

PO-CH/NL/0314  
PART 8

Part B

**SECRET**

(Circulate under cover and  
notify REGISTRY of movement)

Begin: 18/11/87.

Ends: 24/12/89.



PO -CH /NL/0314



PART B

Chancellor's (Lawson) Papers

THE FINANCIAL POSITION  
OF BRITISH SHIPBUILDERS

DD's : 25 Years

*Phelan*

25/10/95

NL/0314

-CH

PO

PART B

SECRET

FROM : S A ROBSON  
DATE : 18 NOVEMBER 1987

**CHANCELLOR OF EXCHEQUER**

c.c. Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Moore  
Ms Seamen  
Mr Colman  
Mr A White  
Mr Call

*Thanks - do with the 19/11 mtg. Rosyth*  
*will be helpful to*  
*19/11 mtg. Rosyth*  
*may be close*  
*of 185*  
*1/11*  
*Wickham*

**SHIPBUILDING : ROYAL NAVY**

This minute deals with a matter you should at least be aware of in relation to the PM's meeting on 19 November.

2. The Royal Navy still does a good deal of repair and refit work on its ships in its own dockyard at Portsmouth - called the Fleet Maintenance and Repair Organisation (FMRO). This yard was kept under direct Naval control when Devonport and Rosyth were contractorised as the Navy were suspicious about contractorisation and possible industrial disruption. The FMRO employs some 2800 people and the Navy gives it as much work as it needs to keep it fully employed. It gets the work on a non-competitive basis.

3. It is now clear that, if the FMRO is kept open, there will have to be a major rundown at Devonport to the extent of jeopardising its viability. In addition it will not be possible to meet the targets for Naval work to be put out to tender by private dockyards. The reason is that there is less Naval work to go round than previously thought.

4. The obvious answer is to close FMRO. This would not be welcome to the Navy who, as a result, are not inclined to face up to the issue. But they are slowly being pushed into doing so and are likely to bring it to Ministers next Spring.

SECRET

SECRET

9  
5. This means that the issues you face on 19 November will not be the end of the story on dockyard closures. You need to be aware of this.

6. You might also like to consider whether to raise the issue of FMRO on 19 November. The attractions of doing so are :

- (a) it gets all the bad news onto the table;
- (b) an early decision to close FMRO could be presented to the private sector, and to the regions, as some compensation for the closure of BS. Work which is presently done in the public sector, and in the prosperous South, would become available to the private sector (including Devonport) and to the less prosperous regions.

SAR

S A ROBSON

SECRET

SECRET

FROM: J G COLMAN

DATE: 18 November 1987

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Sir P Middleton  
 Mr Anson  
 Mr Monck  
 Mr Burgner  
 Mr D J L Moore  
 Mr Robson  
 Mr A White  
 Ms Seammen  
 Mr Hood  
 Mr Call

*(in)*  
*Paragraph immediately*  
*beind. Briefs on Harland + Wolff.*  
*(flagged) are enclosed below. P. 11*

*has one*

*25*

*15/11*

**SHIPBUILDING**

Mr Rifkind's minute of 17 November reached us after Mr Hood's brief had been submitted to you. We have the following comments on Mr Rifkind's note.

- a. announcing now closure in 1989 or 1990 is expensive and politically difficult (paragraphs 3 and 4(a))

**Comment**

Agreed, but this is an argument for immediate closure of as many yards as possible (eg NESL, if not Govan)

- b. closure would cost £650m; option 3 costs £350m (plus any continuing subsidies) (para 4(a))

**Comment**

The continuing subsidies are crucial. Mr Clarke put them at £300-700m in the 1990s. Past experience of BS has shown that it is hard to over-estimate their eventual requirements for subsidy. There is a real risk of having to pay even more than Mr Clarke estimates. That risk is increased as BS specialise in one-off vessels.

The costs of option 1 reach £650m only if the employment packages are as much as £100m each in the North East and Glasgow.

- c. BS foresee the chance of significant orders from 1990 onwards (para 4(b))

Comment

1990 would be the cyclical peak: at best BS would break even then. Afterwards, considerable subsidy would again be required.

