Company. The Board are continuing to press the case for a financial reconstruction. I have told them today in a meeting that I am willing to consider the possibility, provided that no more taxpayers'

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money is required. They seem to have accepted that. But I am very doubtful whether overall we could secure as good a deal for the taxpayer by such a reconstruction as Mr Whittaker offers. The MDHC Board are likely to be divided in their views on Mr Whittaker's offer. Whether they will decide reluctantly to recommend the offer or to contest it, I find it hard to judge. Mr Whittaker has said he will proceed even if they contest it.

I hope therefore you will be able to agree to my letting Mr Whittaker know that I would undertake to accept an offer of at least 360p on the conditions agreed with my officials and summarised in the memorandum. I should like to be able to give him an early response, for obvious reasons.

I am sending copies of this letter to the Prime Minister and to Nicholas Ridley.

*Yours,*

*Paul*

PAUL CHANNON

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## CONFIDENTIAL

### MEMORANDUM

#### PROPOSED BID BY MR JOHN WHITTAKER FOR MERSEY DOCKS & HARBOUR COMPANY

##### The Bidder

1. Mr John Whittaker is Chairman of Peel Holdings plc, a quoted property development company whose interests lie mainly in the North West. It has been built up successfully in recent years, and at 31.3.88 its net assets totalled £159 million. Mr Whittaker has a dominant interest, because (i) 36% of the shares are owned by Largs Ltd, a private company registered in the Isle of Man owned entirely by Mr Whittaker's family, and (ii) 10% of the shares are owned by Greathey Investments Ltd, a private company registered in the UK which is a wholly owned subsidiary of Largs.

2. It is through Greathey that Mr Whittaker wishes to make his bid for MDHC. The company was formed in September 1987 with only £100 share capital. Balance sheets for both Greathey and Largs as at 26.8.88 have been prepared and are being audited. They show net assets of approximately £11 million and £108 million respectively. Greathey's assets are represented primarily by the 10% interest in Peel, and approximately 60% of the shares in the Manchester Ship Canal Company, of which Mr Whittaker gained control last year. However, most of the capital has been provided by loans from Largs and other companies within Mr Whittaker's group. Largs' assets are mainly the shareholding in Peel and the loans to Greathey.

3. Mr Whittaker proposes to make his bid through Greathey rather than through Peel, because Greathey already has a majority shareholding in the Manchester Ship Canal Company and common ownership of the 2 port undertakings would facilitate their rationalisation. Peel's existing 10% holding (approximately) in MDHC will be transferred to Greathey. Mr Whittaker would however propose that Peel should purchase from the MDHC, at a price based on an independent valuation, land and property not required for operational purposes so that Peel's expertise and financial resources can be used in its redevelopment.

##### The Offer

4. Having got nowhere with an initial tentative approach to the Directors of the MDHC, Mr Whittaker has concentrated his attention on discussing his proposals with the Department of Transport, as the biggest shareholder and creditor of the MDHC. He has said that it would be an essential condition of any bid that the Government should waive its right to the repayment of the whole of the £110 million repayable grant made to the MDHC over the past few years to assist in the severance of surplus manpower. The grant does not appear in the MDHC's balance sheet, but is noted in the Company's accounts as a contingent liability. The accounts state that the Secretary of State has indicated that, before he exercises his right to require the repayment of all or part of these grants, he will have regard to the profitability of the Company and its ability to finance the repayment, to

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provide for stock and loan redemptions, and to finance ongoing operations. None of the grant has yet been repaid. No provision for repayment has been included in the accounts. The existence of this contingent liability has effectively prevented the MDHC from raising any additional capital by means of loans from commercial sources.

5. Mr Whittaker has told the Department of Transport that he proposes to make an offer of a minimum of 360p per share. At this price the Government would receive £14.89 million for its shares. If, he receives an indication from the Government that that figure would be acceptable, subject to conditions attached by both sides, he would propose to make an offer to the MDHC Board conditional upon his obtaining more than 50% of the shares. Mr Whittaker is prepared to go a little higher than 360p if necessary when he discusses his offer with the MDHC Board, especially if that would help to secure their recommendation of his offer to shareholders, which he is keen to have.

6. Mr Whittaker proposes to finance the purchase by cash raised from a syndicate of banks. This is being checked out through his merchant bankers, Rothschilds by Price Waterhouse, the Department's advisers. Price Waterhouse are also checking out the balance sheets of Greathey and Largs.

### Assessment of the Prospective Offer

7. In commenting to the MDHC on Peel's initial approach to them last October, the Department said that in any discussions with the Company or any prospective purchaser it would be guided by the need to safeguard the interests of the taxpayer and the future of the Port of Liverpool.

