

PREM 19/314

Shipbuilding Policy.

NATIONALISED

INDUSTRIES

Part 1: ~~Jan~~ 1979

Part 2: Dec 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
		22.10.80					
12.12.79		██████████					
28.12.79		7.11.80					
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PART 2 ends:-

Ch Ex Statement —

PART 3 begins:-

E(EA)(80)62 3.12.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (80) 5 th Conclusions, Minute 5 (extract)	7.2.80
CC (80) 6 th Conclusions, Minute 4 (extract)	14.2.80
E (EA) (80) 39	14.7.80
E (EA) (80) 15 th Meeting, Minute 1	17.7.80
C (80) 49	29.7.80
CC (80) 31 st Meeting, Minute 6	31.7.80
C (80) 51	5.8.80
C (80) 52	5.8.80
CC (80) 32 nd Conclusions, Minute 3	7.8.80
E (80) 103	11.9.80
E (80) 106	15.9.80
E (80) 34 th Meeting, Minute 2	17.9.80
E (80) 112	16.10.80
E (80) 38 th Meeting, Minute 1	22.10.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed *A. Wayland*

Date 29 June 2010

PREM Records Team



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Nathaniel
PA

MS

BRITISH SHIPBUILDERS

In my statement of 31 July on British Shipbuilders' finances I told the House that the Corporation was forecasting cash needs well in excess of its external financing limit and that the new Chairman had been asked to carry out a review of prospects for the industry, including an examination of all possible ways of achieving savings.

As the House will know merchant shipbuilding has been contracting ever since BS was formed. Since Vesting Day employment in merchant shipbuilding has fallen from 38,000 to below 18,000. In BS as a whole there have been about 17,000 redundancies.

Despite this contraction and the economies which the Chairman is introducing, I regret that the review has shown that there is no scope for significant reductions in the Corporation's cash requirements this year. A substantial part of the cash requirement is due to the winding down of payments made in advance of work in progress on naval exports, and to the effects of the steel strike.



The Government has therefore agreed to increase BS's external financing limit for the current year from £120 million to £185 million. The additional resources are being found from the unallocated contingency reserve within the planned level of public expenditure.

The Chairman has also advised me that the Corporation is likely to exceed by some £20 million its loss limit of £90 million before crediting Intervention Fund assistance.

The House's approval for the additional finance will be sought in the Winter Supplementary Estimates; in the meantime should the Corporation require additional funds these will be provided by repayable advances from the Contingencies Fund.

The Chairman expects a considerable improvement next year in BS's financial performance. The benefits of the restructuring programme, the economies which he is introducing, and the forecast higher utilisation of merchant shipbuilding capacity should be important contributory factors. This improvement will be reflected in the forthcoming external financing limit for 1981/82. The loss



target will be reduced to £25 million after Intervention Fund assistance (which is equivalent to £75m before Intervention Fund assistance).

However, there are uncertainties ahead which could affect these forecasts for next year. The market for merchant shipbuilding and shiprepair remains weak and BS continue to be unable to secure merchant ship orders without subsidy. The future level of naval orders has yet to be determined in the context of the Government's annual expenditure review. In these circumstances the Government has decided that it would be prudent to agree to the British Shipbuilders' request that the Shipbuilding Redundancy Payments Scheme should be prolonged. Enabling legislation to this end will be introduced shortly.

The Government accepts that subsidies will, for the moment, continue to be necessary to enable BS to obtain merchant ship orders, but we believe in line with other countries that worldwide subsidies to shipbuilding must progressively reduce. We are therefore proposing to the European Commission the use of the remainder of the present £55 million tranche of Intervention Fund from the end of this year to July 1981,



and a new tranche at a lower figure of £45 million from July 1981 to July 1982.

There are new opportunities available for the industry in offshore work if the Corporation can prove themselves competitive; but this is also a difficult market. I have invited the Chairman to assess these and all other opportunities in a new Corporate Plan in Spring 1981.

However, whether in offshore work or in the production of ships, there can be little doubt about the magnitude of the task facing the Corporation. Only the most substantial, and rapid, improvements in productivity and efficiency, in reducing overheads and other cost cutting, can give BS the prospect of a viable future. The Government believes that the necessary determination exists. It is up to all those in BS to translate that determination into achievement.

*cc Mr Duguid**Nationalised Fuel
Shifts Policy*

Treasury Chambers, Parliament Street, SW1P 3AG

J Hudson Esq
 Private Secretary fo the
 Minister of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

12 November 1980

*Dear Jonathan,**R**14/6*

STATEMENT ON BRITISH SHIPBUILDERS' FINANCES

The Chief Secretary has seen the draft statement attached to your letter of 5 November to Robin Birch. He notes that the timing of the statement is dependent on developments at BL.

We have one important (though presentational) point on the body of the draft, namely that the loss limit for 1981-82 should be expressed on the same basis as the limit for the current year. As you know, it had been the practice to quote BS' financial targets in terms of loss limits after crediting Intervention Fund grants until your Minister suggested the "before grants" basis for this year's limit (Mr Butler's letter of 17 July 1979 refers). The Chief Secretary sees no objection to reverting to the "after grants" basis - indeed there is some advantage in the change as the target would then be directly comparable with the trading loss published in BS' Accounts - but he thinks that the comparable figure "before grants" should be included by way of explanation. Otherwise Parliament and the general public could be misled as to the extent of the improvement we expect to see in BS' loss position next year. The addition of the words "which is equivalent to £75 million before Intervention Fund" at the end of paragraph 4 of the statement would perhaps suffice.

I am copying this letter to the recipients of yours.

*Yours ever**Terry Matthews*

T F MATHEWS

Private Secretary



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cc Mr Dwyer

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

Nathd

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

From the
Minister of State's office

The Hon Adam Butler MP

*(A) - original
in Box 2 (has PM
sent?)*

R Birch Esq
Private Secretary to
The Chancellor of the Duchy of
Lancaster
Privy Council Office
Whitehall
London SW1A 2AT

JL

12 November 1980

Dear Robin

STATEMENT ON BRITISH SHIPBUILDERS' FINANCES

boxed box?

..... I sent you a draft of this statement on 5 November. I now
enclose a revised draft which takes account of comments made
by the Treasury.

My Minister intends to make this statement on 13 November.

/of I am copying this to Nick Sanders (No 10), the Private
Secretaries to the members/E(EA) Committee, the Foreign Secretary,
the Secretaries of State for Northern Ireland and Defence, the
Chief Whip and the Paymaster General, Bernard Ingham (No 10) and
David Wright.

*Yours sincerely,
Jonathan Hudson*

JONATHAN HUDSON
PRIVATE SECRETARY

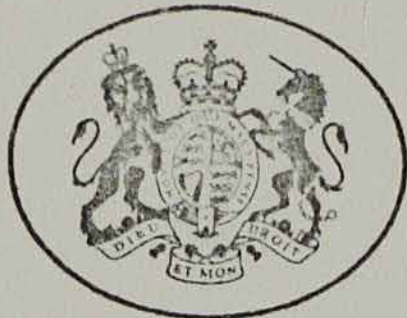


STATEMENT ON SHIPBUILDING

In my statement of 31 July on British Shipbuilders' finances I told the House that the Corporation was forecasting cash needs well in excess of its external financing limit and that the new Chairman had been asked to carry out a review of prospects for the industry, including an examination of all possible ways of achieving savings.

As the House will know merchant shipbuilding has been contracting ever since BS was formed. Since Vesting Day employment in merchant shipbuilding has fallen from 38,000 to below 18,000. In BS as a whole there have been about 17,000 redundancies.

Despite this contraction and the economies which the Chairman is introducing, I regret that the review has shown that there is no scope for significant reductions in the Corporation's cash requirements this year. A substantial part of the cash requirement is due to the winding down of payments made in advance of work in progress on naval exports, and to the effects of the steel strike.