- d. it would be perverse to forbid the yards to look for new orders (para 4(c))

Comment

It is already perverse for yards to accept orders which can only be completed at a loss. Ship prices barely cover the cost of raw materials.

- e. Employment consequences: 6500 in BS and 13000 altogether. (para 4(d))

Comment

BS alone has already lost 20000 jobs (merchant shipbuilding only) since 1979. BSC has shed 115000 since 1979, BREL will have lost 9000 since 1984.

We do not accept that job losses in supplying industries are one-for-one: Mr Clarke's costings assume one-for-two, and that redeployment takes place more quickly in the supplying industries. We have no evidence and do not accept that supplying industries are "almost entirely in areas of very high unemployment".

- f. preferable to allow orders to be sought under strict criteria. (para 5)

Comment

That policy has been followed since 1985: in practice it has not proved possible to enforce "strict criteria" when that would lead to closure of yards. Mr Rifkind's proposal is a recipe for continued high public expenditure on shipbuilding subsidies.

J. G. C.

J G COLMAN



FROM: J M G TAYLOR

DATE: 19 November 1987

MR ROBSON

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Moore  
Ms Seammen  
Mr Colman  
Mr A White  
Mr Call

**SHIPBUILDING: ROYAL NAVY**

The Chancellor has seen and was grateful for your minute of 18 November.

2. He took the view that it would not be helpful to raise this question at this morning's meeting, since that would risk provoking the argument that closure of BS would be less necessary.

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

J M G TAYLOR

SECRET



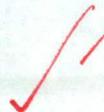
10 DOWNING STREET  
LONDON SW1A 2AA

CHIEF EXCHEQUER	
REC.	20 NOV 1987
ADITION	Mr DTH Moore
TO	POST. CST Sir P Middleton
	Mr Monck
	Mr Colman
	Mr AM White
	Mrs Seaman

*Handwritten initials*

19 November 1987

From the Private Secretary



*Dear Peter,*

**SHIPPING**

The Prime Minister today held a meeting to discuss shipbuilding. There were present the Lord President of the Council, the Chancellor of the Exchequer, the Secretaries of State for Defence, Northern Ireland and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Secretary of State for Scotland, Mr. Richard Wilson and Mr. George Monger (Cabinet Office), and Mr. John O'Sullivan (No.10 Policy Unit).

The meeting discussed the future of Harland & Wolff on the basis of the paper dated 13 November from the Secretary of State for Northern Ireland and his minute of 17 November. The Secretary of State said that he favoured Option 4 in the paper: closure after completion of work on AOR1. He was convinced that it would not be realistic to attempt to close the yard while this work was underway. It was important however to ensure that no further potentially loss-making orders were accepted. The difficult question was what should be said publicly, and when, about closure. This had to be seen in the context of other possible job losses in East Belfast, where the unemployment rate was already 22 per cent. The danger was that it would be seen as an attack on the Protestant community there, with widespread political repercussions. Presentation would therefore have to be very careful. Any decision on closure would have to be presented as a consequence of the difficulties of the shipbuilding industry worldwide, rather than as specific to Northern Ireland. The closure of British Shipbuilders, if that was agreed, would demonstrate the force of this argument. He would want also to persuade Northern Ireland opinion of the high cost of Harland & Wolff, and in particular of the way it drew resources within the Northern Ireland block away from other activities in the province.

The Prime Minister, summing up this part of the meeting, said that the preliminary conclusion of the Group was that Harland & Wolff would have to close when work on AOR1 was complete. This decision should be taken forward in parallel with decisions about the future of British Shipbuilders.