8. The offer values MDHC at a minimum of £72 million. This compares with the Company's net asset value at the end of 1987 of approximately £53 million. It is possible that an up-to-date valuation of the Company might show that its property is significantly undervalued in the balance sheet. A preliminary assessment for the Department by Richard Ellis (chartered surveyors) gives no reason to think that much of the Company's non-operational land and buildings, apart from one area, has an immediate development potential. The offer price is about 10 times the market value of the shares only 18 months ago.

9. As regards financial interest, in addition to having made repayable grants to the MDHC of approximately £110 million, the Secretary of State for Transport owns 20.67% of the ordinary shares in the Company and of its unsecured redeemable loanstock (the shares and stock are traded in combined units). He has also made loans to the Company under the Harbours Act 1964 and the Ports (Financial Assistance) Act 1981; £5.9 million of such loans were outstanding at the end of 1987 now reduced to £4.6 million. Price Waterhouse have estimated, on the basis of the Company's corporate plan up to 1991 and their own estimates thereafter, that the net present value to the Government of its financial interests as a whole in the Company as at the end of 1987 is £13.3 million (on a 15% discount rate) or £21.2 million (at a 10% discount rate), if the repayable grants are not taxable; but only £4.6 million (15% discount) or £5.2 million (10% discount) on the likelier assumption that they will be adjudged to be taxable.

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10. Under Mr Whittaker's proposal, the MDHC's outstanding loans from the Department will remain to be paid off. These loans, together with the Government's receipts for its shares, will comfortably exceed Price Waterhouse's estimate of the NPV of the Government's financial stake in the Company.

11. Financially, therefore, if Price Waterhouse's calculations are regarded as reasonable (it is hard to see what more plausible projections could be made), such an offer would represent a good deal for the taxpayer.

12. Mr Whittaker envisages that common ownership of the ports of Manchester and Liverpool would enable them to be developed as an integrated North West port. Rationalisation of port services and overheads should enable cost savings to be made which would strengthen the competitive position of the combined undertaking. In port policy terms, this plan makes much sense. Both ports have had to contract hugely in the past 15 years, because of physical limitations, changing trade patterns, and changing methods of handling cargo. But there is a place for a continuing sizeable port business on the Mersey estuary. It deserves encouragement. Mr Whittaker and his colleagues lack much experience of port operation, but in their first year or so of responsibility for the Manchester Ship Canal and the Port of Manchester they have taken some useful steps to consolidate the position of that enterprise. They could not afford however to be too sweeping in dismissing the senior management of the MDHC, if they took it over.

13. Whatever reservations there may be about the ability of Mr Whittaker's team to manage a much extended port undertaking is counterbalanced by the strength they can bring to the regeneration of the MDHC's surplus land and property assets. Peel Holdings has a sound record of successful property development in the North West and can be expected to play a significant part in the regeneration of the extended designated area of the Merseyside Development Corporation, in which the MDHC is a major landowner.

Government Conditions

14. To guard against asset stripping and the weakening of the MDHC to the point at which it might once again become a liability to the Government, the Government would require an undertaking, which Mr Whittaker is prepared to give, as consideration for waiving the repayment of the repayable grants. In essence, Greathey, backed by Largs, would guarantee to maintain the net worth of the MDHC for 5 years from the date of acquisition. "Net worth" is defined as the Company's capital and reserves as at 31 December 1987, plus the profit declared for the first half of 1988, plus or minus any surplus or reduction arising on an agreed revaluation of the MDHC's property as at the date of acquisition the takeover bid going unconditional. Any reduction in the net asset value arising from losses in the normal course of trading would, however, be allowed, except to the extent that they were covered by any further increases in property values realised on the disposal of that property from MDHC to some other company. Originally we had sought to remove the deduction of trading losses from the

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calculation of the Company's net value. But there seemed to be force in Mr Whittaker's argument that if he had an open-ended commitment to maintain the value of the Company come what may, the position of its managers would be seriously weakened; in particular unscrupulous employees aware of the situation might be able to hold the Company to ransom.

15. The enforceability of the guarantee would lie in the Government being able to sue Greathey and Largs for any failure of performance as well as to claim damages for any actual costs that the Government might incur (eg if the Government did feel obliged to inject financial support to stave off a collapse of the Port of Liverpool).

16. In addition, Mr Whittaker will give a personal undertaking to procure the performance of the guarantee by Greathey and Largs.