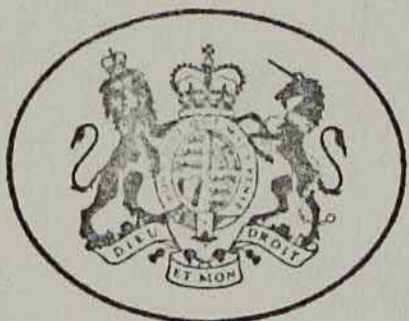


The Government has therefore agreed to increase BS's external financing limit for the current year from £120 million to £185 million. The additional resources are being found from the unallocated contingency reserve within the planned level of public expenditure.

The Chairman has also advised me that the Corporation is likely to exceed by some £20 million its loss limit of £90 million before crediting Intervention Fund assistance.

The House's approval for the additional finance will be sought in the Winter Supplementary Estimates; in the meantime should the Corporation require additional funds these will be provided by repayable advances from the Contingencies Fund.

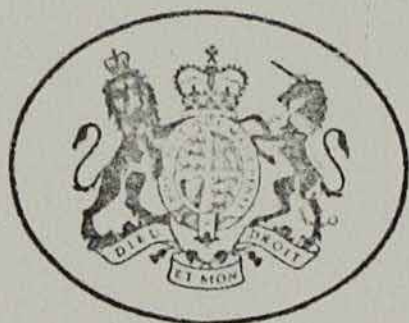
The Chairman expects a considerable improvement next year in BS's financial performance. The benefits of the restructuring programme, the economies which he is introducing, and the forecast higher utilisation of merchant shipbuilding capacity should be important contributory factors. This improvement will be reflected in the forthcoming external financing limit for 1981/82. The loss



target will be reduced to £25 million after Intervention Fund assistance (which is equivalent to £75m before Intervention Fund assistance).

However, there are uncertainties ahead which could affect these forecasts for next year. The market for merchant shipbuilding and shiprepair remains weak and BS continue to be unable to secure merchant ship orders without subsidy. The future level of naval orders has yet to be determined in the context of the Government's annual expenditure review. In these circumstances the Government has decided that it would be prudent to agree to the British Shipbuilders' request that the Shipbuilding Redundancy Payments Scheme should be prolonged. Enabling legislation to this end will be introduced shortly.

The Government accepts that subsidies will, for the moment, continue to be necessary to enable BS to obtain merchant ship orders, but we believe in line with other countries that worldwide subsidies to shipbuilding must progressively reduce. We are therefore proposing to the European Commission the use of the remainder of the present £55 million tranche of Intervention Fund from the end of this year to July 1981,



and a new tranche at a lower figure of £45 million from July 1981 to July 1982.

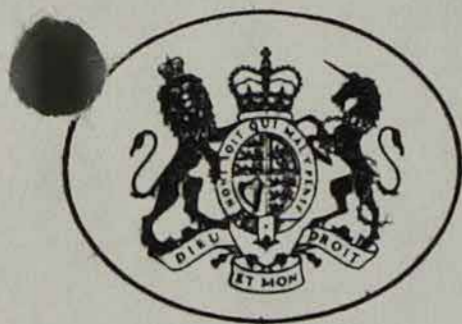
There are new opportunities available for the industry in offshore work if the Corporation can prove themselves competitive; but this is also a difficult market. I have invited the Chairman to assess these and all other opportunities in a new Corporate Plan in Spring 1981.

However, whether in offshore work or in the production of ships, there can be little doubt about the magnitude of the task facing the Corporation. Only the most substantial, and rapid, improvements in productivity and efficiency, in reducing overheads and other cost cutting, can give BS the prospect of a viable future. The Government believes that the necessary determination exists. It is up to all those in BS to translate that determination into achievement.



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Not ind.



Secretary of State for Industry

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

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

7 November 1980

Rt Hon George Younger MP
 Secretary of State for Scotland
 Scottish Office
 Whitehall
 London SW1A 2AU

Dear George,

BRITISH SHIPBUILDERS: STRATEGY AND FINANCES

Thank you for your letter of 30 October.

2 I entirely agree with you that the decision not to apply for Intervention Fund assistance for Scott Lithgow and Cammell Laird is a matter for BS and should be presented as such if and when it becomes public knowledge. The Chairman has made it very clear to us that in order to remove one of the principal causes of loss-making i.e under-utilisation of capacity BS needs to build more ships in fewer yards. In that he has our full support.

3 You should also be aware that it would be difficult for BS to change their plan. With BS's knowledge we have informed the Commission of it, and there would have to be prior consultation with the Commission before new subsidised merchant ship orders could be put in either yard. Moreover even if the Commission were agreeable to such a change of plan, on present estimates there would not be enough Intervention Fund assistance available to allow a resumption of merchant ship-building at these yards unless BS made corresponding cuts in capacity elsewhere.

4 I am copying this letter to the Prime Minister, to the other Members of E Committee and to Sir Robert Armstrong.

Yours ever,
Kate

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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LONDON SW1E 6RB

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From the
Minister of State's Office

The Hon Adam Butler MP

R Birch Esq
Private Secretary to the
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
London
SW1A 2AT

5 November 1980

- 1. Mr Sanders MS
- 2. Private Secretary PA

MS

Draft statement
announcing the increase
in BS's ETC for
this year from £120m to
£155m (approved in
E last month)

Dear Robin,

STATEMENT ON BRITISH SHIPBUILDERS' FINANCES

...
Thursday is
possible
without
difficulty
MS

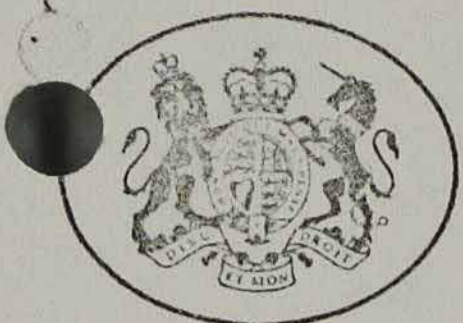
I enclose the draft statement on BS' finances which my Minister E last
proposes to make to the House. At present the proposed date for
the statement is 13 November but the precise timing might have
to be reconsidered if BL's workforce are about to decide whether
to support the call for strike action.

I am sending copies of this to Nick Sanders (No. 10), the
Private Secretaries to members of E(EA), the Foreign Secretary,
the Secretary of State for Northern Ireland and the Chief Whip,
and David Wright.

TL
6/4

Yours sincerely,
Jonathan Hudson

Jonathan Hudson
Private Secretary



STATEMENT ON SHIPBUILDING

In my statement of 31 July on British Shipbuilders' finances I told the House that the Corporation was forecasting cash needs well in excess of its external financing limit and that the new Chairman had been asked to carry out a review of prospects for the industry, including an examination of all possible ways of achieving savings.

I regret that this review has shown that there is no scope for significant reductions in the Corporation's cash requirements this year. In a weak market for merchant ships BS continues to be loss-making and unable to compete without subsidy. A substantial part of the cash requirement is also due to the winding down of payments made in advance of work in progress on naval exports and to the effects of the steel strike. Although the Chairman has already identified some useful economies their main impact will not be felt until next year.

The Chairman has also advised me that the Corporation is likely to exceed by some £20 million its loss limit this year of £90 million before crediting Intervention Fund Assistance.

However he expects a considerable improvement next year in BS' financial performance; this improvement will be reflected in the forthcoming External Financing Limit for 1981/82. The loss target will be reduced to £25 million after Intervention Fund Assistance.

For the current year the Government has agreed to increase BS' external financing limit, from £120 million to £185 million.

The House's approval for the additional finance will be sought in the Winter Supplementary Estimate; in the meantime should the Corporation require additional funds these will be provided by repayable advances from the Contingencies Fund.