SECRET

The meeting then discussed the contract for AOR2, on the basis of the letter of 17 November from the Secretary of State for Defence to the Chancellor of the Duchy of Lancaster. The Secretary of State for Defence said that he recognised the concern that the Harland & Wolff price for AOR1 was not a genuine commercial price, but had a large element of subsidy. He did not therefore propose that Swan Hunter should be held to the target of £106.5 million (at 1985-86 prices), based on Harland & Wolff's estimate last year. On the other hand, Swan Hunter must not be allowed to get away with an excessive price. He proposed therefore that negotiations between them and the Ministry of Defence should continue with a view to reaching agreement on a fair price, which would be below Swan Hunter's current offer of £123.7 million. The latest indications were that the two sides would be able to reach agreement on a price of about £117 million (although this figure must on no account be mentioned), and he would regard that as quite reasonable.

The Prime Minister, summing up this part of the discussion, said the Group's view was that the Harland & Wolff estimates for the AORs contained a large element of subsidy. The cost overrun which was now emerging confirmed this. There could therefore be no question of holding Swan Hunter to the Harland & Wolff figure for AOR2. More generally, it would be wrong to try to beat down Swan Hunter to a figure they could not in practice achieve without cost overruns and losses. There should be no double standards between the public sector of shipbuilding, which received huge subsidies, and the private sector, to which we had to look to the future of the industry. The Group agreed that the Secretary of State for Defence should continue to negotiate as he had proposed, in the light of these principles.

Finally, the Group discussed the future of British Shipbuilders on the basis of the minutes of 9 November from the Chancellor of the Duchy of Lancaster and of 17 November from the Secretary of State for Scotland. The Chancellor of the Duchy of Lancaster said that, for the reasons set out in his paper, he had come to the conclusion that British Shipbuilders' yards should close as existing orders ran out over the next two or three years. If this policy were adopted, it would of course be essential to prevent British Shipbuilders accepting further orders, which could be heavily loss-making (except that two small orders now in prospect could be allowed for the Appledore yard, which might become a candidate for privatisation). The difficult question was how to achieve this. He believed that the Chairman would accept for the time being a steer that they should take no further orders, but he was not sure that such a policy could be sustained in the long run unless it was publicly announced. Difficult as such an announcement would be, he therefore saw a case for one, perhaps in February, which could also say what measures the Government would take to help the affected areas, for example by setting up an enterprise company.

The Secretary of State for Scotland said that he agreed that yards without work, such as Scott Lithgow, had to be

closed. But he doubted the political wisdom of announcing closures now which could not in fact take place for two or three years. It would be better to say simply that the yards would of course have to meet European Community criteria, and then to allow the application of those criteria to ensure that they gradually ran out of work.

The Prime Minister said that the discussion would have to be resumed at a later meeting. If any announcement was not to be made until February, it would be undesirable to make a final decision until much nearer that date. The two small orders could meanwhile be placed at Appledore if the Chancellor of the Duchy thought that desirable.

I am copying this letter to Mike Eland (Lord President's Office), Alex Allan (H.M. Treasury), John Howe (Ministry of Defence), David Watkins (Northern Ireland Office), Timothy Walker (Department of Trade and Industry), David Crawley (Scottish Office) and to Richard Wilson, George Monger and Trevor Woolley (Cabinet Office).

*Jms,*  
*David*

DAVID NORGROVE

Peter Smith, Esq.,  
Chancellor of the Duchy of Lancaster's Office.

SECRET


 CHANCELLOR

FROM: J G COLMAN

DATE: 9 December 1987

cc Chief Secretary  
 Financial Secretary  
 Sir P Middleton  
 Mr Anson  
 Mr Monck  
 Mr Burgner  
 Mr D J L Moore  
 Mr Robson  
 Mr A White  
 Ms Seammen  
 Mr Hood  
 Mr Call

### SHIPBUILDING

The Prime Minister is holding a meeting tomorrow on shipbuilding. By her decision it does not include Mr Rifkind, Mr King, or Mr Younger. The purpose of a meeting without those Ministers is not at all clear to us.

2. As to the substance of the issues, hardly anything has changed since Mr Hood's brief of 17 November. In short, we continue to seek the earliest possible closure of BS, announced as early as possible. If immediate closure is impossible, then BS should be told as soon as possible to stop seeking new orders. As to the timing of the announcement, we have been unable to discover why Lord Young is so strongly in favour of February, but if no earlier time is agreeable, then February is alright.

