

# PREM19

# 96

## NATIONALIZED INDUSTRIES

(Shipbuilding)

(Part 1)

PREM 19/96

Part 1

MT

Confidential Filing

Shipbuilding Policy.

NATIONALISED  
INDUSTRIES

~~May~~  
July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>10.7.79</del>							
<del>11.7.79</del>							
<del>17.7.79</del>							
<del>20.7.79</del>							
<del>23.7.79</del>							
<del>31.8.79</del>							
<del>10.9.79</del>							
<del>26.9.79</del>							
PREM 19/96							



PART 1 ends:-

E(EA)(79) 23rd Mtg Min 2 29.11.79

PART 2 begins:-

S/S (ad) to PM 5.12.79





CONFIDENTIAL

*Nat ind*

P.0159

MR LANKESTER

cc: Mr Mountfield  
Mr Vile

GOVAN

There have been two late developments of which the Prime Minister should be aware:-

(a) British Shipbuilders are confident that they can postpone next Monday's meeting with the unions for a week. This gives us a little more time.

(b) A new private sector possibility has emerged in that a Mr Vlasov of the Silver Line has indicated a possible interest in buying four ships of a kind which can be made at Govan. The gap between expression of interest and an order is of course very wide.

2. The Secretary of State for Industry will no doubt report both developments to E this morning.



P Le CHEMINANT

28 November 1979





*cc Mr Duguid*

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

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PRIME MINISTER

GOVAN SHIPBUILDERS

We had a brief word after E Committee yesterday about the need to secure further work for Govan shipbuilders. Officials are, as you suggested, making every possible effort to find a suitable UK customer for vessels to be built at the yard. I very much hope that this exercise will prove successful. If it is not I hope that, before reaching final conclusions, we can weigh the disadvantages you saw with the Liberty Maritime deal against the very serious political, social and financial consequences of not securing further work for Govan.

Keith Joseph has made out a strong case for proceeding on shipbuilding grounds. The only points I wish to add are

- (a) I recognise the misgivings of colleagues about the standing of the company, but it is by no means unusual for owners to establish single ship operating companies to manage their fleets - moreover, I am now told that this company operates no less than seven other ships, has another building in Japan and has no record of default;
- (b) while under the terms of the deal the company is bearing much less of the risk than usual, if the worst happens and it does default British shipbuilders would retain the vessels.

My principal concern, however, is the effort which failure to secure further work would have on West Central Scotland. It is no exaggeration to say that West Central Scotland has suffered a series of hammer blows over recent months, and further major closures and redundancies are in prospect. Despite this, the unions and the affected employees are treating the situation responsibly and are putting their trust in us and in our goodwill to do our best in what all recognise is a very difficult situation. This trust is immensely valuable not only for shipbuilding but also for our efforts to tackle industrial problems throughout Scotland: my impression is that for the first time in many years a



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Conservative Government is being being given a fair opportunity to prove itself and its policies on Clydeside. The July announcement of the shipbuilding rundown was very serious for Clydeside, and some of those concerned were all for disruptive action. However, the reasonable explanation given for the rundown by Keith Joseph and British Shipbuilders convinced them to be responsible, and union leaders have been making every effort to damp down any disruptive influences.

Included in these explanations was the assurance by British Shipbuilders that they had a letter of intent for a further order for Govan, and this was undoubtedly a major factor in persuading all concerned to be reasonable. We would, therefore, be held completely responsible for the failure of Govan to secure further work, and in view of the assurances which have been given to the workforce over recent months this would only be regarded as a breach of faith on our part. The criticism to which it would give rise would in my judgement very much outweigh any criticism of a deal with Liberty Maritime; and I doubt whether the trust which we now enjoy would survive, making our task in Scotland immeasurably more difficult.

I am copying this minute to the members of E Committee and to Sir Robert Armstrong.

G. Y.

27 November 1979

27 NOV 1979



CONFIDENTIAL



*of Mr. Dwyer*

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

*From the Secretary of the Cabinet:* Sir Robert Armstrong KCB, CVO

Ref. A0778

27th November, 1979

*Dear Tim*

Govan Shipbuilders Ltd.

Since Monday's meeting of E officials have investigated the possibilities of public sector orders for the Govan shipyard. I attach their report, which will be considered by E at its meeting after Cabinet tomorrow.

I am copying this letter to the Private Secretaries to members of E, the Secretaries of State for Defence, Scotland and Northern Ireland, the Lord Privy Seal and the Minister of Transport.

*Yours ever*

*Martin Vile*

(M. J. Vile)  
Private Secretary

T. P. Lankester, Esq.



**CONFIDENTIAL**

*Prime Minister*

*In the light of this, you may want to reconsider whether there should be any order for Govan (Fairfields) haven't made a profit since the early 1960's, and they have absorbed vast amounts of government money. But the social/political arguments, as always, go the other way.*

AN ORDER FOR GOVAN SHIPBUILDERS

Note by Officials

1. We were asked, following the meeting of E Committee on 26 November, to review the possibility of finding a public sector order or order for the Fairfield Yard at Govan Shipbuilders in place of the two ships for Liberty Maritime. This note has been prepared by officials of the Departments of Industry, Transport and Energy, the Ministries of Defence and of Agriculture, the Scottish Economic Planning Department, the Treasury and the Central Policy Review Staff (CPRS), under Cabinet Office Chairmanship.

*(See Mr Young's minute in his file)*

*DL*

2. Govan Shipbuilders employ 5,450, of whom 1,100 are at Scotstoun and 4,350 at Fairfield. Scotstoun is due to close by the end of this year. The workforce at Fairfield is due to be reduced by 1,150 to 3,200, by voluntary redundancies and by transfers to other yards on the Clyde. This planned rundown has already started and will be completed on the delivery of the last Polish ship, now expected in March 1980. The achievement of this rundown is itself dependent on an assurance now of further orders for the yard after the completion of the Polish order. And the completion of the Polish ships will also be in jeopardy if further orders are not forthcoming. As of now, the yard has no further work beyond the Polish ships. The Liberty Maritime order would employ part of this workforce, utilising the whole only for a brief period in the summer of 1980 and finishing completely in the Spring of 1981.

*2/11*

The Need

3. Ideally, any new order should provide comparable employment to the Liberty Maritime order. It should not involve a ship for which there was an urgent operational requirement, because of the risk that it might be 'locked-in' if the plan goes wrong. The additional cost should be within the limits of finance which the Department of Industry were prepared to make available for the Liberty Maritime order (see below). It should be suitable for the modern facilities at Fairfield, which is a general-purpose yard concentrating on medium/large merchant ships. It has available a range of designs for bulk carriers and general cargo ships of around 25,000 tons. With more notice, it could construct any other relatively sophisticated merchant ship or fleet

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auxiliary. Within the total numbers employed, it is particularly important to find work if possible for the 1,000 steelworkers at the yard, whose work comes first in the construction of any ship and is now diminishing. If the market recovers sufficiently (and there are some signs of recovery now), British Shipbuilders plan to secure orders for the yard for ships of higher added value such as ferries.

Available Finance

4. The proposed contribution from public funds (provided within the Department of Industry's and British Shipbuilders' PES allocation) for the Liberty Maritime deal was:

- i. £4.5 million grant from the Intervention Fund, spread over two years;
- ii. £0.7 million as an interest relief grant from British Shipbuilders (spread over the 15-year life of the ship);
- iii. £2.7 million grant element as Section 10 assistance (spread over 8 years).

5. The total direct public support was therefore £7.9 million. The figure of £21 million mentioned in the CPRS paper (E(79) 66) is the total cost of constructing the vessels. This would be lost only if the ships were completed and then locked-in permanently, without being re-sold. Given the other calls on Department of Industry shipbuilding funds, we understand that there is little prospect of providing further public assistance, beyond the £7.9 million, from this source.

6. We have considered a full list of potential public sector shipbuilding orders over the next few years. Only 7 of these are remotely suitable for Govan, and there are serious problems in each case.

- (i) Offshore Patrol Vessels (OPVs or Fishery Protection Vessels)

There is a requirement for 4 replacement vessels (at about £10 million each) for the Fisheries Departments and Ministry of Defence and for one smaller vessel at a cost of £5 million for the Department of Agriculture and Fisheries

The rest would be financed by Hambros; but this would be guaranteed by the Government and would therefore fall to us if likely Maritime renege, or if the Govan firm to deliver.

PL



for Scotland (DAFS). The Treasury has offered, in the context of the current Public Expenditure Survey discussions, to finance two of these. It would be possible to operate more than these two if the funds were available, but this would impose current costs as well as capital costs for which there is at present no provision. There is an established design for these ships, developed for Ministry of Defence by Hall Russell, a British Shipbuilders subsidiary in Aberdeen. The first two ships are being built in Aberdeen and the first will be launched in March. Any subsequent orders could be allocated to Fairfields but British Shipbuilders estimate that, because the facilities are less suitable, the shipbuilding cost could be 20/25 per cent higher than at Aberdeen, requiring still further extra funds. If all three extra ships were allocated, the work would occupy about 750 men at the peak.

ii. Fleet Support Tanker

*h*  
*Govan*  
~~\_\_\_\_\_~~  
Ministry of Defence is now in the final stages of tendering for two fleet support tankers though it is currently reconsidering whether it can afford them at the present time. The design work has been done. The two would cost £54 million. Each ship would employ 1,000-1,500 men. Govan is not one of the yards tendering for this order. There has been great political pressure for these orders and lobbying by local Members of Parliament especially on behalf of Swan Hunter, Cammell Laird and Harland and Wolff. Any departure from normal tendering would therefore be controversial and might involve higher costs. Work could begin by the middle of 1980. These would be suitable ships for construction at Govan, and a delay in their completion could be tolerated.

iii. Conversion of HMS Tarbatness

This is a potential major reconstruction job, but does not involve much new steelwork. Ministry of Defence have no present PES funds and may drop it from their programme. Work on design has now stopped. The contract price would be over £30 million, of which a high part would be fitting-out of new equipment. Further design work at Cammells would be necessary and a start could not be made for some months.



iv. Hydrographic Vessels

There is a requirement for three of these. They are small and complex vessels. The cost would be £24 million (for which PES provision has not yet finally been approved) for all three, and about 500 jobs per vessel would be involved. The detailed design work has still to be done, and no order seems possible before early 1981.

v. Train Ferry for British Rail (BR)

British Rail is considering ordering two new train ferries for the Harwich/Zeebrugge route at a cost of £13 million each. The viability of the operation depends on improved railway and Customs operations. The Government has not yet approved the order, for which there is no provision in BR's investment programme. There is pressure from Germany to improve the through rail freight service, and from Belgium for at least one of the orders. Some design work has already been done. British Shipbuilders, who have been involved, believe they could start in about six months. It is unlikely that British Rail would choose Govan.

vi. Cable Ship for Cable and Wireless

A decision in principle has been taken by Cable and Wireless to construct a new cable ship. But the design will not be finalised until the end of February, and there will be a tendering and negotiating process after that. Cable and Wireless believe they would not start until September 1980; the Department of Industry think it might be possible to start a month or two earlier. This will be a large job around £15 million or more. There will be political pressures to construct in the North East; Lord Glenamara is the Chairman of Cable and Wireless.

vii. A further Fleet Support Tanker for Ministry of Defence, to a basic commercial design with minimum modifications.

Provided extra funds could be made available, MOD could find a use for such a vessel which might cost up to £20 million and could be started quite quickly. This would avoid the need to divert existing orders from other yards but would involve additional running costs in due course. If MOD then decided to postpone the two specialist tanker vessels, there could be reactions at the other yards which might have expected the orders.

7. Further options

There are two other possibilities which could be considered:

viii. Speculative building

The Liberty Maritime order itself could be regarded as a form of speculative building, with the purchaser laying out only £0.5 million for an option which he could later decide to cancel, leaving British Shipbuilders with the vessels. A straight speculative build financed by the Government would lead to pressure for comparable orders from other yards.

ix. Diverting work from other Ministry of Defence dockyards

There is little or no scope for this in the short term because the facilities and labour force at Fairfield are not suited for warship construction and refit.

Cabinet Office

27 November 1979



CONFIDENTIAL

Prime Minister <sup>2</sup>  
To note



PRIME MINISTER

~~Caroline~~  
tomorrow at  
12 pm with  
Committee

ABJ  
Duty Clerk  
26.11.

GOVAN

B.

cc Mr Wolfson  
Mr Inghid

The E Committee decided under your chairmanship this afternoon that officials should look into the possibility of finding a public sector order, or orders, for Govan.

We recognised the need for speed. There is indeed an acute issue of timing. British Shipbuilders are due to meet the unions again on Monday 3 December and, if any public sector order is not to be seen as a concession to trade union pressure, we ought to take our decision before then. With the EEC meeting I know the pressure on your time, but I should be most grateful if Ministers could meet again within the next two or three days to consider the report of officials that has been commissioned.

I am asking my officials to have completed a first survey of the possibilities in time for a meeting of an interdepartmental group tomorrow morning. But at first sight the possibilities of getting an order of the right kind, quality, and solving the funding problems do not seem good.

We do  
the  
order  
Fishes  
Protection ~ or Regulation

I am sending copies of this minute to other members of E

/Committee ...



CONFIDENTIAL



2

Committee and to Sir Robert Armstrong.