/ ... Mr Speaker;



Mr Speaker, BS have nearly completed the restructuring programme which they set themselves in August, 1979 and merchant shipbuilding employment now stands at below 18,000, a decline from 38,000 at Vesting Day. However, prospects for merchant shipbuilding and shiprepair are uncertain, and the future level of naval orders has yet to be determined in the context of the Government's annual expenditure review. In these circumstances the Government has decided that it would be prudent to agree to the British Shipbuilders' request that the Shipbuilding Redundancy Payments Scheme should be prolonged. Enabling legislation to this end will be introduced shortly.

The Government accepts that subsidies will, for the moment, continue to be necessary to enable BS to obtain merchant ship orders, but we believe in line with other countries that worldwide subsidies to shipbuilding must progressively reduce. We are therefore proposing to the European Commission the use of the remainder of the present £55 million tranche of Intervention Fund from the end of this year to July 1981, and a new tranche at a lower figure of £45 million from July 1981 to July 1982.

There are new opportunities available for the industry in offshore work if the Corporation can prove themselves competitive; but this is also a difficult market. I have invited the Chairman to assess these and all other opportunities in a new Corporate Plan in Spring 1981.

However, whether in offshore work or in the production of ships, there can be little doubt about the magnitude of the task facing the Corporation. Only the most substantial, and rapid, improvements in productivity and efficiency, in reducing overheads and other cost cutting, can give BS the prospect of a viable future. The Government believes that the necessary determination exists. It is up to all those in BS to translate that determination into achievement.

New Inds.

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Qa 05159

To: MR LANKESTER

From: J R IBBS

E(80)112: British Shipbuilders' Strategy and Finance

1. At the meeting of E Committee on 17 September, doubts were expressed over whether BS were taking sufficiently tough action to reduce their costs and whether they were planning to slim down sufficiently in the face of poor market prospects. The Secretary of State for Industry was invited to arrange for his Department to review these issues in consultation with the Treasury and the CPRS. At the Secretary of State's suggestion, I spent an afternoon with the BS Chairman, and my staff have also visited the three Clydeside yards.

2. I believe that the BS Board and the Department of Industry are developing a better understanding of what is needed and what is possible. The first test of the new management's resolve to move the industry to a viable financial position will be the 1981 Corporate Plan. Reluctantly I agree that we should wait until next Spring for this by which time the following three uncertainties should have been resolved or at least clarified.

(i) Smith's Dock. It is still uncertain whether further Intervention Fund support will go into Smith's Dock before it can be closed. In principle, the yard should not receive further merchant ship orders. However, the Secretary of State asks that E(EA) should consider the position if BS wish to place one further ship at Smith's Dock in order to prevent British and Commonwealth and their South African partner Safmarine from going to a foreign yard for the first two ships in a possible series of six.

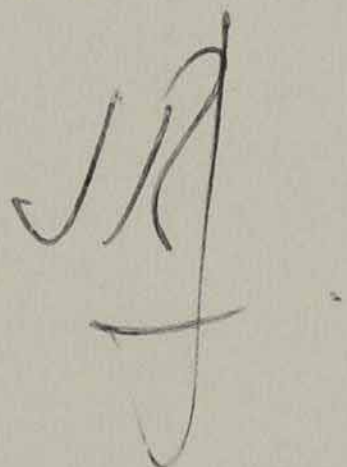
(ii) Offshore. It is also still uncertain whether BS can win initial orders for floating rigs other than at a loss. In principle, there should be no loss-financing. Again, however, the Secretary of State asks that he should report back to E(EA) if the initial orders look as though they cannot be secured at break-even and would otherwise go abroad. It is essential that any proposal for assistance should be tested extremely stringently.

I understand why the Secretary of State wishes to approach these two issues in this pragmatic way and to bring the issues back to E(EA). The Prime Minister may consider however that E Committee would be a more appropriate forum for final decisions.

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(iii) The Naval Programme. BS's strategy on the specialist naval and the composite yards will need to be entirely re-shaped as a result of the cuts in defence expenditure. Closure of one composite yard seems the minimum outcome. However, BS cannot be expected to devise a new strategy for these yards (which account for over half BS's workforce) until MoD(N) has given them a basis on which to plan. I believe the BS Board should be given this information as soon as possible. The Prime Minister may wish to set a target date of say, end January, to help focus MoD(N)'s attention on the need to give BS early and adequate guidance.

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

A handwritten signature in dark ink, appearing to be 'MJ', is written above the date.

21 October 1980

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Ref. A03313

PRIME MINISTER

British Shipbuilders: Strategy and Finance

(E(80) 112)

BACKGROUND

When E discussed British Shipbuilders' strategy on 17th September they were not persuaded that the Corporation were taking sufficiently tough action to reduce costs and to slim down in the face of poor market prospects; and they invited the Secretary of State for Industry to arrange for a further review (E(80) 34th Meeting, Item 2). In E(80) 112 he puts forward his revised proposals in the light of this further work.

2. He invites the Committee to endorse a short-term strategy whereby BS will close Smith's Dock on Teesside as soon as possible; confine Scott Lithgow and Cammell Laird to naval and offshore work; build up merchant production at Swan Hunter; and dispose of ship repair activities as soon as possible.

3. He points out that it is very difficult to take decisions on the longer term strategy in the face of major uncertainties over:-

- (i) Merchant orders - no substantial upturn is expected in world markets before the end of 1982, and even then BS will be faced with fierce competition from Japan and the developing countries.
- (ii) Naval orders - these obviously turn on coming decisions on the Defence Budget, and their implications for the Navy in particular.
- (iii) Offshore orders - can BS break into this internationally competitive market?

It will therefore be necessary to look at the longer term again next year, when some at least of these uncertainties will have been resolved and BS will have produced their next Corporate Plan. In the meantime it is proposed that E(EA) should deal with particular cases and difficulties.

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4. BS's plans for Cammell Laird and Scott Lithgow depend crucially on getting contracts for semi-submersible oil rigs. The Secretary of State recommends that they should move into this business only on the basis of future viability, although he proposes that E(EA) should look if necessary at any initial orders which could not be secured at break-even and might otherwise go abroad. He advises that there is no possibility of private sector involvement in this business at present, since no United Kingdom private sector companies have the relevant experience or technology.

5. Provisionally the public expenditure position is as follows:-

	<u>£ million 1980 prices</u>			
	1980-81	1981-82	1982-83	1983-84
PES	104	82	38	16
Proposal	155	114	63	37
Additional	51	32	25	21

6. For 1980-81 the cash equivalent for EFL purposes is £185 million compared with the published EFL of £120 million. It seems that there is no possibility of reducing this sum, and the Secretary of State for Industry will have to announce the revised limit to the House.

7. The cash equivalent for 1981-82 is £153 million. This is the figure in the Chief Secretary's general paper on the nationalised industries, E(80) 121. *see folder 2* If the Committee accept it, their decision should be subject to the reservation that it will be liable to amendment if there are to be across the board cuts on the nationalised industries. This apart, it should not be necessary to return to the question of British Shipbuilders in the general discussion on E(80) 121.

8. The Secretary of State for Industry has secured agreement in principle to extending the statutory Shipbuilding Redundancy Payments Scheme. The costs of this are uncertain and turn on the numbers and timing of redundancies. It is however necessary to accept whatever costs arise, in the longer term interests of getting a viable industry. It is also proposed (28(d) of the note by Officials annexed to E(80) 112) that to encourage restructuring any extraordinary

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costs of further closures beyond those now assumed should be dealt with outside the EFL. Particular proposals would need to be examined if they were put forward, but in principle this seems a reasonable price to pay for reorganising the industry.

HANDLING

9. After the Secretary of State for Industry has introduced his paper the Chief Secretary will wish to comment on the implications for public expenditure and EFLs, the Secretary of State for Defence on naval orders, and Mr. Fletcher, who is representing the Secretary of State for Scotland, on offshore orders and the implications for the Scottish yards in particular. CPRS have been involved in the future review and Mr. Ibbs may wish to comment. The Secretary of State for Northern Ireland is not directly concerned with British Shipbuilders but he will wish to keep his approach to Harland and Wolff broadly in line with that to BS.