17. It is proposed that the Government and Greathey/Largs would enter into these mutual guarantees by covenant on the day when Mr Whittaker makes his preliminary announcement of his offer for MDHC. The Government will undertake to accept Greathey's offer in respect of its shares and to waive the repayment of the grants provided that:

- (i) Greathey etc undertake as in paragraph 15 above.
- (ii) Greathey receives acceptances for more than 50% of MDHC shares, including the Government's 20.67% holding, at which point its offer becomes unconditional.
- (iii) No other offer for MDHC is made within 21 days of Greathey posting its offer to shareholders, which in turn will be between 10 and 15 days after its preliminary announcement. If any such offer is made, the Government undertaking to Greathey lapses.

Consequential actions

18. It has been implicit in the discussions between Mr Whittaker and the Department that the Secretary of State would relinquish his special share in MDHC and with it his right to appoint up to 3 of its Directors.

19. The Government would also withdraw its £1 million overdraft guarantee to the MDHC and would declare that it considers the Ports (Financial Assistance) Act 1981 - under which special Government assistance has been given to the Port of Liverpool - to be no longer applicable to the MDHC. The Government would take a convenient opportunity to repeal that Act.

Legislation and announcements

20. No legislation or statutory instrument would be required to give effect to a deal on the terms stated in this memorandum.

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21. The Secretary of State would announce his mutual undertaking with Greathey on the day of its signature, ie the day on which Greathey made its preliminary announcement. A statement would need to be made in the Commons, probably in the form of a written answer to an arranged Question on the day of the announcement or, if the Commons were not then sitting, as soon as possible afterwards.

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pmf

FROM: A R WILLIAMS  
DATE: 5 October 1988

1. MR REVOLTA  
2. CHIEF SECRETARY

cc Chancellor  
Sir P Middleton  
Mr Anson  
Mr Phillips  
Mrs Case  
Mr Burgner  
Mr Turnbull  
Mr Richardson  
Mr Bradley  
Mr Call

I agree. We have been closely in touch with these negotiations, and this looks an exceptionally favourable opportunity for us to disengage. If the grants are best declared suitable (para. 7 ii) this will of course have an adverse impact on the share price, although we have no reason to believe that a resolution of the

**SALE OF GOVERNMENT SHAREHOLDING IN MERSEY DOCKS AND HARBOUR COMPANY (MDHC)**

Fax problem is at all close. BR 5/10

The Secretary of State for Transport wrote to you on 4 October proposing that the Government should accept an offer price of 360p per share (minimum) for its 20% holding in MDHC, and also waive its rights to £110 million of repayable grants. This is in response to an expected general offer for MDHC to be made by Mr Whittaker of Peel Holdings plc, a Merseyside property company. This submission recommends that you should agree to the proposed terms, although an actual sale is subject to the general offer being successful with other shareholders.

**Background**

2. The MDHC runs the Port of Liverpool. It is already in the private sector and is quoted on the stock exchange, but the Government owns 20% of the equity and appoints 3 of the 12 directors. It has also provided the company with substantial financial assistance over a number of years, including some £110 million of repayable grants.

3. In principle, if suitable terms can be negotiated, the Secretary of State for Transport would like to cut his links with MDHC and allow the company to operate without any special relationship with Government. We agree that this is desirable. However when the question was considered last year, the company argued that it would need a final subsidy of some £25 million from the Government in addition to the writing-off of the repayable grants if it was to make a successful transition. The Secretary of State for Transport was not prepared to propose this to colleagues.

4. The MDHC is currently just profitable, but growing stronger. The results for the year ended 31 December 1987 showed profits, after tax, of £2.1 million. The half year results show a 100% increase in profits after tax, up from £1.26 million to £2.58 million in the first half of this year. Its position has been strengthened in the last year by a successful severance scheme (financially assisted by the Government) which removed (in 1987-88) 223 surplus dockworkers, who otherwise had in effect a job for life under the National Dock Labour Scheme. There have been no severances to date this year.

5. MDHC has attracted no market interest in recent years because of its indifferent commercial performance, but its share price has increased rapidly since last summer from an underlying price of below 100 pence to a maximum of around 450 pence before dropping back to a current level of 368 pence per share. This interest has been attracted by growing awareness of the development potential in the substantial property holdings of MDHC.

#### The buyer

6. Mr Whittaker is essentially a property development specialist. His main investment vehicle is Peel Holdings plc which has a successful growth record over the past 5 years and a net worth of some £170 million. Although Mr Whittaker has been negotiating in his capacity as Chairman of Peel Holdings, he has insisted that the bid should be made through Greathey Investments, which is a shell company largely owned by his family. He won a prolonged takeover battle for the Manchester Ship Canal Company last year, and so already has interests in port operations, but it was not in dispute that he was after MSCC because of its property interests as well. He would appear to be a suitable buyer for the reasons set out in the following discussion.