3. There have been two developments on the enterprise package. First, you have expressed sympathy for the idea of an Inverclyde enterprise zone. Secondly, DTI have made proposals for selective assistance for Nissan at Sunderland. That case is under urgent consideration in the Treasury. Clearly full credit must be taken for these in considering any further measures in those areas, and this further weakens very considerably the case for the rather expensive measures which DTI had proposed prior to the previous meeting.

Patsy Tong

PP J G COLMAN



10 DOWNING STREET  
LONDON SW1A 2AA

10 December 1987

*From the Private Secretary*

*Dear Peter,*

SHIPBUILDING

The Prime Minister held a meeting this morning to discuss shipbuilding. Those present were the Lord President of the Council, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, Mr Richard Wilson and Mr George Monger (Cabinet Office) and Mr George Guise (No.10 Policy Unit).

It was agreed that there was a strong case for the closure of British Shipbuilders (BS) as soon as current orders were completed, and for an early announcement, probably in February, since otherwise there would be intense pressure for the acceptance of more loss-making orders as work ran out. Harland and Wolff (H&W) should be treated in broadly the same way. Indeed, closure of H&W was unlikely to be practical unless BS were closed. These issues would need to be brought forward for decision around February. The Chancellor of the Duchy of Lancaster should pursue his proposals further with the Ministerial colleagues concerned.

The Group discussed possible measures to help the areas in the North-East and Scotland which would be affected by the closure of BS. As to the North-East, agreement should be reached with Nissan on their proposed development at Washington. This would have to be announced next week when the Chairman of the company visited this country. The payments which would consequently have to be made to Nissan would form a major part of the Government's package of help to the North-East. But it was agreed that there was also a strong case for establishing an Enterprise Zone at Sunderland. The possibility should also be considered of setting up an enterprise company, perhaps to develop an Industrial Park, and of providing more retraining (on which Nissan might be asked to help). The Prime Minister asked that DTI and the Treasury should consider these possibilities in more detail, and bring forward proposals.

As to Scotland, there was a strong case for establishing an Enterprise Zone as the Secretary of State had proposed, although its exact location in relation to the shipyards needed further thought. The announcement about it would need to be co-ordinated with the announcement on BS. Additional funds might also have to be made available through the Scottish Development agency; the Treasury should consider this possibility further. It would be important to be even-handed as between Scotland and the North-East. The other option which had so far been considered was that of advancing frigate orders, but this would be very expensive.

The Group noted that the Secretary of State would be circulating a minute reporting on his negotiations with Swan Hunter for the AOR2. It had already been agreed at the meeting on 19 November that it would be wrong to drive down Swan Hunter to an unreasonably low price which they could not in practice be expected to achieve.

The Group also noted that decisions would need to be taken soon about Short Brothers. The long term future of this company was very doubtful and its position would need to be considered in due course. But to announce its closure at the same time as that of H&W would cause great difficulty in Northern Ireland.

Finally, the Prime Minister said that she would arrange a further meeting of all the Ministers concerned in early February with a view to an announcement during that month.

I am copying this letter to Mike Eland (Lord President's Office), Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

*Jan,*  
*David*

David Norgrove

Peter Smith, Esq.,  
Chancellor of the Duchy of Lancaster's Office.



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	18 DEC 1987
ACTION	Mr D Moore
COPIES TO	CST EST Sir P Middleton Mr Monck Mr Colman Mr Buzone Mr A M White Ms Seaman

10 December 1987

From the Private Secretary

Dear Peter,

### SHIPBUILDING

The Prime Minister held a meeting this morning to discuss shipbuilding. Those present were the Lord President of the Council, the Chancellor of the Exchequer, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, Mr Richard Wilson and Mr George Monger (Cabinet Office) and Mr George Guise (No.10 Policy Unit).