KJ

K J

26 November 1979

Department of Industry  
Ashdown House  
123 Victoria Street  
London SW1

CONFIDENTIAL

Ref. A0735

PRIME MINISTER

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Govan Shipbuilders

(Minute to you from the Secretary of State for Industry dated 16 November and E(79) 66)

BACKGROUND

The question is whether British Shipbuilders should be authorised to accept an order for two ships from Liberty Maritime in association with Hambros. E(EA) discussed this on 13th November (E(EA)(79) 20th Meeting, Item 4) and agreed, on balance, that it should. You had however asked that the decision should come to you for confirmation before action was taken, and in the event asked that the matter should be further considered in E. As an aid to the discussion the CPRS have circulated E(79) 66.

HANDLING

2. You might ask Sir Keith Joseph to report on the discussion in E(EA) and then Sir Kenneth Berrill to introduce his paper. Mr. Prior and Mr. Younger will then wish to comment on the industrial relations and employment aspects for Clydeside. Finally Mr. Biffen might comment on financial aspects (though the conditions which he laid down at E(EA) have been met).

3. The questions raised by CPRS are summarised in paragraph 9 of their paper and you may wish to run through these. We understand that the answers are likely to be along the following lines:-

- (i) The yard may be able to get further orders on a normal commercial basis. If not it will start to run down by August 1980. By then the Polish ships will have left the yard and there is no penalty for late delivery of the Liberty Maritime ships to give the workers the leverage they now have.
- (ii) These orders will occupy the yard till that run-down starts.
- (iii) The delivery schedule is the latest BS estimate. No reason to doubt it. The ships should be released well before August.

*Prin Amish*

*You should see  
the letter in his  
files from Norman  
Tebbitt (writing on  
behalf of the Malt  
who is among).*

*TL  
23/11*



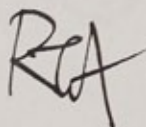
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- (iv) The terms will not be publicised. And British Shipbuilders can be told it isn't a precedent.
- (v) Without industrial trouble BS are likely to stay within their cash limit this year, and will be told to stay within it next year, taking account of these orders. Industrial trouble, however, especially if widespread, could very easily cause them to exceed their cash limits, this year or next.

CONCLUSION

4. The decision turns on a political judgment on the relative disadvantages of the alternative courses. The primary decision will be either to go ahead or to refuse these orders. If the decision is to go ahead you will wish the Department of Industry to take steps to minimise the repercussions as far as possible. This might involve telling BS that:-

- (a) the order is not a precedent;
- (b) they must not give 'half commitments' of this kind to the workers again;
- (c) they must stay within their cash limits no matter what happens.



(Robert Armstrong)

23rd November, 1979



CONFIDENTIAL



From the  
Parliamentary Under Secretary of State

DEPARTMENT OF TRADE  
1 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215 3781  
SWITCHBOARD 01 215 7877

Sir Keith Joseph  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
London  
SW1

23<sup>rd</sup> November 1979

D Keith,

GOVAN SHIPBUILDERS

Before he left John Nott asked me to write to you about this subject, since he will be out of the country when E Committee considers on Monday the Govan Shipbuilders papers E(EA) (79) (64) and (from the CPRS) E(79) (66). I believe that we should decline this proposition on both political and practical grounds. in E folder

We should consider first the future credibility of the Government if we surrender to industrial blackmail from this ship yard. We shall be faced with other difficult closure problems in this and other industries where hard decisions have to be taken in rationalizations. If a precedent is set at Govan others in similar situations will be much less likely to believe that we mean what we say, and we shall simply be making a rod for our own backs. This particular industrial blackmail would if implemented be suicidal in making it certain that no other shipowner would risk an order for Govan.

We should also be making a U-turn in the shipping and shipbuilding policy fields. In Opposition we strongly criticised give-away shipbuilding deals which helped competitor fleets to damage our own shipping interests. But none of these deals involved an interest-free loan, a customer of such uncertain reputation, or his relief from virtually all commercial risks. Again our credibility, not least with our own supporters would be in jeopardy.

Over and above these general points, the specific terms of the order raise important points on the proper role for this nationalised industry. If the market moves against Liberty Maritime they can pull out, and since Hambros are only nominal owners the problem reverts to BS. If they try to find another charter they are entering into the shipping market in competition with the private sector.

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If they arrange a sale we have effectively had speculative building. Either eventuality is inconsistent with our principles.

Against this, there are the speculative financial consequences of the locking-in of Polish ships. But the CPRS paper makes clear that the financial exposure is much less than previously argued. What must also be taken into account are the financial consequences of it being realised that Ministers were susceptible to this kind of pressure.

The CPRS paper comments cogently that we are being asked to buy a short period of peace for a yard which has no longer-term future. I hope colleagues will agree that this is not worth the sacrifice of so many points of principle and so much credibility.

I am copying this letter to the Prime Minister, E Committee members, Sir Robert Armstrong and Sir Kenneth Berrill.

A handwritten signature in cursive script, which reads "Norman". The signature is written in dark ink and is positioned above a horizontal line.

NORMAN TEBBIT



23 NOV 1971







SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Tim Lankester Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

*For E on Monday*

21 November 1979

*12  
24*

*Dear Tim,*

My Secretary of State has seen your letter of 19 November to the Private Secretary to the Secretary of State for Industry indicating the Prime Minister's wish that the proposal for further support to Govan Shipbuilders should be considered again in E Committee.

Mr Younger wishes to express the strongest possible hope that consideration in E Committee can take place as a matter of urgency. So far, as Sir Keith Joseph's minute of 16 November says, the workforce have been extremely cooperative but for the reasons which have been explained there is a firm expectation in the yard that new orders will be placed and in the continuing absence of this restiveness is growing. There are clear indications that the mood of the workers is changing and Mr Younger is concerned that they could quickly become unco-operative with the possibility of a major industrial confrontation following. We understand that when BS met the unions on Monday they agreed to meet again in 2 weeks, but that the union side warned that unless a firm order appeared soon, the leadership would not be able to restrain the more militant elements.

My Secretary of State has also noted the reference in paragraph three of the Secretary of State for Industry's minute of 16 November to the agreement of colleagues in E(EA) that the Govan yards would in all probability have no long term future. But British Shipbuilders have hitherto taken the view that the Govan (Fairfield) yard was to be regarded as part of the 'core' of merchant shipbuilding capacity and therefore for retention if at all feasible.

I am sending copies of this letter to the Private Secretaries of members of E(EA) to Martin Vile (Cabinet Office).

*Yours sincerely,*

GODFREY ROBSON  
Private Secretary

22 NOV 1979





CONFIDENTIAL

*cc Mr Inghid*



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State

The Hon Adam Butler MP

The Rt Hon John Biffen MP  
Chief Secretary to the  
Treasury  
HM Treasury  
Parliament Street  
London SW1

19 November 1979

*Dear John,*

*R 19/11*

E(FA)(79)64 - GOVAN SHIPBUILDERS/LIBERTY MARITIME

When E(EA) Sub Committee considered the above paper on 13 November I was asked to confirm to you that there is no element of UK tax allowance in the Liberty Maritime deal which would provide a hidden increase in subsidy.

BS have explained that the proposed deal is on a non-tax lease basis, as the Hambros subsidiary is ineligible for the allowances because of the buy-out option which effectively turns it into a hire purchase deal. On this basis I am able to give you the necessary assurance.

Should the deal be approved, it will be made clear to BS that they must carry the consequences of any default by Liberty Maritime within their agreed external financing limits.

I am copying this letter to the Prime Minister, members of E(EA) and to Sir Robert Armstrong.

*Yours*

*Adam*

ADAM BUTLER

19 NOV 1979





E(EA)

CONFIDENTIAL

VLS

Emp.  
Env.  
Scotland  
Wales  
Trade  
Energy  
Chief Sec.



FILE

+ C.O.

10 DOWNING STREET

*From the Private Secretary*

19 November 1979

The Prime Minister has considered your Secretary of State's minute of 16 November in which he reported on the E(EA) discussion on the proposal for further support to Govan Shipbuilders.

The Prime Minister is still not persuaded that it would be right to provide the necessary support for the Liberty Maritime orders, and she would like this proposal to be considered again in E Committee.

I am sending copies of this letter to the Private Secretaries to members of E(EA) and to Martin Vile (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,  
Department of Industry.

CONFIDENTIAL

205

FILE

Nat. Ind. VLS  
CF 20 1179



cc CO

10 DOWNING STREET

*From the Private Secretary*

SIR KENNETH BERRILL

Govan Shipbuilders

As I told you, the Prime Minister has decided that the Govan proposal should be reconsidered in E Committee. She would be grateful if you would circulate a collective brief, drawing on the points which you made in your minute of 16 November.

I am sending a copy of this minute to Martin Vile (Cabinet Office).

T. P. LANKESTER

19 November 1979

TKR.





PRIME MINISTER

You asked that I should report to you the discussion in E(EA) on the proposal for support to Govan Shipbuilders, (E(EA)(79)64), before any final decision is taken.

In answer to your specific queries raised in your Private Secretary's minute of 12 November, the Minister of State Department of Industry explained that the size of the subsidy proposed for these orders is not in fact larger than normal. The only exceptional feature in the size of subsidy is the interest free loan during construction, which amounts to 4.2 per cent of purchase price, or about £0.7 million. We have agreed higher subsidies for BP tankers; there were also cases under the previous Administration; and the competition for shipping orders is increasingly fierce. He also assured us that great efforts had been made to find an alternative British order, but the only contender was the Ocean order mentioned in the paper which would have required very much greater subsidy.

In discussion, it was common ground between colleagues that the Govan yards would, in all probability, have no long term future. Thus the purpose of supporting this order would be to cushion a painful process of run-down. So far the workforce had shown a remarkable degree of cooperation with the BS management in achieving their strategic plans for the industry. But in the negotiations on this strategy BS had mentioned the "letter of intent" for 2 ships, and the men were now becoming increasingly restive that these orders had not appeared. The Secretary of

/State ...

Prime Minister

This is still thoroughly unsatisfactory.

In view of Ken Berrill's and John Hodge's comments at Flaps A and B, I suggest we put this on the agenda for E next Wednesday. It would help, I think, a collective brief from Ken Berrill. Agree? 12

Mr Duguid 1

Yes  
not



State for Scotland, and the Minister of State, Industry, were in no doubt at all that unless orders are forthcoming very soon, industrial unrest is inevitable. In that event the vulnerability of the Polish ships to being "locked in" means that BS could quickly suffer financial penalties greater than the sums we were now considering. And if industrial action spread throughout the industry, as it well might in view of the central position of Govan, and as a result all orders slipped by 3 months, costs of perhaps £100 million would arise. But apart from the financial consequences, the existing co-operative attitude of the unions would also have been forfeited. The Secretary of State for Scotland emphasised to us the succession of closures that have recently been announced on Clydeside - Singer, Prestcold, Massey Ferguson, Linwood, BSR. The loss of Govan as well in the short term - with over half the male workforce of that Employment Exchange area working at the yard, would in his view be the last straw.

We noted that the company involved in the orders, Liberty Maritime, was virtually unknown, and that it had almost no declared assets. There must therefore be a significant risk that it would default, and we should certainly have to be prepared to face criticism for giving them a subsidised order. But against that, in the event of default BS would have the vessels available to realise a part of the money, and we would also have to face political pressures if we let the yard fail immediately, with the consequences we had foreseen. We noted that the money needed for this subsidy

/would ...





4.

would be found within the provision already made in the Intervention Fund.

Because the existence of a "letter of intent" has been known since August, it should be possible to present the order as coming to fruition in the normal way, and to avoid any allegation that special arrangements have been made in response to the risk of industrial action.

On the other hand the Chief Secretary expressed the opinion that the deferment for perhaps a year of the closure of Govan would be seen as being bought by us under pressure with unfortunate overtones of what happened, also at Govan, in 1972.

However most colleagues on E(EA) were persuaded that in spite of the acknowledged drawbacks, it would be right to proceed with these orders, and I agreed to report that view to you.

I am copying this to the members of E(EA) and Sir Robert Armstrong.

l.s.

*de*

K J

16 November 1979

Department of Industry  
Ashdown House  
123 Victoria Street



176 NOV 1973  
11 11 11





A.

CONFIDENTIAL

Qa 04350

To: MR LANKESTER  
From: SIR KENNETH BERRILL

Govan Shipbuilders

1. I have seen the minute by the Secretary of State for Industry to the Prime Minister of 16 November reporting the conclusions of E(EA) on the proposal to build two ships for Liberty Maritime at the Fairfields yard of Govan Shipbuilders.
2. The minute brings out very clearly the anxieties which Ministers in E(EA) had about the serious employment position on Clydeside. The Prime Minister may feel that it is therefore a political imperative to finance the order for Liberty Maritime (which is described in some detail in E(EA)(79)64). But before taking such a decision the Prime Minister may wish to consider a number of points which worry the CPRS and perhaps raise questions on them with Departments.
3. The arguments for financing the Liberty Maritime order are two: (a) to help cushion the painful process of running down shipbuilding on the Clyde at a time when there have been many other plant closures in the area; and (b) to secure the release of the Polish ships being built at the Fairfields and Scotstoun yards of Govan which might be locked in if further orders for Govan are not forthcoming. Both these arguments need examination.
4. Cushioning the rundown of employment -
  - (i) Ministers in E(EA) accepted that in all probability Govan is not viable long-term. The CPRS fully shares this view. Even when the demand for shipbuilding recovers worldwide, South Korea, Taiwan and Japan will build the kind of ship produced at Govan and at a much lower cost (simple, small to medium sized bulk carriers). If the intention then is to keep Govan going only for the next year or so, where will the orders come from for the 5 to 6 ships a year needed to maintain even the reduced labour force envisaged for the Fairfields yard? The Liberty Maritime order is for two ships only. Is the assumption that more orders will be obtained? And will it be any easier to decide on closure next year or the year after?