#### Issues

7. The main issues for Treasury Ministers to consider are as follows:

- (i) **Price:** share price is currently very high by historic standards; there has been a major increase in share values over past 12 months due to speculation on a possible sale. The price offered by Mr Whittaker for the shares would be nearly 10 times the market value only 18 months ago.



(ii) **Repayable Grants:** Mr Whittaker proposes that the Government should waive its rights to the repayable grants of £110 million. The Inland Revenue is currently looking at whether or not the grants are liable to tax. If they are not, MDHC may, by 1994, be able to begin some repayment. If, as is likely, they are taxable, there is no prospect that MDHC will be in a position to repay in the foreseeable future. There is no PES effect from waiving the repayments, as provision has not been made for their recovery. DTP officials are urgently consulting the EC Commission on the implications for write-off of the State Aid Rules, but are hopeful that a decision will be favourable.

(iii) **Government's Financial Stake in MDHC.** In addition to the repayable grants, the Secretary of State for Transport owns 20.67% of the ordinary shares in the Company and of its unsecured, redeemable loan stock (the shares and stock are traded in combined units). He has also made loans to the Company under the Harbours Act 1964 (£4.6 million of which are currently outstanding). Price Waterhouse have estimated that the net present value of the Government's financial interest as a whole is between £13.3 million and £21.2 million (depending on the discount rate used) if the repayable grants are not taxable, and between £4.6 million and £5.2 million in the more likely event that they are taxable, as this would wipe out almost the whole of the MDHC's accumulated tax losses. Under Mr Whittaker's proposal the Government would receive at least £14.89 million for its shares and the MDHC's outstanding loans from the Department would remain to be paid off. Altogether the value of the Government's receipts from its shares and loans would comfortably exceed Price Waterhouse's estimate of the npv of the Government's financial stake in the Company except under the most optimistic assumptions about the tax position and discount rates (and even then it would not fall far short)

(iv) **National Dock Labour Scheme:** Mr Whittaker plans to merge MDHC with his Manchester Ship Canal Company interests. Undoubtedly this will produce some efficiencies of operation but there is a risk that he will concentrate on property to the detriment of the port interests. MDHC is the largest docks employer and effectively the employer of last resort on Merseyside. We run the risk that if port operations fail,

the Government will have to intervene, (possibly by re-purchase into the company) in order to maintain the job rights of dock workers under the dock labour scheme. This financial risk remains whether the Government's interest in MDHC is sold or not, although the size of the risk varies with the degree of commitment of port management. DTp will secure from Mr Whittaker an undertaking to protect the MDHC from asset-stripping for the next five years. Moreover, his ability to rationalise some aspects of the Ports of Liverpool and Manchester should strengthen their competitiveness.

(v) **Property interests:** DTp have little confidence in quality of present senior management. Although there is surplus property, which is Mr Whittaker's main interest, it has not been developed up to now, since any proceeds must go to Stockholders and not into redevelopment. The Merseyside Development Corporation have noted that a major developer and landowner would be of great benefit to their task of regenerating the Liverpool Waterfront.

(vi) **DOE interest:** This is a relevant but not decisive consideration. DOE are concerned to see more private investment in the Merseyside development commission area. Mr Whittaker's proposals would bring the prospect of major private capital into the area.

(vii) **Overdraft Guarantee:** Under the deal with Mr Whittaker the Government would withdraw its £1 million overdraft guarantee to MDHC and would declare the company to be no longer eligible for assistance under the Ports (Financial Assistance) Act 1981. The Secretary of State would also relinquish his special share in MDHC and with it his right to appoint up to 3 of its Directors.

(viii) **Sale by auction?** Present exchanges are, in formal terms, exploratory. Mr Whittaker will now proceed to a public general offer, and that may stimulate a counter offer from other interests. Mr de Savary, advised by Mr Parker who developed Felixstowe, has been mentioned. The agreement between the Secretary of State and Mr Whittaker would be conditional upon the Government receiving no better offer for its shares within a specified period (31-36 days). Any alternative bidder would have to be offered the same terms as Mr Whittaker on the repayable grants.

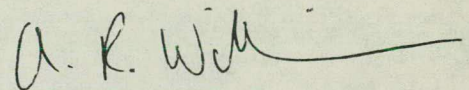
(ix) Questions of Propriety: the Government is in a sensitive position, since its decision on waiving its rights to repayable grants has a potentially substantial effect on the market price of the company and is relevant also to the present discussions on the tax status of the grants. But professional advisers indicate that there is no problem of propriety here so long as the same information about the Government's intentions over grant is made publicly available to all potential purchasers.