It was agreed that there was a strong case for the closure of British Shipbuilders (BS) as soon as current orders were completed, and for an early announcement, probably in February, since otherwise there would be intense pressure for the acceptance of more loss-making orders as work ran out. Harland and Wolff (H&W) should be treated in broadly the same way. Indeed, closure of H&W was unlikely to be practical unless BS were closed. These issues would need to be brought forward for decision around February. The Chancellor of the Duchy of Lancaster should pursue his proposals further with the Ministerial colleagues concerned.

The Group discussed possible measures to help the areas in the North-East and Scotland which would be affected by the closure of BS. As to the North-East, agreement should be reached with Nissan on their proposed development at Washington. This would have to be announced next week when the Chairman of the company visited this country. The payments which would consequently have to be made to Nissan would form a major part of the Government's package of help to the North-East. But it was agreed that there was also a strong case for establishing an Enterprise Zone at Sunderland. The possibility should also be considered of setting up an enterprise company, perhaps to develop an Industrial Park, and of providing more retraining (on which Nissan might be asked to help). The Prime Minister asked that DTI and the Treasury should consider these possibilities in more detail, and bring forward proposals.

As to Scotland, there was a strong case for establishing an Enterprise Zone as the Secretary of State had proposed, although its exact location in relation to the shipyards needed further thought. The announcement about it would need to be co-ordinated with the announcement on BS. Additional funds might also have to be made available through the Scottish Development agency; the Treasury should consider this possibility further. It would be important to be even-handed as between Scotland and the North-East. The other option which had so far been considered was that of advancing frigate orders, but this would be very expensive.

The Group noted that the Secretary of State would be circulating a minute reporting on his negotiations with Swan Hunter for the AOR2. It had already been agreed at the meeting on 19 November that it would be wrong to drive down Swan Hunter to an unreasonably low price which they could not in practice be expected to achieve.

The Group also noted that decisions would need to be taken soon about Short Brothers. The long term future of this company was very doubtful and its position would need to be considered in due course. But to announce its closure at the same time as that of H&W would cause great difficulty in Northern Ireland.

Finally, the Prime Minister said that she would arrange a further meeting of all the Ministers concerned in early February with a view to an announcement during that month.

I am copying this letter to Mike Eland (Lord President's Office), Alex Allan (HM Treasury), Alison Brimelow (Department of Trade and Industry) and to Trevor Woolley (Cabinet Office).

*Jan,*  
*David*

David Norgrove

Peter Smith, Esq.,  
Chancellor of the Duchy of Lancaster's Office.

SECRET



10 DOWNING STREET  
LONDON SW1A 2AA

*pm*

23 November 1987

Dear Mr Smith

SHIPPING

I refer to David Norgrove's letter of 19 November. In the fifth line of the second paragraph could you please amend AOR2 to read AOR1.

I am copying this letter to Mike Eland (Lord President's Office), Alex Allan (HM Treasury), John Howe (Ministry of Defence), David Watkins (Northern Ireland Office), Timothy Walker (Department of Trade and Industry), David Crawley (Scottish Office) and to Richard Wilson, George Monger and Trevor Woolley (Cabinet Office).

CH/EXCHEQUER	
REC.	23 NOV 1987 23/11
<del>MR</del>	MR D. MOORE
COMES TO	CST EST SIR P. MIDDLETON MR MONCK MR COLMAN MR A. M. WHITE MS SEAMEN

*Yours sincerely*  
*Keith Harrison*

KEITH HARRISON

Peter Smith, Esq.,  
Office of the Chancellor of the Duchy  
of Lancaster.

SECRET



FROM: M A KEITH

DATE: 14 FEBRUARY 1989

1. ~~MR MCGIVERN~~ *14/2*
2. FINANCIAL SECRETARY

*These matters were examined in detail by Ministers last year both before & after officials' appearance before the Transport Select Committee. In brief GCBS are seeking, in one form or another, the re-introduction of accelerated depreciation for shipping.*

CAPITAL ALLOWANCES: SHIPPING

1. When you met representatives of the General Council of British Shipping on 13 September last year, one of the topics discussed was the GCBS proposal for roll-over of a balancing charge on sale of a ship against the cost of replacement in a later year. They promised to provide evidence to support their

cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr Revolta  
Mr Gilhooly  
Mr A R Williams  
Mrs Chaplin  
Mr Tyrie  
Mr Call

Mr Isaac  
Mr Bush  
Mr Deacon  
Mr McGivern  
Mr Keith  
Mr Pearson  
Mr Fraser  
Mr Elmer  
Mr Croall  
PS/IR

claim that, with such a relief, UK investment in ships would rise substantially. You agreed to look at the case again in the light of the evidence to be put forward.