CONFIDENTIAL

(ii) The proposed order has disturbing features which might excite public comment. Liberty Maritime Agency Limited is a firm of ship brokers which last filed accounts in 1976 (which makes it technically in default under the Companies Act) and at that time its declared assets were £12,000. The terms of the contract are such that at any time during construction it can pull out at negligible cost and will almost certainly do so if the shipping market does not recover sufficiently to make it worth their while completing the deal. British Shipbuilders carry all but about £ $\frac{1}{2}$ m. of the financial risk. Since British shipowners show no interest in placing orders for Govan, the likelihood is that any successor orders to keep the Fairfields yard open for a few months longer would have to be on similar terms and with similar companies.

5. Securing the release of the Polish ships. The second main argument for the Liberty Maritime order is that it will secure the release of the eight Polish ships from Govan and prevent other industrial dislocation and costs.

6. The Liberty Maritime order will mean a contingent liability to HMG of £20m. and against this, if it is not accepted, is put a possible cost of £100m. This looks a reasonable exchange, but -

(i) a figure of £100m. can only be arrived at by assuming industrial action on a much wider scale than the Clyde. The total amount directly at risk to HMG on the Polish ships is £30m. (not £52m. as implied in E(EA)(79)64) - less whatever would be saved by not completing them. The figure would be still further reduced if the ships were not completed or if they were eventually released and sold. And the figure is falling as ships are released - of the nine mentioned in the E(EA) paper one had already gone by the time of the discussion in E(EA).

(ii) The contingent liability on the Liberty Maritime order is £20m. but this may not be enough to extract all the Polish ships; unless additional similar orders to keep the yards going are accepted, which would increase the contingent liability proportionately.



CONFIDENTIAL

7. As I have said above, the employment position on Clydeside may create a political imperative to finance the Liberty Maritime order even if it only means an extra few months grace. But if the Prime Minister does not consider the issue clear-cut she may wish to ask the Secretary of State for Industry -

(i) if, as indicated in the Secretary of State's minute, Fairfields is unlikely to have a long term future, when is it thought that the yard will close? Why should it be easier to close later rather than sooner?

(ii) How many orders, and at what total cost, will be needed to provide work for the labour force envisaged in E(EA)(79)64?

(iii) What guarantee do we have that the Liberty Maritime order will be the key to secure release of all the Polish ships?

(iv) What shall we do if, say, next month British Shipbuilders bring forward an identical order to help fill the Fairfields yard?

(v) When, level of subsidy apart, the terms of the order and the status of Liberty Maritime become known, what reception should we expect from British shipping interests, from the press, and from our European partners? Will it not be seen for what it is, a thin cloak for a speculative build.

8. I am sending a copy of this minute to Sir Robert Armstrong.

KB

16 November 1979

PRIME MINISTER

Govan Shipbuilders

We have discussed this with C.P.R.S. since E(EA)(79)64. Sir Kenneth Berrill will be sending you a minute. This summarises the position as it appears to us:-

1. Govan is doomed

It's the big loss-maker. Closure costs have to be faced one day.

2. The Liberty order

2.1 The "order" is simply a low-cost option to buy. It's effectively speculative building of two of the wrong ships for someone else's benefit. Liberty itself is a balance sheet joke.

2.2 It's purpose is to get B.S. off the book with the Polish ships and ease the natural run-down at Govan, but would it not be a transparent (and thus ineffective) stratagem to the workforce, as well as inviting ridicule for Government?

3. Where does it end?

Govan closure is inevitable one day. C.P.R.S. is concerned that, if Government says yes to a Liberty, to whom could it ever say no? What if B.S. comes up with an identical order from Liberty next year? Our view is that this may not be a real problem. It's not impossible for Government to say yes to the first and no to the second. The real problem is that the Liberty order itself will not "do the trick" (2.2 above).



4. The Cost of Saying 'No' now

4.1 Economic

(a) B.S. will blame it all on Government. But exposure of Liberty facts will make B.S. board look pretty silly.

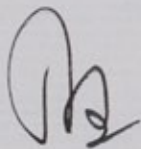
(b) Properly handled and in light of (a) above, do we really expect more than a sit-in on Polish ships? If the work-in started now and went on for ever, it would cost £30 million, less £5-10 million of avoidable finishing costs. Against this, the contingent liability on Liberty order is probably well under £20 million; work would slow or stop well before the ships were completed.

(c) The Govan story is almost bound to end with a work-in, whenever it happens, since all its ships are hostages for continued Government support.

4.2 Political

(a) Unlikely that closure in a year or two will be more convenient than now; higher unemployment there by then? Closer to election? Scot Nats trying to rally?

(b) There is a case for saying that closure of Govan should be linked to the Polish order, not the Liberty one. As a matter of principle, the workforce originally gave absolute assurances that they would not delay completion of the Polish order: the Polish order fiasco is still fresh in people's minds; and it is firmly associated with the last Government.



16 November 1979

CONFIDENTIAL

cc EMP TRADE  
ENV ENG  
SO Ch. Sec.  
WO CO  
bc Mr Hoskyns

jfh

*file  
Noted*



**BF 15/11/79**

10 DOWNING STREET

*From the Private Secretary*

12 November 1979

Govan Shipbuilders

The Prime Minister has read the memorandum by Mr. Butler on Govan Shipbuilders which is to be taken in E(EA) Committee this week.

*on 13/11/79*

She has been struck by the extraordinarily large subsidy which will be required for the Liberty Maritime order, and has asked whether a British order could not be obtained for a lower subsidy than this. In any case, she would be grateful for a report on E(EA)'s conclusions before a final decision is taken.

I am sending copies of this letter to the Private Secretaries to members of E(EA) Committee and to Martin Vile (Cabinet Office).

T. P. LAMBERT

I.K.C. Ellison, Esq.,  
Department of Industry.

*BE*



cc Nat Ind, June 79,  
Shipbuilding  
Blitz

bec Mr. Wolfson H8



Top Copy : Prime Minister, Aug 79,  
Case on P.M. by Sir David  
Brown

Nat Ind

10 DOWNING STREET

From the Private Secretary

16 October 1979

COMMERCIAL - IN CONFIDENCE

Sir David Brown called on the Prime Minister at 1100 this morning. He told the Prime Minister that he was very dissatisfied with the compensation which the Department of Industry were offering for the nationalisation of Vosper's: their offer amounted only to £4.5 million, whereas the market valued the company at £35 million based on its performance right up to vesting day. Although he understood that the Department's offer had been worked out on the basis of the compensation terms in the Nationalisation Act, he still thought that the offer was totally unfair; he had also been advised that the Secretary of State could, if he so wished, offer compensation outside the terms of the Act. If the offer was not improved, the shareholders might well appeal to the European Court: he had been advised that they might well win such an appeal.

Sir David went on to say that he was concerned that the Government appeared to have no plans to sell the warshipbuilders back to the private sector. Since nationalisation, British shipbuilders had not received a single warship contract. If there was too much delay, the warshipbuilders would go into decline. He hoped that Sir Keith Joseph would bring forward plans for denationalisation in the near future.

The Prime Minister said that she noted the points which Sir David had made. Although she thought it would be difficult to offer compensation outside the terms of the Nationalisation Act, she was sure that Sir Keith Joseph would look into the issues which Sir David had raised; in addition, he would no doubt be considering the possibilities of selling the warshipbuilders back to the private sector, though the first priority must be to slim down and rationalise the merchant-shipbuilders.

Sir David handed over the enclosed note, which the Prime Minister has asked me to draw to your Secretary of State's attention.

T. P. LANKESTER

TR

Ian Ellison, Esq.,  
Department of Industry.



VOSPER LIMITED - Compensation  
covering the Nationalisation of  
Vosper Thornycroft (UK) Limited  
Vosper Shiprepairers Limited

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1. It is now more than two years since Vosper Limited was deprived of its U.K. Shipbuilding and Shiprepairing businesses in consequence of the Labour Government's controversial Aircraft and Shipbuilding Industries Act 1977. To date only £1,350,000 has been received as payments on account and the highest offer of further compensation so far put forward amounts to £3,150,000. This is quite unacceptable since the total compensation would amount to little more than half the annual rate of profits being earned before nationalisation.
2. The record of the nationalised Vosper companies in the 5 to 6 years up to Vesting day was one of rapid and substantial growth.

Turnover and profits before taxation were :

		Turnover £M	Profits £M	Profit Margin %
Year ended	31.10.72	36.0	1.3	3.6
	31.10.73	39.5	1.7	4.3
	31.10.74	53.5	3.3	6.1
	31.10.75	76.0	4.1	5.3
	31.10.76	85.0	5.5	6.4
8 months to	30. 6.77	69.5	5.2	7.4

The turnover and profits for the last period before vesting day were thus at rates of approximately £100 million and £8 million per annum respectively.

3. The nationalised Vosper companies have been fairly valued by the Stockholders' representative, merchant bankers and stockbrokers at £35.4 million.

Nett tangible assets were £25 million. Goodwill is therefore £10 million. (Price/earnings ratio 8.5)

4. Since nationalisation Vosper Thornycroft (UK) Limited has continued to make substantial profits (British Shipbuilders' Accounts) thus confirming continuing success from contracts negotiated prior to nationalisation.

9 months to March 1978	£4,511,000.
12 months to March 1979	£10,730,000.

5. Orders in hand at Vesting day £267 million.

6. Vosper Shiprepairers was profitable prior to nationalisation but has sustained losses since from contracts negotiated since nationalisation.

9 months to March 1978	£3,733,000. loss
12 months to March 1979	£2,490,000. loss.



7. Members of the present Government when in Opposition agreed in debate that the compensation should be fair.
8. If no agreement can be reached with the Secretary of State, the matter will be taken to arbitration.

If the result of arbitration is unsatisfactory it is Vosper's intention to make application to the European Commission and Court of Human Rights at Strasbourg.

9. Counsel has advised that Vosper has good prospects of success at Strasbourg.
10. In the event that the Conservative Government were successful at Strasbourg, it would be setting a most undesirable precedent for a future Labour Government.
11. The Act provides for compensation to be based on the Parent Company's average share price during the reference period (1973/4) which has been rigidly adhered to in negotiation by the Department of Industry while disregarding Section 38(1) which provides that the compensation

"....shall be such as may be determined by agreement between the Secretary of State and the stockholders' representative...."

Queen's Counsel have confirmed that this gives the Secretary of State power to agree a fair figure.

12. It had been understood that it was the present Government's intention to de-nationalise certain elements of the Shipbuilding Industry and in particular, the warshipbuilders. Could we be advised as to why this was reversed and whether it is still the intention to de-nationalise at some stage.
13. It being in the interests of all concerned, not least the Conservative Government to resolve this problem without recourse to Arbitration and Strasbourg, would the Prime Minister ask Sir Keith Joseph or Mr. Butler to meet our Chairman and Stockholders representative (Mr. Richards of Deloitte) in an attempt to resolve this matter on a fair basis.

16th October 1979.



Investment in subsidiary companies

Company	Where registered	Turnover	1979 Profit/(loss) before tax	Turnover	1978 Profit/(loss) before tax
Barclay Curie & Co. Ltd	Scotland (in 1979 a subsidiary of Vickers Shipbuilding Group Ltd.)	2,439	(1,379)	2,284	(778)
Benton Nominees Ltd	England	-	-	-	-
British Shipbuilders Pension Trust Ltd	England	-	-	-	-
Brooke Marine Ltd	England	15,128	1,721	12,808	758
Cammell Laird Shipbuilders Ltd	England	46,804	2,343	11,705	(26,233)
Clark Hawthorn Ltd	England	-	-	-	-
George Clark & NES Ltd	England	11,387	(1,471)	10,010	(695)
Falmouth Shiprepair Ltd	England	7,704	(3,138)	5,567	(871)
The Goole Shipbuilding & Repairing Co. Ltd	England	10,402	(1,435)	7,845	97
Govan Shipbuilders Ltd	Scotland	33,933	(13,539)	53,056	(9,951)
Hall Russel & Co. Ltd.	Scotland	14,754	160	3,030	229
Hawthorn Leslie (Engineers) Ltd	England	5,401	(787)	4,558	132
*John Kincaid & Co Ltd	Scotland	12,267	24	6,749	(2,910)
River Thames Shiprepairs Ltd	England	7,089	(5,214)	4,852	(2,702)
Robb Caledon Shipbuilders Ltd	Scotland	12,439	(11,725)	12,914	(7,616)
Scott Lithgow Ltd	Scotland	56,614	(12,473)	22,328	(23,809)
Scott Lithgow Drydocks Ltd	Scotland	1,461	(918)	9,599	(345)
Shipbuilding Publications Ltd	England	-	-	-	-
Smith's Dock Company Ltd	England	46,743	(6,032)	22,224	(6,500)
Sunderland Shipbuilding & Engineering Co. Ltd	England	95,117	3,642	66,407	3,699
Swan Hunter Shipbuilders Ltd	England	106,942	(15,761)	100,705	(11,366)
Swan Hunter Training & Safety Co.	England	1,031	94	637	60
Tyne Shiprepair Group Ltd	England	32,063	(8,373)	16,399	(3,919)
Vickers Offshore (Projects & Developments) Ltd	England	636	(5)	Not a subsidiary 1978	
Vickers Shipbuilding Group Ltd	England	147,297	9,025	93,121	4,887
Vosper Shiprepairers Ltd	England	7,810	(2,490)	8,056	(3,733)
Vosper Thornycroft (UK) Ltd	England	99,434	10,730	63,180	4,511



ment in subsidiary companies (continued)

	where registered	Turnover	1979 Profit/ (loss) before tax	Turnover	1978 Profit/ (loss) before tax
arrow Shipbuilders Ltd	England	52,582	3,099	29,654	1,789
arrow (Training) Ltd	Scotland	244	-	163	-

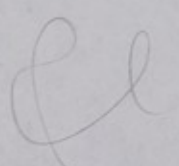
26 September 1979

Thank you for your letter of today's date enclosing the two pieces by Joel Barnett on public expenditure. I have passed these on to the Prime Minister.