10. In deciding whether they can accept the proposals summarised in paragraph 17 of E(80) 112, and in more detail in paragraph 28 of the report by officials, the Committee will wish to discuss in particular:-

- (i) whether there should be a greater cut in capacity - in practice this would fall on the Scottish yards (see paragraph 10) and the Committee may well decide that it is not justified until some of the present uncertainties are clarified.
- (ii) The approach to offshore orders (paragraphs 11 and 12) - it is proposed that BS should consult Ministers if they want to go ahead with any orders at below break-even.
- (iii) Naval orders - can the Secretary of State for Defence undertake to clarify the naval position as soon as possible after decisions are taken on the Defence Budget?
- (iv) EFLs - announcement to increase that for 1980-81 from £120 million to £185 million; and to fix 1981-82 at £153 million.

11. The Secretary of State for Industry will be anxious to secure decisions on these proposals at the meeting in order to give BS early guidance for their further planning, to fix the EFLs, and to get on with securing the Commission's approval to further use of intervention fund grants (paragraph 28(c) of the report by officials).

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CONCLUSIONS

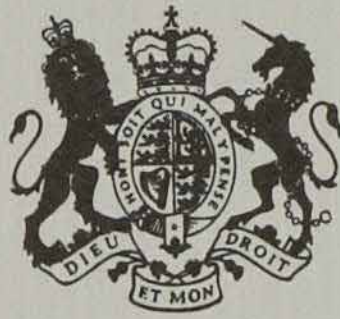
12. In the light of the discussion you will wish to sum up with reference to the recommendations in paragraph 17 of E(80) 112.
13. In doing so you will wish to note:-
- (i) that the Secretary of State for Industry will have to announce to the House the increase in the EFL for 1980-81.;
 - (ii) that approval of the EFL of £153 million in 1981-82 will be subject to any further across the board cuts which might be agreed in the context of the general discussions on nationalised industry financing.

RA

(Robert Armstrong)

21st October, 1980

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10 DOWNING STREET

Prime Minister

You will want to
focus mainly on the
public expenditure and EFL
papers. But I also enclose
the papers on shipbuilding
(with a note answering the
queries you had) and
postal tariffs in case
there is time to discuss
them as well.

The
20/10



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*

20 October 1980

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

Dear Tim

BRITISH SHIPBUILDERS FINANCES

You asked me for further information for the Prime Minister on my Secretary of State's paper E(80)112. I enclose a table listing British Shipbuilders' various yards, the types of vessels under construction, their number and information about any delays known to the Department.

2. The Department does not specifically monitor progress on British Shipbuilders contracts. Without detailed investigation it is not possible to establish whether a delay is attributable to customers introducing modifications to their orders or to reasons outside British Shipbuilders control, for example the steel strike or other failures by suppliers to deliver equipment on time. A number of ships are at an early stage of construction when delays are less apparent than at the later stages. The only ships which the Department knows to be currently late for reasons within the control of British Shipbuilders are:

- (a) three ships at Sunderland (caused by design difficulties);
and
- (b) one Polish ship at Robb Caledon caused by labour problems associated with the closure.

Yours ever

lan

I K C ELLISON
Private Secretary



Shipyard	Types of vessel under construction	Number	Comments
Ailsa	Suction Dredger	1) No known delay)
	LPG Tanker	1	
Appledore	Tug/Supply	2	No known delay Knock-on delay from earlier ships. 2 months late
	Container ship	1	
	Product carrier	1	
Austin and Pickersgill	Cargo carriers	7) Maximum delay 4 months on one ship)
	Bulk carriers	3	
Brooke Marine	Patrol craft for export	1	5 months delay due to customer
Cammell Laird *	Destroyers (MOD)	2	Ahead of schedule
Clelands	Bulk carrier	1) No known delay)
	Coastal Tanker	2	
Fergussons	Fishery Protection	1	3 months delay) Up to 2 months delay)
	Dredger	1	
	LPG	1	
Goole	Tankers	2	No known delay
Govan	Bulk Carriers	4	No known delay
Hall Russell	Patrol vessels (MOD)	2	No delay
Robb Caledon Dundee	Bulk carrier	1	12 months delay - mainly due to labour troubles and equipment suppliers. 3 months delay) No known delay)
Leith	Tug	1	
	Dredger	1	
	Trinity House Flagship	1	

* One MOD Fleet Support Tanker about to be ordered.



Shipyard	Types of vessel under construction	Number	Comments
Scott Lithgow Cartsburn	Cargo liner	1	<u>3 months delay</u>
	Seabed operation vessel (MOD)	1	<u>No delay</u>
Scott Lithgow Glen/Kingston	ESV	1	<u>3 months delay</u>
	Tanker	1	No known delay
Smith Dock	Refrigerated carriers	2	No known delay
Sunderland	Cargo carrier	1	<u>Five months delay</u> - mainly due to design change
Deptford	Bulk Carriers	3	No known delay
Sunderland	Cargo carrier	2	Five to six months delay - mainly due to design change
Pallion	Bulk carrier	2	One to two months delay
Swan Hunter Hebburn	Tanker	1	2 months delay
	Nuclear Fuel Carrier	1	No known delay
Swan Hunter Neptune	Product tanker	1	No known delay
	Destroyer (MOD)	2	Ahead of schedule
Swan Hunter Wallsend	Anti submarine Cruiser (MOD)	2	Ahead of schedule
Vickers	Submarine (MOD)	4) Ahead of schedule)
	Destroyer (MOD)	1	
Vosper Thornycroft	Patrol craft	8	No known delay
	Destroyers for export (MOD)	3) Ahead of schedule
	MCMV (MOD)	6	
Yarrow	Frigate (MOD)	4	Ahead of schedule
	MCMV (MOD)	2	No delay
	Support vessels for Iran	4	Contract terminated, and much deliberate delay while other markets sought

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E(80)112

COPY NO 2

16 October 1980

DoI will send info.

CABINET

Mr. Tinn.

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

BRITISH SHIPBUILDERS STRATEGY AND FINANCE

Memorandum by the Secretary of State for Industry

I don't see any list of what-wards are building what ships now who is producing on time & whether being delivered late. This is relevant to future

1 Colleagues invited me to look again at British Shipbuilders' (BS) strategy and finances in the light of doubts expressed at E(80)34th and to examine the scope for introducing private sector involvement with Cammell Laird and Scott Lithgow in the construction of oil rigs. The attached inter-Departmental note by officials sets out the results of this further review.

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2

Intervention Fund support to contracts taken and the winding down of instalments received in advance principally at the naval shipbuilders. Further contraction would increase the cash requirement next year but would reduce the risk of exposure to a repetition of losses.

British Shipbuilders' New Strategy

4 On merchant shipbuilding British Shipbuilders' strategy is to utilise fully a reduced number of yards so as to maximise the benefits to be gained from other cost cutting exercises. To achieve this they have already taken covert action to prepare the way for a closure of Smith's Dock on Teesside while Cammell Laird and Scott Lithgow will no longer be eligible for Intervention Fund assistance. They are also determined to sell to the private sector their shiprepair activities or, if this is not possible, to contract or close them to eliminate unprofitability. British Shipbuilders have a statutory duty to carry on ship repair activities and the extent to which they can withdraw from ship repair activities under existing legislation is unclear until British Shipbuilders put forward proposals together with their justification under the Nationalisation Act. The Chairman has also said that serious deviations from the budgets set for individual establishments may result in either slimming or closure of the facility concerned.

5 Employment in merchant shipbuilding would be around 15,000 after these changes and the industry might produce around 330,000 tons a year.