#### Analysis of GCBS evidence

2. The GCBS have chosen not to submit separate evidence but have included their calculations as part of their 1989 Budget representations to the Chancellor. It appears that roll-over relief - which was last year's priority item in their agenda - may now have been relegated to second place behind their proposal for a first year ship allowance of up to 50%. At any rate they say that only accelerated depreciation through a tax allowance or grant could bring the rate of return on shipping investment into line with other investment opportunities.

3. As part of their evidence, the GCBS have submitted the annexed tables A (ship allowance) and B (roll-over). These tables reflect only post-tax rates of return. The pre-tax internal rates of return implicit in the GCBS figures - which make no allowance for inflation - are much lower at 1.4 per cent and 3.7 per cent respectively. These are very poor rates of return and it is only the combination of the tax treatment of debt, financed on subsidised EC terms, and annual writing down allowances at a rate considerably in excess of commercial depreciation of what are long-life assets which raises the post-tax rates of return to the higher levels of 11 and 11.9 per cent respectively.

4. These levels and the increased rates of return in the tables associated with the introduction of a ship allowance or roll-over relief are in themselves open to question. This is not only because of the absence of any adjustment for inflation but also because the GCBS examples do not charge tax in those instances - admittedly few in number - where a taxable profit emerges.

5. What the tables bring out very clearly is that shipping in itself is a marginally profitable business and that it is in large measure the existing tax treatment with the opportunities for sideways relief within groups of companies for losses created by capital allowances (the GCBS say 75 per cent of shipping companies are now "diversified") which produces post-tax returns of more respectable dimensions. The situation is that the GCBS are looking to the Exchequer to provide a still larger element of subsidy via the tax system, in effect by the reintroduction of an element of accelerated depreciation for investment in marginally profitable assets. That of course was what the 1984 business tax reforms were designed to discourage. Viewed in those terms, the case for any additional subsidy in either of the forms proposed by the GCBS is very weak particularly against a background of other nations' willingness to hire out their ships on subsidised below cost terms.

#### Other non-tax considerations

6. The issue therefore is whether there is a case for extra subsidy on other grounds.

7. One argument presented by the GCBS is that the industry is an extremely efficient earner of foreign exchange. But that argument scarcely holds up when other forms of investment undertaken overseas would give a much higher return.

8. There is then the question of defence and the strategic dimension. Much depends on the outcome of current NATO studies of requirements and availability. The Secretary of State for Transport in his 1989 Budget representations has said that firm results from the NATO studies are not expected until 1990 at the earliest and that, in the meantime, he is not able, on defence grounds, to support the two GCBS proposals for a ship allowance and roll-over relief. Mr Channon also suggests that attempts by the EC to formulate a Community response to the continuing decline in the Community's merchant fleet is another reason for avoiding unilateral action at the present time.

### Size of the merchant fleet

9. The GCBS predict a further 20-25 per cent contraction in the UK-owned merchant fleet by 1992, if present investment conditions continue. This is based on a recent survey of their members. The Department of Transport, on the other hand, say that there is evidence that the worst of the decline in the industry may be over and that there can be no certainty at this stage about future UK fleet levels. In world shipping generally considerably more confidence and optimism for the future is being shown while freight rates have increased and numbers of laid-up vessels have gone down.

### Prime Minister's meetings

10. The Prime Minister held a series of meetings with the Chancellor and other members of the Cabinet last year to consider the implications for the nation's defence of the decline in merchant shipping. While it was agreed that action must be taken to ensure the UK could meet its wartime shipping requirements, indiscriminate measures of support such as front-ended depreciation allowances and roll-over of balancing charges were rejected.