I enclose a copy of a note which I did for the Prime Minister on subsidies to the shipbuilding industry. This was based on information gleaned from DOI and some personal knowledge of the situation since I had the misfortune to be the Principal in the Treasury responsible for shipbuilding for three years.

T.P. LANKESTER

Adam Ridley, Esq.,  
H.M. Treasury.







10 DOWNING STREET

*From the Private Secretary*

10 September 1979

At the end of your meeting with the Prime Minister this morning, she mentioned some information on our shipbuilding industry. I now enclose a factual note which you may find of interest.

T. P. LANKESTER

Bernard Shrimpsley Esq

File my  
Not. Ind.

LB

## Shipbuilding

(i) Huge subsidies have been paid, and are continuing to be paid to this relatively small industry. There are 30,000 employed in merchant shipbuilding, and the merchant shipbuilding industry has received about £550m of assistance since 1972. In addition, British Shipbuilders, in its first two years of operation, made losses totalling £154m. Assistance to the industry during the last two years has been truly massive:

- in 1977/78 total assistance was £95m to which much be added British Shipbuilders' losses of £108m. Total £203m.
- in 1978/79 total assistance was £85m plus BS losses of £56m. Total £141m.

The total wage bill for merchant shipbuilding is approximately £150m. Thus, during the past two years, total assistance has either exceeded or been close to the total wage bill.

(ii) There are no orders to speak of even at the current high rates of subsidy. Total annual capacity in merchant shipbuilding is about 600,000 tonnes. In 1978 BS took orders amounting to only 230,000 tonnes. This year, there is little prospect of reaching even this figure. BS have advised that there is little hope of future orders if the present levels of subsidy remain limited to the present maximum of 30% of contract price.

(iii) Other countries are already embarked on a substantial contraction of their industries, or have announced plans to do so. Contraction in the UK, however, has barely started. Examples:

- Japan will close 35% of its 1978 capacity by March 1980, nearly a third of its employees will go.
- West Germany has announced a 50% cut-back in man-hours work in the industry by 1980, compared with 1975.
- France is planning for a 50% cut-back in capacity.
- In the Netherlands, employment is being reduced by 35%

The number of jobs which will be lost in the current BS closure programme amounts to only 4,000. BS are planning to cut capacity and employment by about one third by 1981, but up to now actual closures have been minimal.

(iv) Productivity at our Yards is dreadful - far below all our main competitors despite substantial modernisation programmes in recent years. Hence the stagnation of output since the 1950s, while other countries forged ahead.



Shipbuilding

There are <sup>few</sup>~~three~~ points which we need to get across:

(i) Huge subsidies have been paid, and are continuing to be paid to this relatively small industry. There are 30,000 employed in merchant shipbuilding, and the merchant shipbuilding industry has received about £550m of assistance since 1972. In addition, British Shipbuilders, in its first two years of operation, made losses totalling £154m. Assistance to the industry during the last two years has been truly massive:

- in 1977/78 total assistance was £95m to which must be added British Shipbuilders' losses of £108m. Total £203m.
- in 1978/79 total assistance was £85m plus BS losses of £46m. Total £131m.

The total wage bill for merchant shipbuilding is approximately £150m. Thus, during the past two years, total assistance has either exceeded or been close to the total wage bill. (Unfortunately, it is not possible to isolate the total assistance paid to the individual Yards which are now scheduled for closure. This is because BS do not break down their losses Yard by Yard. Nonetheless, the Yards which are due for closure in Scotland are those with the worst prospects. They are Scotstoun on the Upper Clyde, Scotts<sup>B</sup> Bowling and Scartsdyke on the Lower Clyde and Robb Caledon at Dundee. Scotstoun is one of the old Upper Clyde Shipbuilders' Yards: it and the Fairfield Yard have continued under the name of Govan Shipbuilders. They have absorbed vast sums of money over the past 7 years (£45m in 1977/78 alone), and it is a great pity that the Scotstoun Yard was not closed years ago.)

(ii) There are no orders to speak of even at the current high rates of subsidy. Total annual capacity in merchant shipbuilding is about 600,000 tonnes. In 1978 BS took orders amounting to only 230,000 tonnes (of which 134,000 tonnes was represented by the infamous Polish order). This year, there is little prospect of reaching even this figure. BS have advised that there is little hope of future orders if the present levels of subsidy remain limited to the present maximum of 30% of contract price.

/(iii) Other

(iii) Other countries are already embarked on a substantial contraction of their industries, or have announced plans to do so. Contraction in the UK, however, has barely started. Examples:

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The number of jobs which will be lost in the current BS closure programme amounts to only 4,000. BS are planning to cut capacity and employment by about one third by 1981, but up to now actual closures have been minimal (Falmouth shiprepairing and one of the Yards in the North East).

(iv) Productivity at our Yards is dreadful - far below all our main competitors despite massive investment in recent years. Hence the stagnation of output since the 1950s, while other countries forge ahead.

TL.

6 September 1979

cc: Mr Wolfson  
Mr Howe  
Mr Hoskyns  
Mr James





DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301  
Switchboard 01-212 7676

PS/Secretary of State for Industry

5 September 1979

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*Dear Tim,*

#### GOVERNMENT SUPPORT FOR THE UK SHIPBUILDING INDUSTRY

I am attaching notes produced today in an attempt to meet the Prime Minister's requests for information about the scale of support to the UK shipbuilding industry. I regret that it has not been possible to isolate the assistance to the individual yards which are now scheduled for closure. I know that the Prime Minister wanted to relate these amounts of assistance to the wages bill and can only suggest that this relationship is expressed instead in terms of the total amount of assistance to the industry. As you will see, in 1977/8 total assistance was £95 million, to which should be added losses by British Shipbuilders of £108 million - ie a total of £203 million. In 1978/9 the total was £85 million, plus losses of £46 million - ie £131 million. A very rough indication of the total wages bill for the merchant shipbuilding industry would be 30,000 times rough average earnings of £5,000 - ie £150 million.

It would be fair to say that the industry has received hundreds of millions of pounds of taxpayers money and that in recent years this has been on the same scale as the entire wages bill of the merchant shipbuilding industry.

Some notes are also attached on the scale of contraction planned in other countries.

*Yours sincerely,*

*Andrew Duguid*

ANDREW DUGUID  
Private Secretary

7  
7



SEP 1970







## SHIPBUILDING CONTRACTION IN OTHER COUNTRIES

Our major competitor countries in the developed world are already involved in substantial contraction of their shipbuilding industries or have announced plans to do so. Japan has already begun to implement a programme of scrapping or freezing 35% of its 1978 facilities by March 1980, with an envisaged reduction of 20,000 of the 64,000 workers employed in the industry at the end of 1978.

Within the EEC, West Germany has announced that the number of manhours worked in the industry will be cut by over 50% on mid-1975 levels by 1980. Over the same period France envisages a 50% cutback in capacity (output). In the Netherlands, employment is being reduced by some 35% (1975-1981). Contraction programmes are also being drawn up in Italy and Ireland and in Denmark merchant shipbuilding employment has already fallen by one-third from 1975.

The Swedish Parliament has endorsed an employment cutback of 20% on 1978 levels. (This will amount to a reduction of 50% since 1974.) In Norway the Government has recommended that employment be reduced by 40% (on 1975).



1. Assistance<sup>(1)</sup> to the Shipbuilding Industry - United Kingdom

	£million
1972/73	46.0
1973/74	53.9
1974/75	90.4
1975/76	93.8
1976/77	87.5
1977/78	95.0
1978/79	85.0
Total	<u>551.6</u> <sup>(2)</sup>

Notes

(1) Includes assistance in the form of shares, loans, grants, interest support costs of loans to shipowners, and shipbuilders relief, but excludes Regional Development Grants (details are not readily available)

(2) The losses before tax of British Shipbuilders, £108m in 1977/78 and £46 million in 1978/79 are excluded from the above figures.

2. Assistance paid to Companies which are subject to yard closures.

	£ million			
	1975/76	1976/77	1977/78	1978/79
1,400 Govan Shipbuilders (Fairfield and <u>Scotstoun</u> )	5.7	4.0	45.2 <sup>(a)</sup>	-
1,100 Robb Caledon (Leith and <u>Dundee</u> )	0.04	0.01	1.8	0.11
1,200 Sunderland Shipbuilders (Pallion, Deptford and <u>North Sands</u> )	13.1 <sup>(b)</sup>	-	2.8	4.6
660 Scotts Shipbuilding Co Ltd (Cartsburn and <u>Cartsdyke</u> )	0.1	0.07	0.81	1.64
220 Scott & Sons (Bowling) Ltd ( <u>Bowling</u> )	0.02	-	0.04	-

Notes

(a) Includes conversion £14 million of loans previously provided, into shares, and of £9.3 million of loans converted to grants.

(b) Includes the conversion of loans of £7 million into shares.

(c) Excludes trading losses.

4,320





10 DOWNING STREET

THE PRIME MINISTER

31 August 1979

*Dear Mr. Ross,*

Thank you for your letter of 20 August about the shipbuilding situation.

I do not think that the announcements by British Shipbuilders warrant the recall of Parliament, to which a statement was made by Adam Butler on 23 July.

He then explained to Parliament the serious situation facing the shipbuilding industry throughout the world and the scale of contraction that British Shipbuilders considered would be necessary. I regret the need for this contraction, but the United Kingdom cannot be insulated from the worldwide situation, which is affecting shipyards and workers throughout the world. Nevertheless the Government did announce at the same time major measures of support to the industry without which even less of it could survive. In deciding to give this support the Government gave great weight to the levels of unemployment in the shipbuilding areas. Moreover, in deciding the revised boundaries for the Assisted Areas, the Government

/ took

*Original L.G.K. dt  
c. A. Pen.  
Press Office*

*TWP*

took into account the shipbuilding contraction. These will enable assistance to be concentrated in the special development areas and Dundee will, of course, benefit from this.

Yours sincerely  
Ernie Ross

---

Ernie Ross, Esq., M.P.





DEPARTMENT OF INDUSTRY

Ashdown House

123 Victoria Street

London

SW1E 6RB

Telephone: Direct Line  
01-212 6401

Switchboard  
01-212 7676

A handwritten signature in blue ink, appearing to be 'MAP' with a checkmark-like flourish above it.

*With the Compliments of*

Office of the Minister of State



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

*From the  
Minister of State*

The Hon Adam Butler MP

Sir William Lithgow  
PO Box 2  
Port Glasgow  
Renfrewshire  
PA14 5JH

8 August 1979

*Dear Sir William,*

The Prime Minister has asked me to thank you for your letter of 20 July, which she has passed to me because of my particular responsibility for shipbuilding. You will understand that it is difficult for her to see you herself at the moment, but has asked if I would talk with you on her behalf; which I am delighted to do.

I shall be most interested to discuss the future of the industry with you. My secretary will be in touch with yours to arrange a mutually convenient time.

*Yours sincerely  
Adam Butler*

ADAM BUTLER





10 DOWNING STREET

cc 50

*From the Private Secretary*

1 August 1979

I enclose a copy of a letter to the Prime Minister from Sir William Lithgow. He is an old friend, and has written to her from time to time since the Election.

Whilst the Prime Minister would like to take advantage of his offer to discuss the way ahead for the shipbuilding industry, she feels that it might be most useful if Mr. Butler were to see Sir William on her behalf. We discussed this over the telephone, and you agreed that it would be possible to arrange this.

I would therefore be grateful if you could now arrange for Mr. Butler to write to Sir William in response to his letter to the Prime Minister offering to meet him at a suitable time. Could you please let me have a copy of that letter for our records in due course. I have not sent an acknowledgement to Sir William.

I am sending a copy of this letter and enclosure to Kenneth MacKenzie (Scottish Office).

M. A. PATTISON

Mrs. E. A. Riley,  
Department of Industry.

RB



10 DOWNING STREET

PRIME MINISTER

Do you wish to see Sir William Lithgow? I know you used to see him in Opposition but I have had a word with Tim Lankester about this and he does not consider it necessary. I hope you agree.

*EJ.*

25 July 1979

*Please see  
~~Adrian Butler~~  
Adrian Butler  
in one of his  
office minutes  
wished  
not*



Pm.