(x) Mr Channon has been under pressure from the board of MDHC to negotiate a (probably costly) financial reconstruction. Selling the Government interest now will neatly side step this issue.

#### Recommendation

8. We conclude that any future risks to the Government are minimised in this deal. Moreover it represents a reasonably secure basis on which to withdraw from the affairs of the MDHC and allow it to begin to organise its own affairs. We recommend that you agree to an acceptance of the offer from Mr Whittaker on the terms discussed above.

9. A draft letter is attached.



A R WILLIAMS

DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE  
FOR TRANSPORT

SALE OF GOVERNMENT SHAREHOLDING IN MERSEY DOCKS AND HARBOUR  
COMPANY (MDHC)

Thank you for your letter of 4 October. I agree that you should accept the offer from Mr Whittaker for the Government's shareholding in MDHC, along the lines and conditions set out in your letter and the attached memorandum.

It would seem that the deal affords MDHC, and Merseyside generally, a reasonably secure basis on which to build and develop. It also provides the taxpayer with a fair deal while minimising any possible future liabilities we could incur.

Should another, better offer be made when Mr Whittaker's offer becomes public, we can of course consider this at the time.

I am copying this letter to the Prime Minister and to Nicholas Ridley.

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*Handwritten initials*

cc:  
Chancellor  
Sir Peter Middleton  
Mr Anson  
Mr Phillips  
Mrs Case  
Mr Burgner  
Mr Turnbull

Mr Revolta  
Mr A R Williams  
Mr Richardson  
Mr Bradley  
Mr Call

Treasury Chambers, Parliament Street, SW1P 3

The Rt Hon Paul Channon MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London  
SW1P 3EB

10 October 1988

*Dear Secretary of State,*

SALE OF GOVERNMENT SHAREHOLDING IN MERSEY DOCKS AND HARBOUR COMPANY (MDHC)

Thank you for your letter of 4 October. I agree that you should accept the offer from Mr Whittaker for the Government's shareholding in MDHC, along the lines and conditions set out in your letter and the attached memorandum.

It would seem that the deal affords MDHC, and Merseyside generally, a reasonably secure basis on which to build and develop. It also provides the taxpayer with a fair deal while minimising any possible future liabilities we could incur.

As you have agreed with Mr Whittaker, should another, better offer be made when his offer becomes public, we could of course consider this at the time.

I am copying this letter to the Prime Minister and to Nicholas Ridley.

*Yours sincerely,  
P. Wanless*

PP JOHN MAJOR

*[Approved by the Chief Secretary and signed in his absence.]*



FROM: J M G TAYLOR

DATE: 7 December 1988

*Phf*

MR WILLIAMS (*HE*)

cc Sir P Middleton  
Mr Anson  
Mr Monck  
Mrs Case  
Mr Revolta  
Mr Burr

DOCK LABOUR SCHEME

The Chancellor was grateful for your note of 7 December.

A handwritten signature in black ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

SECRET

FROM: A R WILLIAMS  
DATE: 7 DECEMBER 1988

CHANCELLOR

cc: Sir P Middleton  
Mr Anson  
Mr Monck  
Mrs Case  
Mr Revolta  
Mr Burr

## DOCK LABOUR SCHEME

You asked what proposals on the Dock Labour Scheme the Secretary of State <sup>for Employment</sup> was likely to bring forward in the next few weeks. I should emphasise that discussions are still proceeding at official level, but DE officials are fairly confident that Mr Fowler will want to propose something along the lines described below.

Last January Ministers agreed that the Scheme would not wither away of its own accord, that there were no satisfactory options for change short of total abolition, but that as there was no prospect of securing legislation in 1987-88 session, no announcement of abolition should be made in 1988. Instead it was decided to review the position after the Queen's speech, with a view to consider a possible announcement in March 1989. A slot for a short bill has been reserved in the current session.

In order to take forward this remit, we expect Mr Fowler to write to colleagues proposing:

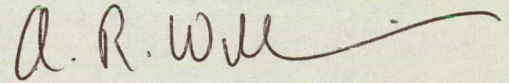
(i) To instruct Parliamentary Counsel to draft, on a contingency basis, a bill abolishing the obligation to employ only registered dockworkers on dock work in Scheme ports, and making certain consequential changes (eg removing the requirement for port employers to be registered). This would abolish the Dock Labour Scheme.