Ca M. Dafydd

Nat (w)

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WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
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Oddi wrth yr Is-Ysgrifennydd Seneddol
CT/464/80

From The Parliamentary Under-Secretary

6 October 1980

*R.
7/10*

I am responding, in Nicholas Edwards's absence in America, to Adam Butler's letter of 25 September to you on the proposal to prolong the British Shipbuilding Redundancy Payments Scheme.

The proposal appears to run counter to our general policy with regard to nationalised industries of leaving in the hands of management the decisions about how changes in those industries are to be achieved. In the normal course of events we would have preferred if the full implications of the proposal could have been discussed collectively by colleagues. Given the time factor however, if other recipients of Adam's letter are content with his proposal, we do not dissent.

I am copying this to Adam Butler, the other Members of E(EA), Members of E Committee, Humphrey Atkins, Francis Pym and Sir Robert Armstrong.

WYN ROBERTS

The Rt Hon Sir Keith Joseph BT MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

1-7 OCT 1907



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cc. A. Duquid. Nat hel

R.

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
123 Victoria Street
London SW1

1 October 1980

Dear Keith,

SHIPBUILDING REDUNDANCY PAYMENTS SCHEME

Adam Butler copied to me his letter to you of 25 September.

In principle I agree that prolongation of this scheme both for British Shipbuilders and for Harland and Wolff is desirable. I am content that work should proceed on the assumption that a clause will be included in the Industry (No 2) Bill.

Nevertheless as Adam Butler points out we can only consider the financial provision for BS in the context of the further review commissioned by E, which is due to report in mid-October. I think that we must leave the final decision on this scheme until then.

Since as you know I attach great importance to steps which will achieve a further slimming down of the industry, I accept the general case for an extended statutory scheme. I also think it is of great importance to control the cost of individual redundancies as the present scheme does. This must mean that for any given level of redundancies the cost arising from this scheme is likely to be rather lower than the cost of leaving the level of redundancy payments to the discretion of BS. Extension of the scheme would also be a helpful gesture of support for the new Chairman in slimming the industry down.

Nevertheless we must look at all the calls for finance coming from BS together. I hope that you will be able to let me have your assessment of the extra costs flowing not only from this scheme but also from the strategy you propose for BS as a whole in the near future.

I am sending copies of this letter to the other members of E(EA) Committee, members of E Committee, Humphrey Atkins, Francis Pym and Sir Robert Armstrong.

JOHN BIFFEN

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- 1 OCT 1980

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

29 September 1980

Dear Keith,

12

25/9

BRITISH SHIPBUILDERS: STRATEGY AND FINANCE

Thank you for your letter of 16 September.

I continue to share the concern expressed by the Prime Minister at E on 17 September that BS may not be slimming down sufficiently in the face of poor market prospects. But your officials will no doubt be consulting mine in the next few days about the further review commissioned by E. I hope that this review will enable us to take speedy decisions on the EFL for 1980-81 and on the financing requirements for 1981-82.

Meanwhile I am glad to note that the new Chairman accepts the need to close Smiths Dock. Before we come to a decision on the EFL increase for this year I should welcome your assurance that the Chairman accepts as a consequence of this closure that we would be unable to agree to any proposal for further Intervention Fund support for new orders at Smiths Dock.

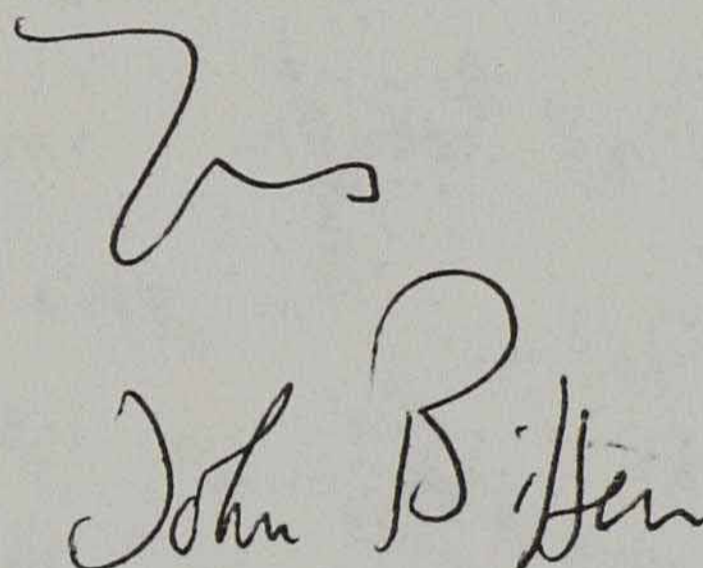
Even if the Smiths Dock issue is now settled I am not yet convinced that BS have produced a realistic plan in the sense that it gives a good prospect of a viable and more productive industry with a capacity geared to an order book which it will be able to sustain without continuing losses and support from public funds. The yards at present engaged in a mixture of warship and merchant work strike me as a particular cause for concern. I note from your letter that Scott Lithgow and Cammell Laird will no longer be eligible for Intervention Fund support. With Smiths Dock this means that three yards will no longer have access to the Fund. I am sure that this contraction of merchant shipbuilding is a step in the right direction. But given the severe squeeze on public expenditure including defence expenditure I hope BS are taking a realistic view of the prospects for naval orders at Scott Lithgow and Cammell Laird. If all the rest of their workload is assumed

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to be met from a move into the manufacture of oil rigs there must be severe doubts about maintaining all the facilities at either or both of these yards. I think that the prospects for an adequate naval/oil rig workload at these two yards are the main immediate doubt to resolve in the October review. We must not embark on a policy of subsidising oil rigs simply to avert the need for closures if these would be inevitable sooner or later.

If you can reassure me that no further Intervention Fund applications will be put forward for Smiths Dock I am content to leave the other issues until we have your report for E in mid-October. Like you I welcome the steps the Chairman has already taken since his arrival in July to cut costs. We cannot expect to settle all the problems of BS in the next few weeks. We cannot however assume that Smiths Dock is the only yard which will have to close, and in my view we may well need to call on the Chairman for an assessment of facilities at the other marginal yards in the New Year. Since we have as yet no figures at all for 1982-83 or 1983-84 we are still a long way from an adequate Corporate Plan mapping the way both to a viable industry and to privatisation.

I am copying this letter to the Prime Minister, Members of E, the Secretary of State for Defence, Sir Robert Armstrong and Mr Ibbs.

A handwritten signature in cursive script, reading "John Biffen". The signature is written in dark ink and is positioned above the printed name.

JOHN BIFFEN

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29 SEP 1980





DEPARTMENT OF INDUSTRY

Ashdown House

123 Victoria Street

London

SW1E 6RB

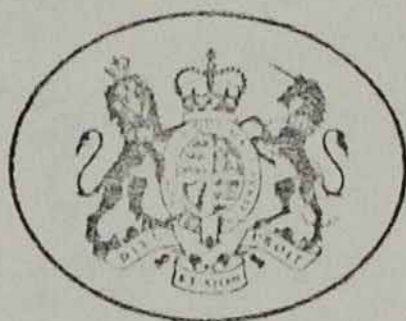
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01-212 6401

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01-212 7676

*With the Compliments of
the Minister of State*

cc A. Bygild ^{Nat hsd}

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From the
Minister of State

ADAM BUTLER

The Rt Hon Sir Keith Joseph BT MP
Secretary of State of Industry

25 September 1980

Dear Secretary of State,

I am writing to seek agreement on the prolongation of the Shipbuilding Redundancy Payments Scheme for British Shipbuilders and Harland and Wolff for a further two years. A decision on this matter is needed by the end of this month, as explained below, in order to meet the timetable for legislation. E Committee did not deal with this matter at their discussion on shipbuilding strategy on 17 September and, if you agree, the best course in view of the urgency is to obtain by correspondence the agreement of E(EA).