- 2 -

Not  
hel

### Shipbuilding

Adam Butler's statement (Flag B) was received in complete silence. Mr. Silkin had earlier said that he would have preferred Sir Keith Joseph ("the butcher") to make the statement rather than Mr. Butler ("the butcher's boy"), but Mr. Butler dealt with the House quietly, firmly and successfully.

Mr. Silkin said that he was proposing the virtual destruction of one of our traditional major industries and totally disregarding the social consequences of his action. He said that the programme was too short, that British ships should be built in British yards and that the limits of Government subsidy should be greatly increased to provide comparable terms to those available in other countries.

Mr. Butler said in reply that it was true that all shipbuilding industries throughout the world were subsidised, but we could not make the level of subsidy limitless. The important thing was for British shipbuilders to deliver their ships to order, to specification and on the due delivery date. The Government was well aware of the levels of unemployment in the areas concerned, almost all of which were special development areas. There had been 11,000 redundancies in merchant shipbuilding in the last two years.

In response to other questions, he said that he was concerned about the position of the Falmouth Docks; that any scrap-and-building scheme had to be cost effective; that this Government was more likely to provide orders for warships than the Labour Government; that we had to remember always that subsidising unnecessary jobs had effects on profitable industry, where the funds for those subsidies came from, as well as the recipients; and that we needed to end up with a merchant shipbuilding industry which was able to survive without subsidy.

/The Opposition

The Opposition response was muted, since the contents of the statement had been largely discounted in advance. There was a minor fuss about Harland and Wolff, since the Northern Ireland Written Answer was only just becoming available as Adam Butler spoke. But very few Labour Members argued seriously that there was a case for maintaining the industry at its present size or anything like it.

NJS

23 July 1979



PARLIAMENTARY STATEMENT ON SHIPBUILDING BY MINISTER OF STATE  
FOR INDUSTRY

One of the most serious and immediate industrial issues facing the Government on taking office was the state and prospects of merchant shipbuilding. The Government has now completed a review of the situation with British Shipbuilders, and has had wide consultations with Unions, private sector interests, the shipping industry and the EEC Commission. I am now in a position to inform the House of the situation, and of the approach the Government proposes to adopt. Plans for the Belfast shipyard of Harland and Wolff will be made known separately by my Rt hon friend the Secretary of State for Northern Ireland.

Our consultations have fully confirmed the view of the last Government .. and indeed of those working in the industry - that further contraction is inevitable given the extreme severity of the world recession.

At the end of last year, British Shipbuilders put their plans for dealing with this grave situation to the previous administration, advising in effect contraction in merchant shipbuilding to an annual rate of some 430,000 tons by March 1981, with a reduction of manpower to around 20,000.



With the severe difficulties in securing new orders - only 230,000 tons in 1978 - British Shipbuilders recognised at that time the magnitude of the task facing them in avoiding contraction below 430,000 tons, and the vital need to increase competitiveness as well as for recovery in the market.

So far this year recovery has not taken place, and my consultations with British shipowners and others afford few grounds for optimism in that respect. Substantial over-capacity exists world-wide and at present there appears to be no early prospect of recovery. I must warn the House that BS will find it very hard to sustain their target capacity.

In such circumstances the Government must judge how far and how much it can help.

One of the Government's early acts on taking office was to seek a renewal of the Intervention Fund which it found had lapsed on March 15, and a temporary agreement was reached with the EEC Commission. The Government is now making proposals for a fund of £120 million to cover the next two years. In putting these proposals to the Commission I have had to say that the capacity of 430,000 tons is the highest figure that in our view could be retained in 1981.





In addition to the Intervention Fund, the Government will pursue other measures of support. It is ready to take part in a Community Scrap and Build Scheme providing that it is cost-effective; it is proposing credit for conversions by UK ship owners, and will support improved credit terms in current OECD discussions; and it will advance public sector orders where practicable.

The Government will give British Shipbuilders a nil commencing capital debt. We are considering further the most appropriate means of financing the Corporation. In the meantime, British Shipbuilders will continue to be financed on an interim basis from the National Loans Fund.

The cost to public funds will be substantial and BS are aware of the need for strict financial discipline. For the current financial year BS' cash limit of £250 million and trading loss limit of £100 million, after crediting Intervention Fund assistance, are not being changed. The Corporation are also being set a financial target for 1980-81 of limiting their trading loss, before crediting Intervention Fund assistance, to £90 million. The Corporation must make substantial progress towards providing in the longer term an adequate return on capital employed.



It is unavoidable that contraction will occur mostly in localities where unemployment is already high. For the most part the shipbuilding industry is located in Special Development Areas and we are concentraing our regional industrial assistance on these areas. To help alleviate hardship to individual workers and their families the Government has extended the Special Redundancy Payments Scheme to the full period authorised by the Shipbuilding Redundancy Payments Act.





Mr Speaker, the Government wants to see a viable and flourishing merchant shipbuilding industry. But the economic facts of the present situation are there for all to see. Prospects depend on the ability to win orders within the limits of the substantial financial assistance which the Government is making available. For the future, we attach particular importance to the prospect of British Shipbuilders achieving high levels of efficiency and productivity and of their being able to compete, without subsidy, when the recession is over, in what is still likely to be a very tough world. We are prepared to put public funds, for a two year period, behind the industry's own efforts to achieve viability. After that, it will depend largely on the extent to which all those who work in the industry have been successful in helping themselves.

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard                      23/07/79  
Columns 29-40 British Aerospace and British Shipbuilders

House of Commons Hansard                      23/07/79  
Columns 41-58                                      Shipbuilding

Signed *A Wayland*                      Date *3 November 2009*

**PREM Records Team**





2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: H/PSO/13963/79

Your ref:

23 July 1979

R.

*Dear Mr Caffrey*

My Secretary of State has seen the final statement on merchant shipbuilding policy circulated with your letter of 19 July. He suggests that it might be helpful to expand the last paragraph on page 3 of the draft somewhat so as to bring the statement of possible alleviatory measures rather more in line with eg policy on the Shotton area - but without unduly raising hopes. He has in mind adding to the paragraph words on the following lines:

"The Government will consider for individual closures what other measures might be taken to alleviate their local effect and, in particular, to encourage new industry".

*Yours sincerely  
Elizabeth Meeke*

MRS E J MEEK  
Private Secretary

*cc/E (E A), Tom Lambert  
Mark Vile*

T M Jaffray Esq  
PS/The Hon Adam Butler MP

23 III 1979





CONFIDENTIAL

ML



10 DOWNING STREET

From the Private Secretary

23 July 1979

Dear Joe,

Shipbuilding Policy: Harland and Wolff Ltd.

The Prime Minister has considered your Secretary of State's minute of 20 July on the above subject, and agrees that the Government has no alternative but to provide further support to Harland and Wolff - and in particular, that they should be provided with funds up to a limit of £65 million for the period April 1979 to March 1981. The Prime Minister is content for this to be announced in a Written Answer before the House rises.

I am sending copies of this letter to the Private Secretaries to members of E(EA), the Minister of State for Defence and to Sir John Hunt.

Yours ever,

T. L. Lawrence

J. G. Pilling, Esq.,  
Northern Ireland Office.

CONFIDENTIAL

JS

Sir William Lithgow  
Telephone 041-332-8651  
after hours 0475-54-389  
Telex 779801

P. O. Box 2,  
Port Glasgow,  
Renfrewshire.

PA14 5JH

20th July, 1979.

RZ1

Rt. Hon. Mrs. Margaret Thatcher, P.C., M.P.,  
Prime Minister,  
10 Downing Street,  
LONDON S.W.1.

Dear Prime Minister,

I think that the problems of British shipbuilding can be solved to the National advantage. There are still some excellent elements in the marine industries. Although essentially out of the industry, I would be happy if you, at a quieter time, wish to discuss the way ahead.

My respects,

Yours very sincerely  
Bill Litty



*Done - no alternative  
ms*

CONFIDENTIAL

Prime Minister



The cost of keeping this yard open - £4,500 per man year - is appalling. But I fear, for political reasons, there is no alternative. The money is already provided for in N. Ireland programmes though we could do with the savings. Are you content?

PRIME MINISTER

SHIPBUILDING POLICY: HARLAND AND WOLFF LTD (H&W)

Keith Joseph reported to you on 9 and 13 July the strategic and detailed decisions which the Sub-Committee on Economic Affairs (E(EA)) had reached on shipbuilding policy. An assessment of the position at H&W was included in the papers before E(EA), but detailed plans for H&W were left for consideration by the Ministers primarily concerned. I am accordingly reporting to you separately the proposals on H&W which I have agreed with Keith Joseph and John Biffen, and of which other colleagues on E(EA) are also aware.

*TZ  
25/7*

H&W's order book of 8 ships is better than that of most of British Shipbuilders' (BS) merchant yards and lasts until about March 1981 (though massive redundancies would be necessary well before then if no new orders were obtained). It is a single yard Company, and it is impossible to close part of it: the immediate alternatives are to keep the whole yard going, to close it now or to announce that it will be closed when the present orders are completed. To decide now to close the yard or to seek no new orders would create severe political employment and other difficulties in Northern Ireland: either course would involve extremely heavy financial penalties for failure to deliver the existing order book on time.

I therefore intend to provide the Company with funds to enable present orders to be executed, and new orders to be undertaken if they can be obtained on the terms agreed with the EEC, within a clear financial limit of £65 Million from 1 April 1979 up to March 1981 for all purposes. Even if such new orders were taken, total employment would fall from 7,800 now to a projected figure of about 6,430 by June 1980. Whether orders can be obtained on these terms remains to be seen: as in the case of BS, there is no question of our underwriting a particular level of future capacity.

The cost of keeping the yard in operation is disturbingly high and will impose severe pressures on Northern Ireland's public expenditure allocations, but there is no cheaper alternative. The proposed course of action keeps our longer term options open, and gives H&W the chance to move back towards the relatively promising level of performance achieved 18 months ago. If they succeed in this it will reduce the call on the finance which I am making available. I intend to look at all the options again next year when the existing order book is nearer completion; this will be a fundamental review taking full account of developments in BS.

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It has also been agreed that our plans for H&W and BS should be put to the EEC jointly, as proposals for the UK shipbuilding industry as a whole.

I intend to outline our plans for H&W in a Written Answer in the House immediately after the proposed statement on BS by Keith Joseph. On present plans this will be on 23 July.

I am sending copies of this minute to the members of E(EA), to the Minister of State for Defence and to Sir John Hunt.

*H.A.*

H A  
20 July 1979

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19 JUL 1979  
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VMS

8 ST. JAMES'S SQUARE LONDON SW1Y 4JB  
Telephone Direct Line 01-214 6025  
Switchboard 01-214 6000

T M Jaffray Esq  
Private Secretary  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

20 July 1979

Dear Tom

## SHIPBUILDING

With your letter to Peter Mason of 19 July you circulated the latest draft of the Parliamentary statement on shipbuilding.

Our only comment on this draft is that it would be helpful if the penultimate paragraph included a sentence, however vague, about the possibility of additional measures to alleviate the effects of major run-downs. (Something on these lines was included, as you know, in the statement on Shotton). We suggest that after "... regional industrial policy on those areas" you might add: "When major redundancies are imminent we shall consider what additional measures it may be possible to take in the areas concerned. In addition, to help alleviate..."

I am copying this to those to whom you sent your letter.

Yours sincerely

John Anderson

J ANDERSON  
Private Secretary



19 JUL 1979

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10 DOWNING STREET

*From the Private Secretary*

20 July 1979

Shipbuilding Statement

The Prime Minister has seen Tom Jaffray's letter to Peter Mason of 19 July, to which was attached a draft Statement for Mr. Adam Butler to make on 23 July.

The Prime Minister has made no comment on the text of the Statement, and is content that Mr. Butler should make it on Monday.

She has not yet had an opportunity to look at Sir Keith Joseph's draft Statement on the disposal of British Aerospace and British Shipbuilders assets; we will let you have her reaction to that as soon as we can, but she is out of London today and it will not be possible to show it to her until late tonight.

I am copying this letter to Charlotte Egerton (Chancellor of the Duchy of Lancaster's Office).

N. J. SANDERS

Andrew Duguid, Esq.,  
Department of Industry.

5B



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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State's Office

The Hon Adam Butler MP

Peter Mason Esq  
Private Secretary to the  
Secretary of State  
Department of Industry  
Ashdown House  
London SW1

19 July 1979

PRIME MINISTER

Are you content that Adam

Butler should make this statement  
on Monday? It will, if you agree,  
be preceded by Sir Keith Joseph's  
statement on aerospace disposals.

Dear Peter,

*MJM*

I now attach the final draft of the Parliamentary Statement  
on merchant shipbuilding policy which Mr Butler will be  
making on 23 July. This takes account of comments made on  
the previous draft circulated with my letter of 10 July.

MJS

I would be grateful if any final comments on the Statement  
could reach me by noon Friday.

Copies of this letter and the Statement go to the private  
secretaries to the members of E(EA), Tim Lankester and  
Martin Vile.

Yours ever,

*Tim*

T M Jaffray  
Private Secretary



## DRAFT PARLIAMENTARY STATEMENT ON SHIPBUILDING

One of the most serious and immediate issues facing the Government on taking office was the state and prospects of merchant shipbuilding. The Government has now completed a review of the situation with British Shipbuilders, and has had wide consultations with Unions, private sector interests, the shipping industry and the EEC Commission. I am now in a position to inform the House of the situation, and of the approach the Government proposes to adopt. Plans for the Belfast shipyard of Harland and Wolff will be made known separately by my Rt hon Friend the Secretary of State for Northern Ireland.