(ii) To provide in the legislation for compensation to be paid, on a transitional basis, to former registered dockworkers made redundant following the abolition of the Scheme. This is likely to amount to £25,000 per person in the first year after abolition, decreasing in stages over 4 years until the entitlement was equal to that available to all workers under the Redundancy Payments Act.

(iii) To ask for colleagues views on whether to legislate against casualism in support employment: we expect him to recommend against such legislation.

(iv) To get the Cabinet Office to report by mid-February on the industrial action likely to follow an announcement to abolish the Scheme, on its economic impact, and on the readiness of contingency measures to minimise this impact.

(v) To come back to colleagues when the bill had been drafted and the Cabinet Office had completed its investigations, for a decision on the early introduction of the Bill.



A R WILLIAMS



CONFIDENTIAL

E. National Dock labour Scheme

Sir Jeffrey has told Ministers that he favours abolishing the Scheme, provided ways can be found of minimizing disruption when it is announced.

X/ 2. We expect the Secretary of State for Employment to bring forward proposals before Christmas.

Line to take: Note his views, but avoid comment. No decision has been taken, nor can the timing of any decision be forecast.

*Particulars full  
Lancaster  
on X: -*

*Bringing  
is coming up  
from A.P. Williams*



Secretary of State  
for Employment

*Form 1/88  
filled*

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PRIME MINISTER

*1. And meet relevant PP on this*

DOCK LABOUR SCHEME

We concluded last year that the Dock Labour Scheme would not wither away of its own accord. On the contrary, increased recruitment to replace the existing ageing registered labour force will be essential within 5 years or so. We also concluded that there were no satisfactory options for change short of total abolition. In January 1988 we agreed to come back to the subject after the Queen's Speech having reserved a possible slot in the 1989/90 legislative programme. I have considered the position with Paul Channon who agrees with the approach set out below.

If we wish to keep open the option of legislating on the Scheme in this session, we need to take some steps now. I should therefore like your agreement and that of colleagues to instruct Parliamentary Counsel to prepare, on a contingency basis, an abolition Bill. I am not at this point seeking a decision to introduce such a Bill but think we should be in a position to do so and to put it through Parliament very quickly immediately after the Easter recess next year. Any decision on whether or not to proceed would have to take account of the industrial and economic circumstances at the time. A slot is available in the legislative programme.

The Case for Abolition

The Scheme is now a major anachronism, totally at odds with our thinking in all other areas, and especially our policies for deregulation and competition. It provides for a statutory monopoly on dock work in some 60 ports listed in the 1946 Dock Work Regulation Act. It also places control of all recruitment, deployment, discipline and severance questions in the hands of boards having equal numbers of employers and trade unionists.



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This seriously impedes management in an internationally competitive industry; has spawned notorious restrictive labour practices; deters investment in ports and surroundings areas, often in inner cities; increases costs; and holds back jobs. The approach of the Single European Market in 1992 adds to the need to remove these handicaps.

The port employers' vigorous campaign since the election has done much to raise expectations among the employers, their customers and dockworkers that we shall move to abolish the Scheme. Over 200 of our own back-benchers have signed an Early Day Motion calling for the end of the Scheme.

The views of the shipping industry are mixed. Some shipowners strongly favour repeal and are ready to face the resulting industrial action; others, while supporting repeal in principle, are concerned at the short term effect on their services. But this last group is led by P&O who also own the very successful non-Scheme port of Felixstowe and therefore may have conflicting interests.

The Scheme is regarded as "a sacred cow" by the dock members of the Transport and General Workers Union and by some vocal members on the Opposition benches. But it is widely recognised even among our opponents that the privileged statutory position of rdws has outlived any usefulness it ever had, has been abused by rdws as a cloak for indefensible practices and has mainly worked to boost jobs in and around non-scheme ports. I am confident that we shall have a very substantial amount of public support for tackling it.

#### **Industrial Action - Prospects**

That said, the TGWU has declared its intention to call a national dock strike if the Government or the employers mount an attack on the Scheme. Views differ about the duration and severity of the strike that would be called but as a tentative estimate the following pattern might emerge:

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for Employment

Scheme Ports (which handle 70% of non-oil  
seaborne trade\*)

might last two or three weeks generally,  
continue for several weeks in some ports, and  
drag on even longer in militant older ports,  
such as London, Liverpool, Hull and Glasgow.

Non-Scheme ports (30% of non-oil seaborne  
trade)

Some token action, lasting perhaps a day or  
two, would be taken at ports such as  
Felixstowe, Dover, Portsmouth and Shoreham. The  
key managements would take legal action to  
break a strike manifestly not directed at  
them.

Non-dockers The risk of additional disruption  
from action among non-rdws in Scheme ports is  
thought to be remote as is action by workers in  
other industries, including transport.