2 The case for prolongation is set out in detail in the annex to this letter. The main arguments are:-

- a the present schemes have substantially eased the process of contracting the industry; and we see a continuing need beyond the expiry date of the present scheme;
- b a statutory scheme enables us to keep a tight rein on the cost of payments;
- c the new Chairman of BS has pressed strongly for the statutory scheme to be continued.

It is clear that whatever decisions we eventually arrive at on any future restructuring of BS the number of redundancies falling after mid-1981, when the present BS scheme expires, will be substantial enough to justify prolonging it. We would, of course, have to prolong the Harland and Wolff scheme also though the number involved are much less. It is not possible at this stage to give precise estimates of the likely cost of prolongation in view of the uncertainty about the numbers of redundancies likely to occur.

3 Prolongation will require an amendment of the Shipbuilding Redundancy Payments Act 1978, and this can be done by one Short Clause. Such a Clause could be included in the Industry (no 2) Bill, but in view of the need to secure early passage of this Bill through Parliament, policy approval for prolongation is needed by 3 October. The use of the Industry (no 2) Bill as a vehicle would be preferable to a separate Bill.

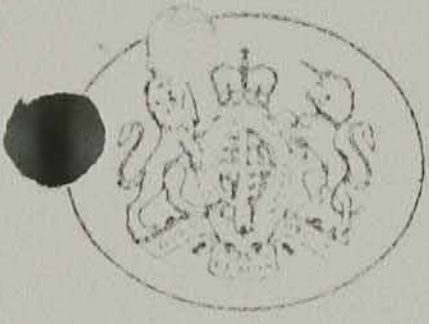


4 If I do not hear to the contrary by 3 October I shall assume that colleagues are content to legislate for the prolongation of the Redundancy Payments Schemes for British Shipbuilders and Harland and Wolff leaving the financial provision to be considered further in the light of our review of BS's finances.

5 I am sending copies to the other members of E(EA) Committee, Members of E Committee, Humphrey Atkins, Francis Pym and Sir Robert Armstrong.

*Yours sincerely,
Jonathan Hudson*

ADAM BUTLER
(Approved by Mr Butler and
signed in his absence)



POSSIBLE PROLONGATION OF THE SHIPBUILDING REDUNDANCY PAYMENTS SCHEME

1 In addition to financing British Shipbuilders (BS) through the Intervention Fund and PDC, the Government finances the statutory Shipbuilding Redundancy Payments Schemes (SRPS). (There is an identical statutory scheme for Harland and Wolff.)

2 The legislative powers for the current SRPS for BS and the identical Northern Ireland scheme expire on 1 July 1981. The effective date of expiry is much earlier than this - at the beginning of April 1981 - because advance notice of redundancies has to be given under the Employment Protection Consolidation Act.

3 Any redundancies arising from further major restructuring of BS will not take place until after expiry of the current SRPS. The question thus arises whether the Government should take fresh powers to renew the SRPS for a further period or whether it should provide additional finance to enable BS and H&W to top up the general redundancy payments benefits.

4 Uncertainties about the scope of future restructuring make it difficult to estimate the likely cost of any prolongation of the two SRPSs. Unless complete closure is envisaged there are unlikely to be more than 500 additional redundancies at H&W. The closure of Smith's Dock would lead to 2,300 redundancies at BS. Closure of Vosper Shiprepair and Tyne Shiprepair (assuming BS fail to sell them or make them viable) would add up to a further 3,800 redundancies. Provision also needs to be made for possible redundancies arising from cutbacks in MoD future ordering (at present uncertain) which could be of the order of 4,000; and also for redundancies arising from a general tightening up on overheads throughout BS as intended by the new Chairman. It is thus likely that further redundancies of from 3,000 to 12,000 are in prospect as a result of further restructuring compared with 20,500 likely under the present BS scheme. Given the present uncertainties an

indicative figure of 7,500 further redundancies has therefore been assumed at an average cost of £3,500 per redundancy at 1980 prices.* On the assumption that the majority of the redundancies would fall in the financial year 1982/83 the phasing of the expenditure would be:-


BS and H&W

£m	1981/82	1982/83	1983/84	1984/85
Forecast at constant 1980 prices	6	12.7	6	1.5
1980 Survey prices	5	10.8	5	1.3

5 The main considerations are:-

- (i) an extension of the SRPS would signal that the Government are envisaging a further major contraction of the industry. This would enable opposition to any further closure in the shipbuilding industry to be concentrated well in advance;
- (ii) an extension of the SRPS would tend to make it look a permanent scheme and make eventual termination more difficult;
- (iii) any statutory scheme is inflexible and cannot easily be adapted to deal adequately with the variety of circumstances in the industry. The existing scheme has been expensive in Parliamentary (and official) time by way of amending orders which the Opposition use to debate the shipbuilding industry as a whole;
- (iv) on the other hand if the statutory scheme is ended BS and H&W will come under heavy pressure to make equivalent payments to redundant shipyard workers. Failure to make such payments, the cost of which would have to be met by the Government, would compromise the success of any further restructuring plan. Considerable sums of money are at stake.

* The average cost of £3,500 at 1980 prices is based on the current average of £3,300 plus a contingency margin to allow for increasing in line with inflation certain benefits which have been fixed in cash terms since mid-1978 should that prove necessary at some future stage. A case will need to be made for increasing these benefits at the time.

- 
- (iv) An additional 7,500 redundancies would cost £26m at
(cont'd) 1980 prices. So long as control of the scheme remains
in Departmental hands, union pressure to have the scheme
benefits increased is resisted more easily;
- (v) the present scheme has encouraged a substantial reduction
in the size of BS by voluntary redundancy; compulsory
redundancies may now be necessary;
- (vi) the Chairman of BS has pressed strongly for the scheme to
be continued on the grounds that it will be helpful to
him in working towards viability.

6 If the prolongation of the SRPS is agreed, powers will
need to be taken during the forthcoming session and it is proposed
to include a short uncontroversial clause in the Industry (no 2)
Bill.

7 A two year prolongation is recommended as this is the
minimum period required to cover likely redundancies arising from
further closures. A further decision on the future of the SRPS
will then be required in mid-1982. A two year extension with no
certainty of renewal will place pressure on BS to complete any
further restructuring within that period.

COST OF THE PRESENT SCHEME FOR BS

8 There have so far been 16,500 redundancies under the BS
scheme at a total cost of £40m (the benefits are in the form of
a lump sum and for the over 40s a weekly payment for up to two
years). The present PES provision for the SRPS for BS is not
adequate because redundancies in the current financial year have
been greater than expected but it has not been possible until now
to estimate the outturn for the current year because of uncertain-
ties about BS's response to the pressure on their external
financial limit. BS now envisage up to some 1,000 redundancies
in the short term additional to those already planned and these
will probably fall within the scope of the present scheme.

9 If all existing BS redundancy plans are implemented there will be a further 4,000 redundancies under the present scheme. If all these take place within the current financial year the costs will be as follows:-

<u>Estimate (£m)</u>	1980/81	1981/82	1982/83	1983/84
Outturn prices	31	11	3	0
PES 80 prices	26	8.4	2	0
<u>Existing PES bid</u>				
PES 80 prices	13	6	1	0

However any slippage in the redundancy programme into the first quarter of 1981/82 would result in an increase in the outturns for 1981/82 and later years at the expense of the current year. A slippage of 2,000 would result in a decrease of £4m in 1980/81, in increase of £3m in 1981/82 and £1m in 1982/83 and 1983/4 taken together. It is too early to assess the likelihood and scale of any slippage.

10 On the above basis the excess expenditure above the estimates provision for 1980/81 would be about £13m. On present forecasts this excess would be covered by offsetting savings elsewhere on Programme 4.