Our consultations have fully confirmed the view of the last Government - and indeed of those working in the industry - that further contraction is inevitable given the extreme severity of the world recession.

At the end of last year, British Shipbuilders put their plans for dealing with this grave situation to the previous administration, advising in effect contraction of a third in merchant shipbuilding to an annual rate of some 430,000 tons by March 1981, with a reduction of manpower to around 20,000.

With the severe difficulties in securing new orders - only 230,000 tons in 1978 - British Shipbuilders recognised at that time the magnitude of the task facing them in avoiding contraction below 430,000 tons, and the vital need for recovery in the market.





So far this year recovery has not taken place, and my consultations with British shipowners and others afford few grounds for optimism in that respect. Substantial over-capacity exists worldwide and at present there appears to be no early prospect of recovery. I must warn the House that BS will find it very hard to sustain their target capacity.

In such circumstances the Government must judge how far and how much it can help.

One of the Government's early acts on taking office was to seek a renewal of the Intervention Fund which it found had lapsed on March 15, and a temporary agreement was reached with the EEC Commission. The Government is now making proposals for a fund of £120 million to cover the next two years. In putting these proposals to the Commission I will have to say that the capacity of 430,000 tons is the highest figure that in our view could be retained in 1981.

In addition to the Intervention Fund, the Government will pursue other measures of support. It is ready to take part in a Community Scrap and Build Scheme providing that it is cost-effective; it will support improved credit terms in current OECD discussions, as well as credit for conversions; and it will advance public sector orders where practicable.

The Government will give British Shipbuilders a nil commencing capital debt. We are considering further the most appropriate means of financing the Corporation. In the meantime, British



Shipbuilders will continue to be financed on an interim basis from the National Loans Fund.

The cost to public funds will be substantial and BS are aware of the need for strict financial discipline. BS' cash limit of £250 million and trading loss limit of £100 million, after crediting Intervention Fund assistance for the current financial year, are not being changed. The Corporation are also being set a financial target for 1980-81 of limiting their trading loss, before crediting Intervention Fund assistance, to £90 million. The Corporation must make substantial progress towards providing in the longer term an adequate return on capital employed.

It is unavoidable that contraction will occur mostly in localities where unemployment is already high. For the most part the shipbuilding industry is located in Special Development Areas and we are concentrating our instruments of regional industrial policy on these areas. To help alleviate hardship to individual workers and their families the Government has extended the Special Redundancy Payments Scheme to the full period authorised by the Shipbuilding Redundancy Payments Act.





Mr Speaker, the Government wants to see a viable and flourishing merchant shipbuilding industry. But the economic facts of the present situation are there for all to see. Prospects depend on the ability to win orders within the limits of the extensive financial support which the Government is making available. For the future, we attach particular importance to the prospect of British Shipbuilders achieving high levels of efficiency and productivity and of their being able to compete, without subsidy, when the recession is over, in what is still likely to be a very tough world. We are prepared to put public funds, for a two year period, behind the industry's own efforts to achieve viability. After that, it will depend largely on the extent to which all those who work in the industry have been successful in helping themselves.



19 JUL 1979





10 DOWNING STREET

THE PRIME MINISTER

18 July 1979

Dear Sir William,

Thank you for your letter of 9 July, with your thoughts on a strategy to ensure the survival of a shipbuilding industry built around genuinely viable units.

As you will know, the future of the shipbuilding industry is one of our headaches at present. It is not only a matter of price - but of delivery dates. All the tenders and reports I have seen recently have put us way behind everyone else on time taken to build ships. And time is money in the shipping business. Moreover, if we put in the latest equipment to speed up the building time the unions are unlikely to let it be used at proper manning levels. There are indeed problems.

Yours sincerely,

Margaret Thatcher

Sir William Lithgow

LPO

*File*  
*MFS*  
*Original in G/R.*

**CONFIDENTIAL**

*Nat. Inds*

HS



cc D/EMP MOD  
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10 DOWNING STREET

*From the Private Secretary*

17 July 1979

*Dear Peter.*

Shipbuilding Policy

The Prime Minister has considered your Secretary of State's minute of 13 July reporting on E(EA) Committee's further discussions about shipbuilding policy. The Prime Minister has endorsed the Committee's detailed conclusions as set out in the minute, and she has noted Sir Keith is aiming for an announcement to Parliament before the Recess. I would be grateful if you could let us see a draft of the statement.

I am sending copies of this letter to the Private Secretaries to the members of E(EA) Committee, the Secretary of State for Defence, the Secretary of State for Northern Ireland and to Sir John Hunt.

*Tom* *er.*  
*Ti* *luka.*

Peter Mason, Esq.,  
Department of Industry.

**CONFIDENTIAL**



Prime Minister



PRIME MINISTER

Agree E(EA)'s  
conclusions, with  
a statement before  
the recess (which  
we will see in  
draft) ?

Yes

il

16/7

## SHIPBUILDING POLICY

Flag A

On 9 July I informed you of the main strategic decisions which the Sub-Committee on Economic Affairs (E(EA)) had reached on shipbuilding policy.

On Wednesday we looked at the details. We began by considering a point raised at our earlier discussion by the Secretary of State for Scotland, namely, whether a much contracted industry would still be sufficient to meet our strategic needs for both warship construction and merchant shipping. We concluded that it would - even if, as we expect, the industry contracts to half its present size.

On the detail, we agreed:

- a) that there was no alternative to continuing to provide financial support for British Shipbuilders (BS) for at least 2 years. However, it is our intention that they should be told that there is no commitment on our part to continuing the Intervention Fund after July 1981; and any public statement of Government policy would make this clear;
- b) that we should negotiate with the EEC Commission for an Intervention Fund of £120 million over the next 2 years

/to ...



to be used to provide subsidy grants of up to 30 per cent;

c) that public sector orders should be brought forward as soon as possible with Intervention Fund assistance if necessary;

d) that the aid programme should in principle continue to be available to secure orders;

e) that the possibility of bringing forward further defence orders should be kept under review;

f) that the United Kingdom should accept OECD proposals for easing the existing limits on export credits and that the terms of Home Credit Scheme should be amended in line;

g) that the Home Credit Scheme should be extended to apply to conversions of existing ships;

h) that, provided our financial reservations are met, we should accept a Community "scrap and build" scheme;

i) that BS should be encouraged to extend the scope of their existing scheme for helping redundant employees to transfer to other jobs within the organisation;

j) that, if BS propose to top up the statutory redundancy





scheme in specific cases of yard closures, this should be considered on its merits provided that the cost can be contained within their cash limits;

k) that officials should consider the possibility of encouraging firms, especially small firms, in areas affected by shipbuilding closures;

l) that the Redundancy Payment Scheme should not be extended to the private sector.

All in all, these proposals should provide useful savings to be made from next year onwards to the existing PES provision. This year there is a danger that the BS cash limit may be exceeded if the rapid run-down in the industry which we believe is necessary is achieved. The Chief Secretary accepted that it would not make sense to force BS to keep within this year's cash limit at the expense of slowing down the rate of closures and thereby increasing the need of financial support later. A number of relatively unimportant financial issues have yet to be resolved but decisions on these are not essential to implementing our main proposals and I do not propose to delay on their account.

My aim is that there should be an announcement to Parliament before the recess. We were all agreed that it was a matter of considerable urgency that the process of closing yards for which there is no work should go forward with the minimum of delay.

/Adam ...



Adam Butler is consulting members of the Sub-Committee on the text of a suitable announcement.

I hope you are content that we should proceed on the basis of these and our previous conclusions.

I am copying this letter to other members of the Sub-Committee, the Secretary of State for Defence, the Secretary of State for Northern Ireland and to Sir John Hunt.

PEM  
pp K J

13 July 1979

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

Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1



st.  
PRIME MINISTER

This letter from Sir William Lithgow sets out his strategy for preserving a shipbuilding industry slimmed down to its viable units.

Would you like to send simply a brief acknowledgement as in the attached draft, or would you prefer to ask Sir Keith Joseph's advice on a more substantive reply?

M. A. PATTISON

12 July, 1979.



10 DOWNING STREET

From the Private Secretary

10 July 1979

SHIPBUILDING

The Prime Minister was grateful for your Secretary of State's minute of 9 July on the above subject, and has noted that he will be reporting to her again following further discussion in E(EA) Committee.

I am sending copies of this letter to the Private Secretaries to other members of E(EA), Joe Pilling (Northern Ireland Office) David Jones (Ministry of Defence) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Andrew Duguid, Esq.,  
Department of Industry.

JUP

cc D/M  
DGE  
SO  
WO  
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D/N  
Ch. Sec.

Nat  
Inc/us

e(EA)

NIO  
MOD  
CO



Sir William Lithgow  
Telephone 041-332-8651  
after hours 0475-54-389  
Telex 779801

P. O. Box 2,  
Port Glasgow,  
Renfrewshire.

PA14 5JH

9th July, 1979.

Rt. Hon Mrs. Margaret Thatcher, PC., MP.,  
Prime Minister,  
10 Downing Street,  
London.

Dear Prime Minister, PA

Thank you for your kind letter of 18th May. George Younger suggested that I write, although my advisory role effectively lapsed with moving out of the mainstream of industrial decision making. Morale in shipbuilding areas is tragic, management utterly frustrated, men muddling towards disaster (shades of U.C.S.). The centralist cancer, epitomised in the British Shipbuilders H.Q. organisation, requires immediate and decisive surgery, c.f. organisation chart, also international reputation.

A firm dedicated streamlining policy concentrating on fewer efficient units can only be carried out by experienced management on the ground. The Merchant Industry has had no sound relationship with Government since the War. We have had inconsistent policies, decisions always too late, (no Polytechnicians). The last Conservative Government, having taken too long to react, eventually cut the red tape with the "Adback" programme and construction grants.

The world market for British marine equipment has never been bigger. Going up market in shipbuilding and ocean engineering makes sense for national economy and employment. Non discretionary investment grants to British shipowners building in the U.K. and a counter cyclical Defence budget are the simplest tools available to Government. Present World prices bear no relationship to anyone's costs. The market should be in some kind of balance by 1982/3. Keep cowboys out of U.K. waters. Scrap and build; if all else fails, build for stock; Lithgows did successfully for many years.

Given something to go for, those with the ability to succeed will emerge by natural selection. In an area with little skill and less hope, our private Campbeltown has been built into a World beater in eight years. Its home market has been paralysed for six months - meanwhile the French have quadrupled their fishing vessel programme - but that is another matter. A new generation of young enterprises is beginning to make its presence felt in the West of Scotland.

At least West Strathclyde managed to put Adam Fergusson into the European Parliament.

My respects and all good wishes,

Yours very sincerely  
Bill Lithgow





PRIME MINISTER  
SHIPBUILDING

cc Mr Hoskyns

A. Prime Minister

MS

To note. (I have already, in fact, shown you the minutes of the E(EA) discussion on this.)

R

As you know, the British shipbuilding industry - in common with most of its competitors - is in a mess. Contraction is inevitable and the cost is likely to be high. 9/7

Sub-

The Ministerial/Committee on Economic Affairs has begun an examination on the position on the basis of proposals which Adam Butler put to us. We confined ourselves at the first meeting to the general strategy and will return to the detail shortly. You may however care to know that we reached a general consensus on the strategy: we accepted that a major contraction of the industry was inevitable - in all probability British Shipbuilders' capacity for merchant shipbuilding will need to be at least halved; we agreed that the Government should not become committed to underwriting any particular capacity target - which would in effect give BS a blank cheque; and we agreed that decisions on particular closures, dependent as they are on the level of Government financial support and BS success in competing in world markets, were matters which the Government should leave to BS management.

At our next meeting we will be considering specific measures to help British Shipbuilders to secure orders; means of alleviating the effect of closures; the appropriate financial arrangements between the Government and BS; and the public presentation of

/our ...





our policies. I will report to you again when this discussion has taken place.

I am copying this minute to the members of the Sub-Committee, to the Secretary of State for Northern Ireland (because of his interest in Harland and Wolff), the Minister of State for Defence, and to Sir John Hunt.

14

K J

9 July 1979



9 JUL 1979





CONFIDENTIAL



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10 DOWNING STREET

*From the Private Secretary*

11 June 1979

THE CRISIS IN THE SHIPBUILDING INDUSTRY

The Prime Minister has considered your Secretary of State's minute of 8 June about the shipbuilding industry. She has noted that the current situation of the industry is extremely serious, but that equally the current rate of subsidy to the industry is absolutely enormous. The Prime Minister is glad to note that Sir Keith Joseph is reviewing the whole position of the industry as a matter of high priority and that he will be reporting further in due course.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland, Employment, Trade, Defence and to Sir John Hunt.

J. P. LANKESTER

A. A. Duguid, Esq.,  
Department of Industry.

CONFIDENTIAL

AKM

Prime Minister

✓ Mr Whitton  
✓ Mr Hooley

CONFIDENTIAL



ms

To note. (Current subsidies are as high as British Shipbuilders' wage bill. The market situation is of course bad; but our productivity is appalling by international standards and ~~there~~ we are now paying the price for not getting rid of the worst yards several years ago. Our shipbuilding capacity has been

PRIME MINISTER

THE CRISIS IN THE SHIPBUILDING INDUSTRY <sup>hardly reduced even though the current problems were predicted by the Treasury 5 years ago.</sup>  
You will be generally aware of the world slump in shipping and of the crisis that exists in consequence throughout the shipbuilding industries in all countries. It is correctly described as the most severe shipbuilding slump since the 1930s.