This pattern, which reflects port employers' views, would result  
in the loss of about 300,000 man days. When we last asked  
officials for a view they concluded that while no one could be  
certain of the scale of industrial action against the abolition of  
the Scheme we should not move against it unless we were prepared  
to see out industrial action involving the loss of perhaps 500,000  
working days concentrated mainly among the 10,000 rdws (ie a  
strike averaging about 2 months). They judged that such action  
would be disruptive in some sectors but could be withstood and, at  
that time, would not have had intolerable economic or industrial  
repercussions.

\* Oil movements are not dependant on dock workers

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### Contingency moves

Officials' assessment of the scale and impact of industrial action (including the effect on the balance of trade) needs to be reviewed and we need to be sure that adequate contingency arrangements are in place to minimise the impact of whatever action does take place. I suggest we ask the Cabinet Office to set up a small Task Force to report on this issue by the end of February.

On the same timescale I suggest we ask officials to instruct Counsel to draft on a contingency basis a Bill to bring the Scheme ...to an end. I attach an annex setting out the principal features of the proposed Bill. Given the advantage of securing a quick passage for the Bill there are strong arguments for keeping it as simple as possible. Three issues which I would like to draw to your and colleagues' particular attention are discussed below.

### Compensation

We have in the past considered the idea of a scheme of compensation for those dockers who, even though they kept their jobs, would lose registered status when the Scheme ends. I judge that we could not produce such a scheme, at least not at any reasonable cost\*, which would head off industrial action against the ending of the Scheme. Nor do I judge it right that we should attempt to buy out 'rights' which have been so patently abused over the years.

It would though take some steam out of the opposition if we were to introduce a transitional statutory severance scheme. Indeed we agreed at our January meeting that it would be worth the Government introducing and part funding such a scheme. At the

\* Last time we looked at it we were advised that a compensation scheme costing £500 million might be needed and still could not be guaranteed to head off strike action.



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moment all rdw severance is effectively voluntary and anyone with 15 years service can expect a payment of £25,000. On abolition of the Scheme, in theory, registered workers could be made compulsorily redundant and someone aged 40 with 15 years service would be entitled to £2580 redundancy pay. I propose we take powers in the abolition legislation to introduce, by regulation, a statutory redundancy scheme to be run by the Department of Transport with the following characteristics:

- (a) to cover any or all dockworkers registered on the day the bill is announced;
- (b) Statutory entitlement to redundancy pay starting at a maximum of £25,000 in year one and decreasing in stages until the entitlement equals that under the Redundancy Payments Act; and
- (c) 50% of all statutory payments under the special scheme would be met by Government - except in cases of insolvency where similar arrangements to those in the Redundancy Payments Act would operate.

Employers would of course be free to top-up the statutory payments from their own resources if they wished.

I estimate such a scheme would cost Government £21 million over 4 years. Much of the expenditure would fall in the first two years.

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## Casualism

The most emotive issue in the debate and dispute about the Scheme is that abolition would open the door to a return to casualism. In its worst form this meant huge crowds of men waiting at dock gates twice a day to see if any employer wanted them to unload cargo. With changed handling methods most dockwork is not suitable for handling by casual labour and there is very little casual work in non-Scheme ports today. In that context, and particularly as we wish to encourage the spread of flexible working arrangements, I propose that we introduce no special arrangements to combat any growth of casualism in dockwork after the Scheme ends.

If, however, colleagues judged that we could not maintain that position, the annex sets out alternative statutory approaches. The furthest I think we should contemplate going would be to say that for a transitional period of four years in all ex-Scheme ports, anyone taken on for cargo handling should be entitled to one week's pay. Redress would be via Industrial Tribunals. Any such arrangement would entail retaining the concept of "Scheme ports" and a definition of "cargo". I think such arrangements are neither necessary nor desirable.

## Assets and Liabilities

Because of the secrecy with which we have had to proceed we will not be certain of the National Dock Labour Board's financial position until after any decision to abolish it is announced. The Board's assets are essentially the property it owns. Currently this is valued at between £3.5 million and £4.0 million - it could appreciate somewhat on abolition of the Scheme. The position of the Dock Labour Board Staff pension fund is healthy. Outstanding liabilities are likely to be a bank overdraft which should be at



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about £2.5 million by next March; contractual redundancy payments to Board staff which might cost about £5 million; the wages of board staff who would be required to effect the run down might amount to £1.5 million. There may also be some smaller liabilities which we are currently unable to evaluate. Overall the Board's liabilities are liable to exceed its assets by £5 million to £6 million - but we cannot be certain. Against that background I propose we take powers to ourselves assume responsibility for any deficit or surplus existing at the end of the Board's wind-up period. In public relations terms we could make a virtue of meeting the contractual payments due to the Board's staff made redundant as a result of our decision to end the Scheme.