TOTAL COSTS

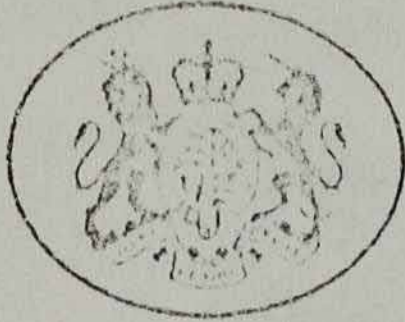
11 The following table combines the costs of the present schemes and of their possible prolongation:-

British Shipbuilders and Harland and Wolff

PES 1980 prices	1980/81	81/82	82/83	83/84	84/85
Present scheme (BS)	26	8.4	2	0	--
" " (H&W)	1.7	1.6	0.2	0.2	--
Prolongation (BS and H&W)	-	5	10.8	5	1.3
TOTAL	27.7	15.0	13.0	5.2	1.3

26 SEP 1980

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DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

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Secretary of State for Industry

16 September 1980

The Rt Hon W John Biffen MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Parliament Street
 SW1P 3AG

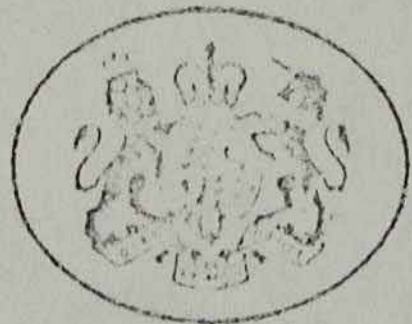
Dear Chief Secretary,

BRITISH SHIPBUILDERS' FINANCES

Thank you for your letter of 15 September 1980.

2. Although you now have my paper, you might find it useful to have some immediate comments.
3. You asked about the market and British Shipbuilders' capacity. In 1979 sufficient merchant ship orders could not be bought even with Intervention Fund assistance. The situation has now changed and this year and in 1981/82 the constraint on BS taking orders is the volume and rate of Intervention Fund assistance rather than the physical availability of orders. Adam Butler has discussed these constraints fully with the Chairman. The Chairman accepts the need for closure at Smiths Dock and that Scott Lithgow and Cammell Laird should not be eligible for Intervention Fund assistance. I see no reason to challenge BS's view that with these changes there will be sufficient merchant shipbuilding orders for the remaining yards in merchant shipbuilding.
4. It should be borne in mind too that BS have, prior to their new strategy, cut their capacity by more than 10% in excess of what they told the Unions a year ago, and the withdrawal of further yards from merchant shipbuilding is an additional cutback after taking account of their projected build-up of merchant ship orders at Swan Hunter.
5. I, therefore, disagree with your statement that BS have not produced a realistic plan. On their estimates their plan will enable them to reduce their trading loss before restructuring expenses next year to £25m after Intervention Fund assistance which was an option agreed with you in the summer. Of course there are risks attached to their strategy, but equally BS are not taking credit for any recovery in prices in real terms, of merchant ships as the market pulls out of recession. Their forecast of merchant shipbuilding

/demand....



demand has proved reasonably accurate so far and they are postulating further recovery towards the end of next year.

6. In looking at the risk, I suggest we should also take into account that in Mr Atkinson we have a Chairman of different vintage from his predecessor. He has already taken action to reduce administration cost by £3million a year. He is introducing organisational changes to increase financial accountability, and he will be tackling the CSEU soon to introduce compulsory redundancy to hasten the remainder of BS's restructuring programme.
7. He has, however, stressed the imperative need for an ending of the present uncertainty in the industry which has been brought about by our statement to Parliament on BS's cash crisis, and I agree very much with this. I hope that we can reach a decision tomorrow at E Committee on future strategy towards the shipbuilding industry without setting in train further lengthy studies.
8. I am copying this letter to the Prime Minister, Members of E, the Secretary of State for Defence and to Sir Robert Armstrong and Mr Ibbs.

*Yours sincerely,
Peter Soredder*

KEITH JOSEPH

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

17 SEP 1980





SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 4QJ

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17/5

Rt Hon James Prior MP
 Secretary of State for Employment
 Caxton House
 Tothill Street
 LONDON
 SW1N 9NA

16 September 1980

Dear Secretary of State,

I recently had a meeting with Mr Paul Bristol, Chairman of KCA International, a UK offshore service company specialising in exploration drilling. Mr Bristol is very keen to order one or more drilling rigs in the UK and is discussing this prospect with British Shipbuilders Cammell Laird yard at Birkenhead.

During our discussions Mr Bristol referred to the proposed development of the Morecambe Bay gas field and wondered what opportunities this could provide for employment in Merseyside. He suggested that a special energy-related training facility might be based around the Cammell Laird yard.

I understand that a group of engineering and construction companies on Merseyside, who are anxious to benefit from a share of the development of the Morecambe Bay field, have already approached the Training Services Agency of the Manpower Services Commission in that area and have been advised that the necessary training can be provided within existing facilities. The Petroleum Industry Training Board look after training for offshore personnel and I am told they do not see a need for specialist facilities on Merseyside at present.

I should not wish to encourage any facilities which could add to the existing heavy engineering fabrication yards at a time when I believe an orderly run-down is necessary.

However, in the wider context of the employment problems of Merseyside there may be some merit in Mr Bristol's suggestion, and you may wish to give consideration to this.

I am sending a copy of this correspondence to the Prime Minister, and to Keith Joseph given this interest in regional development.

Yours sincerely,

[Signature]

PP D A R HOWELL

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

17 SEP 1980



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PRIME MINISTER

British Shipbuilders Finances
(E(80) 103 and 106)

BACKGROUND

In E(80) 103 the Secretary of State for Industry invites the Committee to endorse the general strategy for British Shipbuilders recommended by the new Chairman, Mr. Atkinson. In E(80) 106 the CPRS advise deferring decisions until further work has been done to evaluate the options. The Chief Secretary, Treasury, broadly takes the same line as the CPRS - see his letter of 15th September to the Secretary of State for Industry and paragraph 10 of his general paper on the nationalised industries E(80) 104.

2. The Secretary of State for Industry reports that British Shipbuilders are likely to exceed their external financing limit of £120 million in 1980-81 by £65 million. In 1981-82 they will need additional public expenditure provision of £50 million. In the later years the figures are wholly uncertain, and the Chief Secretary has had to resort to question marks in his summary table.

3. British Shipbuilders' preferred strategy is usefully summarised in paragraph 1(2) of the CPRS paper. There is an immediate question over whether British Shipbuilders should be pressed to close Smith's Dock on Teesside.

4. The Secretary of State recommends that the Shipbuilding Redundancy Payments Act should be extended for a further two years to facilitate progress on redundancies in the industry.

HANDLING

5. After the Secretary of State for Industry has introduced his paper the Chief Secretary and Mr. Ibbs will wish to comment on the general strategy. Mr. Fletcher will wish to comment on the implications of possible further closures in Scotland and of the proposal that Scott Lithgow should give up merchant shipbuilding. Both he and Mr. Lamont will have views on the

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proposal that Camell Laird and Scott Lithgow should diversify into oil rigs, initially at a loss. Lord Strathcona will want to comment on the implications of the proposals for the naval programme. The Secretary of State for Northern Ireland has asked to be present because of the possible implications for Harland and Wolff, although the papers do not touch directly on Harlands.

6. In discussion you will wish to cover the following points:-

- (a) It now seems inevitable that the EFL for the current year will have to be increased and that for 1981-82 will be higher than previously envisaged. Is there a case for deferring decisions on this until further work on the options has been done? The CPRS suggest in their paragraph 3 three possible points which should be considered - in particular Ministers will wish to give guidance on the question of whether British Shipbuilders should be encouraged to abandon their buy British policy.
- (b) Should British Shipbuilders' strategy be accepted now or should they be required to do further work? In his letter of 15th September the Chief Secretary recommends that British Shipbuilders should be required to provide a comprehensive appraisal to give a better view of the prospect of cutting losses and restoring the industry to long term viability. The Committee may well endorse this. The industry has a long record of massive Government intervention leading to demands for yet further subsidies and little convincing prospect for a return to viability. On the other hand further closures will obviously have painful regional and employment effects. The CPRS' proposals for a further review are in paragraph 14 of their paper.
- (c) Should Smith's Dock be closed? Irrespective of any further work on a general review, Ministers could deal with this question now. If it were agreed that would go some way to meeting the Treasury's call for a further reduction in capacity.
- (d) Should British Shipbuilders diversify into oil rigs at an initial loss? In principle diversification is attractive. But the Committee will wish to assess the risks of moving into this highly competitive business which could lead to yet further losses by British Shipbuilders.