### House of Commons Transport Select Committee

11. The decline of the UK registered merchant fleet has been the subject of enquiry by the Commons Transport Select Committee. In its first report published on 21 June 1988, the Committee recommended that urgent and sympathetic consideration be given to proposals for roll-over relief for balancing charges.

12. In its observations on the report (published as an annex to the Committee's Second Special report on 3 November 1988), the Government noted that

- (a) roll-over relief would be inconsistent both with the purpose of capital allowances of allowing relief for

actual depreciation of business assets and with the general thrust of the 1984 business tax reforms;

- (b) it was not convinced that the proposal would have a significant effect in halting or reversing the decline in the fleet (which had continued to contract during the decade when special tax incentives were available).

### Cost

13. The estimated Exchequer cost of roll-over of balancing charges where replacement occurs within 4 years of the year of sale is £m40 in 1990/91 rising to £m60 in 1993/94 declining thereafter. These figures are highly speculative and assume 45 ships sold each year at an average price of £m5 and 5 percent inflation.

14. Using reasonable estimates of future expenditure the cost of a 50 per cent ship allowance is put at £m50 in 1991 rising to £m80 in 1992/93 with a subsequent gradual decline.

### Conclusion

15. The GCBS submission does not really add anything new to their case for roll-over relief or indeed for an incentive allowance to encourage investment in shipping. Their calculations merely illustrate the now familiar point that investment in shipping remains unattractive alongside the alternative investment opportunities available to diversified shipping groups. These issues were exhaustively examined last year and, in the light of the Secretary of State for Transport's statement that he cannot support the GCBS proposals on defence grounds, our recommendation would be to stand fast and not introduce roll-over relief for balancing charges.

16. If that is your decision, we see no need for you to write to the GCBS, given that you have already acknowledged their Budget representations in the normal way. The GCBS have said they would welcome another meeting with Revenue officials but in view of the commitments on the Budget and Finance Bill work, we propose telling them that we do not think there is anything more we can usefully discuss at this stage. (We did in fact discuss the proposed reliefs with GCBS when they first floated their ideas in "The Future of the British Merchant Fleet" in December 1987.)



M A KEITH







*Handwritten initials and 'PAYE' in the top right corner.*

FROM: R C M SATCHWELL  
DATE: 15 February 1989

MR KEITH - IR

- cc PS/Chancellor  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr Gilhooly  
Mr Mortimer  
Mr A R Williams  
Mrs Chaplin  
Mr Tyrie  
Mr Call
- Mr McGivern - IR  
PS/IR

*Red checkmark and flourish.*

*Handwritten number '2' with a yellow highlight.*

**CAPITAL ALLOWANCES: SHIPPING**

The Financial Secretary was grateful for your minute of 14 February. He agrees with your recommendation not to introduce rollover relief for balancing charges for ships. Furthermore, he sees no need to write to the GCBS about this.

*R.c.m.s.*

**R C M SATCHWELL  
Private Secretary**

The Rt. Hon. Tony Newton OBE, MP  
Chancellor of the Duchy of Lancaster and  
Minister of Trade and Industry

Rt Hon John Major MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 0AA

*Let me know if you have any suggestions for the vacillations.*

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

Direct line 215 5147  
Our ref  
Your ref  
Date 16 February 1989

CHIEF SECRETARY	
REC.	1 FEB 1989
ACTION	Mr W Gray
COPIES TO	Ex FST, Mr J Anon, Mr N Monck, Mr D Moore, Mr J Bugner, Mr Bert, Mr A White, Mr A E White Mr A Lyne & Mr McCall.