#### Public Expenditure

The total public expenditure costs of the proposals in this note is around £27 million spread over 4 years but heavily concentrated in the first two years. Existing PES provision for severance purposes in my Department and in the Department of Transport (£5.3 million in 1989/90 and £3.0 million in the two following years) is insufficient to cover this. Neither Paul Channon nor I can be confident of funding all that might be needed in 1989-90, we could not have bid for it and we would hope that the Chancellor would see any eventual shortfall as being a legitimate call on the contingency reserve.

#### Conclusion

I seek

- (i) authority to instruct Parliamentary Counsel to draft on a contingency basis a Bill on the lines set out in Annex A and as discussed above;





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- (ii) agreement that the Cabinet Office be asked to report by the end of February on the industrial action likely to follow any announcement of a decision to abolish the Dock Labour Scheme, the impact of that action on the economy and industry, and the readiness of contingency arrangements to minimise the impact of that action;
- (iii) agreement that I should come back to colleagues when (i) and (ii) are complete to seek a decision on the introduction of a Bill immediately after the Easter recess to be pushed through Parliament as quickly as possible.
- (iv) a recognition that these proposals could lead to a small call on the contingency reserve in 1989-90.

I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Transport, the Lord President of the Council and to Sir Robin Butler.

N F

21st December 1988

## DOCK LABOUR SCHEME : CONTENTS OF ANY ABOLITION BILL

Should any decision be taken to end the Dock Labour Scheme the Bill would need to repeal most of the provisions of the 1946 and 1976 Acts (including the 1967 Scheme made by Order under the 1946 Act); substantial parts of the Docks and Harbours Act (1966 would also be repealed as would Section 1 of the Ports Finance Act (1985). The main effects would be to bring to an end on commencement:-

- (a) the obligation to employ only rdws on dockwork, and any requirement for dockworkers to remain registered;
- (b) the requirement for employers to be registered and licensed as employers of dock labour;
- (c) the NDLBs control over deployment, recruitment and the termination of dockworkers employment; and the statutory disciplinary procedures;
- (d) the administrative levy on employers which pays for the Boards operations;
- (e) the exclusion of rdws from the statutory protections accorded to other workers (eg on unfair dismissal, guarantee payments, written terms and conditions of employment, notice, time off, rights on insolvency and under the Transfer of Undertakings regulations - for all these purposes all previous employment as rdws should be made to count as continuous employment).

The Bill would need to provide for the NDLB, shorn of its existing statutory functions, to continue for a winding up period - solely to dispose of a range of administrative matters eg making its own staff redundant, releasing assets and settling debts, ceasing or transferring functions (training, welfare, pensions, dockworkers clubs).

In respect of these wind-up arrangements the Bill would need to provide for:-

- (f) means of ending the period by Order after about a year;
- (g) power to appoint a Commissioner to take over the winding up if the Board would not do so;
- (h) powers to lend or grant monies to the Board to enable it to wind down its activities and to meet any outstanding liabilities with any remaining assets accruing to the Exchequer;
- (i) the write-off of £44 million debt to the Government in respect of past rdw severances (the Government effectively gave up claim to this in 1985 and it has already been expunged in public expenditure terms);
- (j) for the Secretary of State to inherit the Boards position in respect of any legal proceedings to which the NDLB was a party on wind-up day.

Two areas requiring further policy consideration are:

- (k) Rdw redundancy payments. At a minimum it would be necessary to afford rdws the same rights as other workers (see (e) above) but, presentationally, there is something to be said for a transitional statutory "ex-rdws redundancy payments scheme" which scaled down (over about 4 years) the ex-rdws entitlement from the £25,000 level currently enjoyed to the same statutory maximum enjoyed by other workers (currently just under £5,000);
- (1) Anti-casualism provisions. Opening the scope for a return to casualism would be the most emotive issue in any move to end the Dock Labour Scheme. The employers collectively don't want to return to casual working but can't guarantee none will. A possible legislative approach if one was thought desirable would be to provide that anyone taken on for dockwork would have to be paid for a full week's work. The provision could relate to either:
- (i) dockwork and ports as currently defined in the DLS in which case it could be presented as a transitional provision with an ultimate time limit;
  - (ii) a wide definition covering cargo handling in all ports - this would provide a lasting wide ranging protection but at the cost of imposing a new constraint on non-Scheme ports.

Department of Employment  
December 1988