The position I find is even worse than I had feared, both in terms of the scale of contraction and the implications for public expenditure.

I have commissioned an urgent re-working by British Shipbuilders of the options in the Corporate Plan they provided to the last Government and of their likely cost. However, even from the broad figures we have now, it is clear that whatever course we adopt will be painful and expensive. (The policy adopted by the last Government involves a cash limit of £250 million for the present year, and very high figures for succeeding years).

The present position of British Shipbuilders is critical. Their order book is very thin; and they face the prospect of imminent collapse. Without new work soon British Shipbuilders will have to declare some 15,000 redundancies during the present calendar year, almost all of them in areas of very high unemployment - the Clyde, the Tyne, the Wear and the Mersey. There will also be direct consequences

/for





for British Shipbuilders engine works and for the supplier industries as a whole: it is usually said that there are 1 $\frac{1}{4}$  supporting jobs for each man in the shipyard. But the prospect of getting new work is bleak: the market recession is such that even to get to the starting line to compete for new business, British Shipbuilders must offer substantial discounts - upwards of 30% of contract price - and preferential credit arrangements. The Commission are, however, refusing to countenance Intervention Fund subsidies at the 30% level previously approved by them and are pressing for the normal ceiling to be reduced to 25%. In addition, to secure the preferential credit arrangements mentioned above would require very contentious legislation, and even then this may not stimulate fresh orders to any significant extent.

None of the courses open to us will avoid severe contraction. Indeed the history of the industry suggests that it is not a sector where we are fundamentally competitive. Contraction is therefore right. However the speed and severity of the run down immediately facing us would be too precipitate to handle.

Heavy public expenditure is unavoidable; on the one hand British Shipbuilders have advised me that the threat of a collapse will be severe industrial action and slow working, with consequent heavy penalty costs for defaults of contract. They warn that the sum could run into hundreds of millions of pounds.

On the other hand, the cost of obtaining orders - even if we can get

/Commission





FHS 100 8-1

100 8-1



Lithgow

18th May 1979

Thank you very much indeed for your kind letter and also the one you sent to Denis. We are both grateful to you for writing.

We have reached our first objective in Scotland. Now we have to start winning seats from Labour. It will not be an easy task but it is one I am determined to achieve.

With best wishes.

Sir William Lithgow



~~Harpoons of~~  
~~Wickham~~ HU  
Sicholstan  
Wickham  
DRUMS  
LANGBANK  
RENFREWSHIRE  
LANGBANK 606

4 V '79

Dear Mrs Thatcher,

Our heartiest  
congratulations on your  
outstanding achievement.  
I only wish your supporters  
were more worthy of you  
here in Scotland. We  
in industry must do our  
best to make the right

things happen now.

With every good  
wish - please, please  
no acknowledgment to  
this note.

Yours very sincerely

Bill Hitzger



DRUMS  
LANGBANK  
RENFREWSHIRE  
LANGBANK 606

4 v '79

Dear Denis,

You must be very  
proud and pleased at  
Margaret's great triumph  
Thank God you have  
such a wife and we as  
a nation such a leader  
Our heartiest congratulations

to you all as a family.

No reply please.

With very good wish  
to you both.

Yours very sincerely  
Bill Hittner





Your Ref

**with compliments**

D J L MOORE

Treasury Chambers  
Parliament Street  
London SW1P 3AG  
Tel: Direct Line 01-233  
Switchboard 01-233-3000

147/55/02 89

CONFIDENTIAL

MR NORTON

I. A. C. S.

14 APR 1976

cc Mr Lavelle  
Mr Davis  
Mr Richardson  
Mr Adams

GOVAN SHIPBUILDERS LIMITED

As requested in your minute of February 13 I attach a paper which I have prepared on the Govan problem. I apologise for its inordinate length. If necessary, the section on UCS and Fairfield's can be skipped; but I thought it useful to outline the full story of HMG's involvement with the Govan yards.

T.P.L.

T P LANKESTER

3 March 1976

Mr Lankester - I was most grateful for this very full and well-presented paper, which has already made a useful contribution to briefing Ministers and which we can continue to refer to for purposes of further decisions in the office.

WJEN

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CONFIDENTIAL

GOVAN SHIPBUILDERS LIMITED

INTRODUCTION

1. Last August, Ministers decided to provide Govan Shipbuilders Limited (GSL) with a further £17.2 million (at 1975 Survey prices) to enable the company to complete its redevelopment programme and to fund the expected losses on its order-book; they also extended the guarantee of GSL's liabilities from 1977 to 1979. Some of us were highly sceptical of the basic assumptions on which this decision was predicted - that the company would become profitable in 1978. It is now abundantly clear that the losses in 1975-77 are going to be substantially higher than forecast, and that there is no chance of the company becoming profitable in 1978.

2. Decisions will be needed soon on what should be done. This is not only because the basis of the £17.2 million decision has already proved false, but also because GSL are asking the Government to approve new loss-making orders.

THE PAST

3. Before considering the options, it is worth describing the background to the present problem-going back 10 years to HMG's first involvement in support of shipbuilding on the Upper Clyde.

4. GSL today consists of three yards:

Govan and Linthouse (which is now used for steel preparation work only) on the South bank of the Clyde, and Scotstoun opposite on the North bank.

In 1965 these yards were owned and operated by separate companies:

Fairfield Shipbuilding and Engineering (Govan), James Stephen (Linthouse) and <sup>Charles</sup> ~~James~~ Connell (Scotstoun).

A number of small yards on the Upper Clyde had closed over the preceding 15 years, and these three companies had been struggling.



Fairfield's was the largest and best equipped of the three, but in October 1965 it was forced into receivership.

5. The Government decided to keep the yard going. First, it arranged for the Bank of England to advance up to £1 million to the Receiver, backed by a Treasury guarantee. £0.5 million of this was eventually written-off. Second, the shipyard assets were acquired by a new company, Fairfield's (Glasgow) Ltd, which was established in early 1966 with a 50 per cent equity participation (at a cost of £1½ million) by HMG. HMG also provided £1 million in loan stock. Then followed the so called "Fairfield Experiment". This was an attempt by the new management, headed by Iain Stewart, to radically improve worker/management relations (for which the shipbuilding industry had a dismal record) and generally to increase productivity by better use of manpower; and facilities. (A £5 million modernisation programme had been completed by the predecessor company in 1964). The "experiment" was supported by the unions, who had provided £180,000 of the new company's capital.

6. It is generally reckoned that the "Experiment" broke new ground in worker/management relations, but that it produced no long-term benefits. It is an open question whether it might have ~~been~~ done, because in early 1968 Fairfield's was merged into Upper Clyde Shipbuilders and Iain Stuart and his men disappeared from the scene. In terms of productivity, performance in late 1967 had only recovered to the level that it had been in 1964, and the price of worker cooperation in the "Experiment" had been wage increases which could not be afforded, and which reperccussed on all the other Clyde yards.

7. UCS was formed in February 1968. It brought together five companies: Fairfield's, Stephens, Connell, Yarrow (mainly a warshipbuilder), and John Brown (at Clydebank, several miles down the river). Yarrow was not fully merged with the rest, only 51% of its equity <sup>being</sup> ~~was~~ transferred to UCS. The merger had its origin in the 1966 Geddes Report, which had concluded that shipbuilding could only become competitive if there was consolidation of individual firms. The Shipbuilding Industry Act 1967 provided the funds to make mergers attractive, and set up the Shipbuilding Industry Board to implement them.



8. It is not possible to recount here the events which led up to the collapse of UCS in June 1971. Suffice it to say that between February 1968 and June 1971 the group made losses amounting to about £28 million. Rather more than half of this seems to have been accounted for by Govan and Linthouse, and most of the rest by Clydebank; only a small part was due to Scotstoun and Yarrow. The Government (either directly or through the SIB) provided UCS with the following assistance:

Grants	£ 5.5 million	}	All written-off
Equity	£ 3 million		
Loans	£11.7 million		
	£20.2 million		

Practically all of it was used to finance losses and working capital. The only capital expenditure to speak of was £1.2 million spent at Yarrow.

9. It seems that all of the constituent yards, with the exception of Yarrow's and to a lesser extent Scotstoun, were heading for trouble when the merger took place - because of unprofitable contracts, poor productivity, and (except for Fairfield's) worn out equipment. But the UCS structure seriously aggravated the situation because the new management that was brought in proved very mediocre, and overhead costs - far from being reduced as expected by Geddes - were substantially increased. Finally, by 1971 the world ship market had gone into recession.

10. The Report of the "Four Wise Men", who were asked to investigate the reasons for the failure, saw little prospect for shipbuilding on a commercially viable basis at Govan, Linthouse or Clydebank. They thought that Scotstoun might be sold off as a going concern. (Yarrow had already, earlier in 1971, been separated from the group).

11. The "work-in" at the yards and the general outcry at the prospect of a general closure of the UCS yards had a profound effect on the then Government. They responded in three ways. First, they put pressure on the liquidator to complete the existing orders, and to this end advanced him £1.3 million in grants and £6 million in loans. Eventually, all the orders turned out to be



big loss-makers, and the £6 million loan had to be written-off. The biggest loss-makers were at Govan, Linthouse and Clydebank, with Scotstoun again doing relatively better. Second, the Government appointed Hill Samuel to investigate the possibility of resuscitating Govan and Linthouse, and this study was later extended to Scotstoun. Third, the Government had a feasibility study done on possible alternative uses for Clydebank, and this led eventually (in autumn 1972) to the establishment - with some £12 million of Government assistance - of Marathon (UK).

12. The Hill Samuel Report offered the Government two options: to concentrate on Govan and Linthouse only, or to include Scotstoun as well. The cost of redevelopment and loss-funding in the former case was forecast at £22 million, and in the latter at £35 million (both at 1972 prices). In terms of commercial viability, both schemes were considered about equal: a "small profit" was expected after 3 years, but this, taking account also of the interim losses, "fell far short of what would be acceptable from a commercial point of view". Commenting on the Report, the newly formed board of GSL said that even the assumptions on which the forecasts were based were "liable to be wrong as right". The Government opted for the bigger company (and the larger expenditure) because of the extra 1,300 jobs which it would provide.

13. In view of the qualifications quoted above, it is not altogether surprising that the £35 million has proved inadequate. With hindsight it is evident that in considering the £35 million package not enough attention was given to the risks of overspend. The following table compares the support requirements as forecast by Hill Samuel and accepted by the Government, and as forecast in the 1975 DOI submission (both at 1975 Survey prices):

	£ m	
	Hill Samuel	1975 Submission
Purchase of Yards	3.9	3.9
Capital Development	14.2	23.5
Working Capital	8.3	18.3
Losses	20.3	19.6
Contingency	<u>4.2</u>	<u>-</u>
	<u>50.9</u>	<u>65.3</u>
To be financed by		
1) Direct assistance	42.2	59.4 (ie +17.2)



ii) Statutory grants 8.7

5.9

As of last summer, the "overspend" was occurring in capital development and working capital. Losses were forecast at about the same figure in real terms, though they now stretched into 1977 whereas Hill Samuel had forecast profits by 1976.

14. It is now known that last summer's loss forecast was too optimistic. GSL are now forecasting profit/losses, compared with the 1975 submission, as follows:

	£m (at current prices)	
	1975 Submission forecast	Latest company forecast
1973	- 3.3 (Actual)	
1974	- 5.3 (Actual)	
1975	- 6.8	-10.5 (Actual)
1976	- 6.8	-10.8 (-13.8)
1977	- 0.4	- 1.3 (-14.8)
1978	+ 1.4	not available (- 7.2)
1979	+ 4.1	" "

This latest assessment relates only to existing orders; it assumes, quite implausibly, that profitable new contracts can be won. But even on this basis, it implies that an additional £8 million in cash will be required from the Government on top of the £17.2 million agreed in August.

The figures in brackets are GSL's forecast of losses if no more orders are won and there is a "gradual run-down of the yards". This must reflect some arbitrary assumptions about 'go-slows' on the final ships.

15. Thus, on all three fronts - cost of redevelopment, working capital and losses - GSL have done worse than Hill Samuel forecast. The first has been the fault partly of the forecast, which underestimated the amount of work which needed to be done; but also the contractor's costs have risen very considerably, and more than the general inflation indices which have been used to revalue the figures. Working capital requirements have been higher than fore-



-cast partly because losses - which have been rising - have not been funded until 6 months after the end of each financial year. Also, instalments on the ships have been blocked at their owners' insistence.

16. As regards the higher than expected losses, the most striking failure is in regard to productivity, which does not appear to have improved at all. Hill Samuel forecast a 50 per cent increase in productivity by 1975 and a doubling by 1976. This assumed a reduction in man-hours per ton of steel\* from about 80 to 40. In fact, at Govan/Linthouse, productivity has fluctuated around 80-90, with an increase to over 100 in June 1975. The lowest figure yet achieved was 72 in October 1975, but in November it was over 90 again - though there has been a slight improvement again since then. Over the three years 1973-75 productivity has actually been worse than it was at Fairfield's in 1965-67. Productivity at Scotstoun has been worse still, fluctuating at around 100 man hours per ton; the latest figure for January is a massive 130. The average for the second half of 1975 was 82 at Govan and 100 at Scotstoun. GSL are forecasting 5.5 months slippage on current contract delivery dates at Govan, and 8.3 months at Scotstoun. The resultant penalty clauses must be adding to their losses.