**BRITISH SHIPBUILDERS**

I understand your officials have already informed you of the disappointing difficulties that have arisen with the disposal of Ferguson. On the advice of their national and local representatives, the workforce overwhelmingly rejected terms and conditions of service that Peter Waymouth of Ailsa Perth regarded as essential if the yard was to be made competitive. The majority in favour of rejection in a secret ballot was 275 to 5 out of a workforce of 300. The few who were sympathetic to Waymouth have advised him that his only prospect now is to persuade British Shipbuilders to make the majority redundant, aiming to build a new workforce around a minority who might agree to stay on his employment terms provided they were assured of equivalent redundancy payments were the yard to fail within, say, two years.

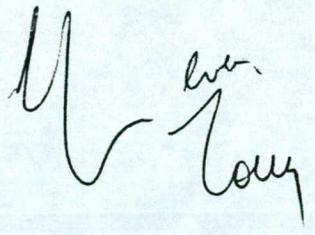
Together with my officials, John Lister saw Waymouth on 14 February and, after some discussion of his present position, invited him to write down the terms of what would now be a very different bid reflecting his response to the position of the workforce.

Lister fully expects to find this unattractive in which case he believes he should, in equity with efforts we were prepared to make at Sunderland, move to a re-bid without delay. As you are aware, Malcolm Rifkind and I both believe it would be wrong to decide on closure now, especially as Lister believes there are parties who would be prepared to bid. I was therefore glad to hear that you were prepared to agree to the announcement of a rebid depending on the outcome with Waymouth.

Clearly we must progress matters as quickly as we can, not least because present work in the yard runs out in June. However, Lister's considered view, backed by his financial advisers Lazards, is that it would be unrealistic to expect properly prepared and approved bids before the end of March, and even this would be asking a good deal. We could of course adopt the formula we used under pressure of time at Sunderland of inviting parties only to establish their credentials to bid. This would allow an earlier deadline but I would be reluctant to go down this route. We found in the Sunderland case that a lot of time was spent, and a lot of hopes raised, pursuing proposals which could not in the event be translated into viable bids. If, on the other hand, no potential bidder came forward, we should be faced with a closure decision and announcement at least two weeks earlier in the programme of completing the ferry, with increased risks to eventual costs.

I will write to you again when I have received Lister's advice in the light of the revised proposals he is expecting from Waymouth. In the meantime, it may be necessary for us to be able to respond publicly at short notice in the event that negotiations with Waymouth break down. I have already taken the precaution of putting down an ordinary written PQ, which I have in mind answering along the lines of the attached draft. You will notice that I am taking the opportunity of mentioning the satisfactory conclusion of the Clark Kincaid and Appledore sales and also the current state of play on MDC and Sunderland Forge Services, both of which I hope will result in a sale with at least a small net recovery for the exchequer. I should be grateful if you could let me know by Monday 20 February if you are content with the draft and for any other comments you may have at this stage.

I am copying this letter to Malcolm Rifkind.



TONY NEWTON

1272  
52/10/87  
WRITTEN

182 Mr Irvine Patnick (Sheffield, Hallam): To ask the Chancellor of the Duchy of Lancaster, whether he has anything further to report on progress with privatisation of British Shipbuilders' facilities. 1

British Shipbuilders successfully completed the sale of its Clark Kincaid facility on 23 December and its Appledore yard on 26 January. Discussions with the preferred bidder for Marine Design Consultants are continuing. BS have invited bids for Sunderland Forge Services by 24 February. BS have concluded that the previous preferred bidder for the Ferguson yard at Port Glasgow is not now in a position to find a viable future for the yard. I have therefore accepted the advice of the BS Chairman that BS should invite new bids for Ferguson by 31 March.



FROM: J M G TAYLOR  
DATE: 24 February 1989

*Prof*

PS/CHIEF SECRETARY

cc Financial Secretary  
Mr Anson  
Mr Monck  
Mr D J L Moore  
Mr Burgner  
Mr Bent *Mr Guy*  
Mr White  
Mr A E W White  
Mr Tyrie  
Mr Call

**BRITISH SHIPBUILDERS**

The Chancellor has seen Mr Newton's letter of 16 February to the Chief Secretary.

2. He has commented that we are going to have to inject some tough talk into this saga of vacillation.

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

J M G TAYLOR