17. The productivity failure has been blamed on the slowness to complete the redevelopment work, and the disruption caused by it. Redevelopment is certainly a year or so behind schedule; but it is also clear that changes in work methods and organisation - which were to have been implemented alongside the redevelopment programme - have not had any noticeable effect. We are told that this is partly due to inadequate middle and junior management. There have also been no reductions in manning levels. On the contrary, the numbers employed have actually increased from 4,500 in September 1972 to 5,100 in January 1975, and to 5,800 in January 1976. The increase to about 5,000 was expected after the

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\*This is the most common and simplest measure of productivity in shipbuilding: the figures are adjusted, on the basis of a notional standard ship, to take into account the relative difficulty of the particular ship. The best Swedish and Japanese yards achieve around 30 man hours per ton. Besides steelwork, the other main activity is outfitting: this is much harder to measure, and no figures are readily available for GSL.



start-up of the new company, but the further increase in 1975 was not. I understand that the latter took place largely in order to arrest production slippage.\*

18. The second reason for GSL's losses is inflation. The Scots have made much play of this point, arguing that shipbuilding - with its long production span - has been harder hit by inflation than most industries. GSL cannot really be faulted for failing in 1973 to forecast 25 per cent inflation for 1975. However, if they had forecast inflation right, and had priced their product accordingly, they would certainly have failed to win any orders. This is borne out by the fact - which was explained to the C and AG by DOI - that in 1973 and 1974, when GSL were trying to avoid fixed price ~~constraints~~<sup>contracts,</sup> they were nonetheless forced by the competition to accept them; and this was at a time when the market was buoyant. Therefore, although GSL's losses would have been smaller with lower inflation, the high rate of inflation experienced cannot really be regarded as a justification for the higher than expected losses.

19. On the one cost element nominally in their own control, wages, GSL have done badly. I do not have information on their 1973 wage settlement, but in 1974 they agreed an increase of 19.2 per cent plus a measure of indexation, which was well outside the Social Contract. The excess over the TUC guidelines has itself added about £1½ million to the annual loss figures. In 1975, they settled for the full £6 limit even though productivity was stagnating, and losses mounting. There have, it is true, been no major strikes at GSL, but this appears to have been bought at a heavy price.

20. Actual assistance to GSL, including final estimates for 1975/76, has been as follows:

\* Employment at Govan, Linthouse and Scotstoun is now higher than it was in June 1971 just before UCS went into liquidation.



£ m at current prices

	Equity	Loans	Grants	Total
1972/73	5.0	3.0	-	8.0
1973/74	-	5.5	1.0	6.5
1974/75	5.0	5.8	2.2	18.0
1975/76	-	10.0	5.3	15.3
	<u>10.0</u>	<u>24.3</u>	<u>8.5</u>	<u>42.8*</u>

The above total of course comes on top of the assistance to the three constituent yards in earlier years. Their share of the assistance to UCS and the UCS liquidator, plus the assistance to Fairfield's, was probably about £25 million (at 1975 Survey prices). Thus, on the same price basis, total support to these yards over the last ten years has amounted to about £68 million, or about £12,000 per employee.

THE FUTURE

21. The company are now faced with two basic problems: they will need a minimum of £8 million more from the Government in loss-funding in order to complete their existing orders; and secondly, and more immediately from their point of view, work on existing orders will start to run-down in October, and the prospect of getting new orders is poor.

22. The Government will have no option but to provide the £8m because Ministers have publicly undertaken to meet the company's liabilities until 1979. But in principle part of this (perhaps £5 million) could be met from the £17.2 million commitment by cancelling the rest of the redevelopment work.

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\*This equals £42.5 million at 1975 Survey prices, which means that compared with the present agreed ceiling there is £16.9 m to come.



23. As far as orders are concerned, there are in principle two possibilities. Firstly, GSL could embark on speculative building, with the Government under-writing the costs. Last autumn they put forward a proposal to DOI on this basis for the building of 4 bulk carriers at a cost of £38 million. DOI considered this and rightly decided that, in view of the current market uncertainties, the financial risks were quite unacceptable. Their Ministers have now told GSL, and it is unlikely that we will hear any more of the idea.

24. The second possibility is that GSL will - with HMG consent - take on new loss-making orders. GSL have asked the Department if they can tender for 8 vessels to a Philippines customer at a price of £8.7 million each, and for 6 ships at a price of about £10 million each to a Kuwaiti customer. They estimate that there would be a loss of £0.8 million each on the first, and £1 million each on the second. Both contracts are for delivery in 1978, so that if both tenders were successful, only one or other could be taken up. In each case, work would be <sup>provided</sup> ~~promised~~ for a full year.

25. There is a subsidiary proposal from GSL that they should be allowed to do advance ordering of materials in anticipation of one or other contract. Although deferral of ordering may cost GSL about £1.2 million per month from now if a contract is won (because of delivery delays), DOI are taking the line - contrary to what we had been told - that there should be no advance ordering until Ministers have decided whether or not the tenders are acceptable. I think this is right. The main question of the tenders is to be put to Ministers in the next week, and no doubt DOI Ministers will be arguing in favour.

26. One of the conditions of the £17.2 million assistance agreed last summer was that the Secretary of State should be satisfied that progress was made towards the productivity targets. The failure as yet to show any progress at all, and the £8 million of further loss-funding which will in due course be required, would make it necessary for Ministers to reconsider the future of GSL soon anyway. The Phillipine and Kuwaiti tenders make this reassessment all the more urgent.



27. It is now perfectly clear from the tender proposals that GSL, if they are going to get any orders, will continue to operate at a substantial loss in 1977 (after the £10.8 million forecast for 1976). GSL's own assessment of the losses on each ship implies a total loss for 1977, on top of the £1.1 million final loss on existing contracts, of about £6 million. I am told that the tenders are based on "conservative assumptions" regarding productivity etc. If these are the same "conservative assumptions" made last summer, they include an improvement in steelwork from 80 plus man hours per ton of steel at present to 70 by 1977. With the completion of the development programme, this ought to be achievable. But in view of the past record, one cannot be too confident. Given also that it is not even certain that GSL will win either of the contracts, it would probably be more realistic to assume that for the company to continue operating at full capacity, it will be <sup>making</sup> ~~working~~ total losses in 1977 of around £10 million (say £9 million at today's prices).

28. For later years the position is more uncertain. It is generally agreed that world shipyard capacity will exceed new demand for ships by at least 2 to 1 until the mid-1980's. Accordingly, as present order books are <sup>worked</sup> ~~marked~~ off, competition will become increasingly fierce, and therefore it is likely that this will offset any progress at GSL towards their productivity targets. My guess is that GSL's losses would continue at about the same level - in real terms - until 1980, after which they might begin to decline. But it would be optimistic to think that they would ever be eliminated. (On this scenario losses would amount to about half the wage bill until 1980. If this seems excessively gloomy, consider that the best Japanese shipyards already have twice as high productivity as GSL's target for 1979, and their wage levels are lower.)

29. An alternative scenario is that part of GSL would close - ie only Govan/Linthouse or Scotstoun would continue. Govan/Linthouse employs 4,400 and Scotstoun 1,350. As mentioned earlier, productivity at Scotstoun has been worse than at Govan/Linthouse in the past year or two (in contrast to the UCS period); and in 1976 losses per employee at Scotstoun are forecast slightly higher at £1,925, compared with £1,865 at Govan/Linthouse. The planned



facilities at Scotstoun are nearer completion than at Govan, but they are regarded as inferior. It seems likely therefore that losses per employee will be lower at Govan/Linthouse in the long run, but of course they will be very much larger in total. Let us assume that they will account for  $\frac{3}{4}$  of the losses projected for GSL as a whole, so that an operation based on Govan/Linthouse alone would result in losses from 1977-80 of £6.8 million annually (at today's prices).

30. Unless the loss estimates above are far too pessimistic, there is no economic case for keeping either yard open. DOI and Treasury economists, who have been looking at the economics of shipyard closures, have concluded that, on economic grounds, it is worth the Government paying up to 30 per cent of the GSL wage bill\*. This takes into account the problem of finding re-employment if the yards close and the resultant loss of output to the economy. To the extent that the subsidy exceeds 30 per cent of the wage bill, the inference is that GDP is reduced pro tanto.

31. The annual wage bill (including insurance contributions etc) currently amounts to about £18 million. The maximum justifiable subsidy on economic grounds is therefore about £5.5 million (and £4.1 million for Govan/Linthouse <sup>alone</sup> ~~above~~). Bringing together the loss estimates given earlier, and assuming as a rough approximation that the wage bill stays constant in real terms, we have -

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\*Strictly speaking, the present discounted value of future subsidies expressed as a percentage of the present discounted value of the wage bill.



£ m at today's prices

Losses	GSL (all 3 yards)			Govan/Linthouse only		
	'Economic' subsidy	Economic cost of continuing		Losses	'Economic' subsidy	Economic cost of continuing
1	2	3(1-2)	4	5	6(4-5)	
1976	10.8	5.5	5.3	8.2	4.1	4.1
1977	9	5.5	3.5	6.8	4.1	2.7
1978	9	5.5	3.5	6.8	4.1	2.7
1979	9	5.5	3.5	6.8	4.1	2.7
1980	9	5.5	3.5	6.8	4.1	2.7
	<u>47</u>	<u>27.5</u>	<u>19</u>	<u>36</u>	<u>20.5</u>	<u>15</u>

Albeit crude, columns 3 and 6 show that the cost to the economy in terms of output (and income) foregone for 1976-80 will be £19 million for keeping the whole of GSL in operation, and £15 million for maintaining just Govan/Linthouse. (In fact, as explained earlier, the cost in 1976 will have to be borne anyway.)

32. The gross public expenditure costs of keeping the yards going are approximated in columns 1 and 4. (This ignores the final disbursements (about £8 million) on the redevelopment programme, and also any additional working capital needs; on the other hand, the loss figures do include provision for depreciation which may be sufficient to meet any <sup>additional</sup> ~~future~~ working capital needs.) The expenditure cost will be very much less if one deducts redundancy payments, unemployment benefit etc in the event of closure. Mr Richardson has agreed to estimate what the exchequer costs of closure might be: I suspect they may be £10-15 million. But these would almost certainly finish by 1980, whereas loss funding would continue after that.

33. The net public expenditure effect needs to be looked at in its own right since we are operating very much in a public expenditure constrained situation. Thus, even to the extent that a subsidy is justified on economic grounds (ie columns 2 and 4), it still involves



a redistribution of expenditure away from another activity or group of people. Alternatively, the public expenditure constraint fails to hold, and there is an undesirable addition to the PSBR.\*

THE OPTIONS

34. Ministers now have perhaps 4 options:

(i) Run-down the whole of GSL. This would mean refusing to agree the Kuwaiti or Phillipine tenders, or any others, and stopping the redevelopment work.

(ii) Keep the whole of GSL going on a long-term basis, which would mean approving the tenders and standing ready to approve other loss-makers. In that case the redevelopment work would have to be completed.

(iii) Close down either Govan/Linthouse or Scotstoun. In this case, approval of the tenders would be conditional on the running down of one or other. GSL would have to renegotiate the number of ships in the contracts, or the timing thereof.

(iv) Support GSL (or part of it) until the end of 1977 when re-employment prospects should have picked up considerably. Again, this would mean approving the tenders.

35. Option (i) would be the right solution from an economic and public expenditure standpoint. GSL rank at or near the bottom of the list of shipbuilders in terms of prospective viability, and therefore, if there is to be a contraction of the industry, they ought to be the one of the first to go. The task of British Shipbuilders would be considerably eased without them. However, the political difficulties are formidable - memories of the UCS collapse and the part that some present Ministers then played in demanding a full-scale rescue; the Scottish factor (Govan is a marginal Labour held seat - previously held by the SNP); and 10.9 per cent male unemployment in Glasgow. On the other hand, option (ii) - the worst from the Treasury's standpoint - must be avoided.

\*As indicated in the table in paragraph 14 (figures in brackets), GSL think their losses on existing orders may be some £24 m higher if they do not get any new orders than if they do. This seems an extraordinarily high figure and I would like to see it properly substantiated. But to the extent that there were additional losses, the economic and public expenditure benefits of closure would be that much less.



36. The best that it seems likely we can hope for is a combination of (iii) and (iv). Under (iii), we should press for the run-down of Scotstoun. Option (iv) will have attractions to Ministers, not least because it means postponing certain unpleasantness. But it certainly ought to be easier to implement a run-down on the scale of Govan/Linthouse when the promised economic up-turn comes. Indeed, with present high unemployment levels the justifiable "economic" subsidy may be somewhat higher than indicated in the table. (This is because the methodology assumes a more normal employment situation). To give option (iv) any chance of sticking, it would have to be made clear, as with Harland and Wolff last year, that no more loss-making tenders - after the Kuwaiti and Phillipine ones - are to be approved.

(See the file copy for bibliography).



END

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Archives (TNA) in London

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