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- (e) The system of financial controls. Both the Treasury and the CPRS claim, with good reason, that the present disciplines of EFLs and financial targets are in practice ineffective for British Shipbuilders. The Committee will no doubt wish to press for major improvement here.
- (f) Redundancy Payments. The Committee is likely to agree to the proposal to extend the present arrangements for two years. It is a price well worth paying for restructuring the industry. Any details could be worked out in E(EA).

CONCLUSIONS

- 7. You will wish to record conclusions on:-
 - (a) whether further work is necessary before the 1980-81 EFL can be amended and that for 1981-82 set;
 - (b) whether British Shipbuilders' general strategy can be endorsed or whether there should be a further appraisal as proposed by the Treasury and the CPRS;
 - (c) In particular, whether Smith's Dock should be closed and whether British Shipbuilders should be encouraged to diversify into oil rigs at an initial loss;
 - (d) endorsing the call for more effective financial discipline;
 - (e) endorsing the extension of the redundancy payments arrangements;
 - (f) delegating to E(EA) consideration of detailed proposals and particular cases.



(Robert Armstrong)

16th September 1980



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Keith Joseph Bt MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

15 September 1980

Dear Secretary of State

R. 15/9

BRITISH SHIPBUILDERS

As you know, we are due to consider British Shipbuilders' finances, along with those of other loss-making nationalised industries, at E on 17 September. I am worried about the way things seem to be developing.

I think we all recognise that the major problem which the shipbuilding industry faces in its attempt to achieve long term viability is the elimination of surplus capacity in the merchant and mixed (merchant and naval) yards. Last year we attempted to force BS to take a realistic view of capacity and future prospects by the imposition of strict financial limits. In the event these financial limits failed to impose the restraints we intended. No new steps have been taken to close capacity and we are confronted with large new claims for finance. As you may recall, it was for this reason that I suggested in my letter to Adam Butler of 16 July that the new Chairman should be given an urgent remit to look at the size of the Corporation's future market both for merchant and naval ships. I now understand from my officials that we do not yet have a realistic assessment of market prospects. I recognise that Mr Atkinson only arrived in July and that there are major uncertainties, not only about economic assumptions such as the future relationship of the £ to the yen but even about domestic prospects, e.g. for warship orders. But I do not think that the Government can simply assume that BS will achieve sufficient orders at sufficient prices to keep all of their facilities fully loaded. I am very concerned to hear from my officials that the Chairman's initial assessment has a distinct bias towards optimism in its basic assumptions.

You will no doubt be circulating a paper to colleagues on your own view of BS' position and I will of course study that carefully when it comes. However I find it difficult to envisage how we

could take sensible decisions this week about the level of BS' financing requirements even for 1980-81. It seems to me that, since Mr Atkinson has not submitted realistic plans for the future structure of the industry, including further reductions in surplus capacity, then the Government must insist that he does so before we can contemplate providing further finance. So I conclude that the point to agree at E this week is that we must commission from Mr Atkinson a comprehensive appraisal to give us a better view of the prospect of cutting losses and restoring the industry to long term viability.

You will no doubt set out the options for rationalising surplus facilities in your paper for E. For my part, I should say that the immediate priority is to make a start on the run-down in the course of 1981-82. If the Chairman can close shipbuilding capacity of say 40,000 cgrt, in the merchant yards, that would not prevent us from deciding that further closures were essential in the course of next year. But, if we do not make a decision this autumn on run-downs next year, more orders will be placed in loss making yards and our hopes for restoring the industry to financial health will recede each year. Mr Atkinson has lumped together 165,000 cgrt of loss making capacity. The vital next step is to ask him which part of that capacity he sees as the most marginal. Before he does this we as his bankers can give him no assurances on finance.

In the longer term you will wish to seek a full scale Corporate Plan on the basis of which BS can be set realistic financial and non-financial targets over a period of years. I also understand that BS's operation of the normal procedures for monitoring nationalised industries (e.g. monthly monitoring returns and the annual investment and financing review) leaves much to be desired and we shall need to have an assurance from Mr Atkinson that BS' performance in this respect will substantially improve.

I hope we shall be able to agree on what I have to suggest at E on Wednesday. I have not yet seen your paper but I intend to include a short paragraph about BS on these lines in my own general paper for that meeting.

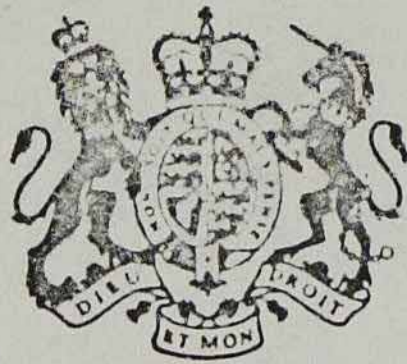
I am copying this letter to the Prime Minister, members of E the Secretary of State for Defence and to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

R. Watts

PP JOHN BIFFEN

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



10 DOWNING STREET

26 August 1980

THE PRIME MINISTER

Dear Sir David,

You wrote to me on 7 May about compensation for the nationalised shipbuilding interests of Vosper Ltd. I sent you a brief reply on 3 June.

You will have seen that Keith Joseph announced on 7 August the Government's decision not to proceed with offering back the shipbuilding yards to the former owners nor to change the compensation provisions. I attach a copy of the statement which outlines the reasons which have led us to this unhappy conclusion.

We are very conscious that this decision will come as a disappointment. We have received many representations from previous owners on the unfairness of the compensation provisions for the assets taken from them under the Nationalisation Act which we ourselves rightly criticised. Ministers have examined with the greatest care every possibility which might offer a solution. It is with the utmost regret that we have been reluctantly forced to conclude that no satisfactory solution exists because we cannot undo the past and any amending legislation would be entirely retrospective which would create fresh unfairness.

You will no doubt be aware that immediately following Keith Joseph's statement, Adam Butler met Sir John Rix and Mr. Richards, the stockholders' representative, and

/ explained

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27/8/80
C.F. to note

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JD

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explained the Government's position. As a result, I understand that negotiations are still open. I sincerely hope that it will still be possible to reach a negotiated settlement which will allow further compensation payments to be made to Vosper Ltd. with the minimum of further delay. In this respect I have noted your concern about Vosper's finances "unless something is done" on compensation, and I appreciate of course that the absence of a settlement inhibits the company's efforts to fill the gap caused by the nationalisation of its major activities.

It remains our intention to introduce private capital into the nationalised shipbuilding industry at the first appropriate opportunity. At present, however, as you will have seen from Adam Butler's earlier statement on BS' finances, the shipbuilding industry continues to experience great difficulties, and there are doubts about its future financial prospects. When the prospects become clearer we will review the position.

Yours sincerely

MT

Sir David Brown



DS
cc D/11

10 DOWNING STREET

THE PRIME MINISTER

8 August 1980

Dear Michael,

Thank you for your letter of 29 July about nationalisation compensation and de-nationalisation of the warshipbuilders.

I can assure you that your views on privatisation and compensation, those of Sir John Rix and the arguments in the paper by John Redwood were given full weight during our consideration of these issues. I recognise, however, that you will be very disappointed at the announcement yesterday by Keith Joseph.

I know that Keith Joseph has seen you to explain the reasons for our decision. He will have told you that although the Government has decided to defer proceeding on privatisation at this stage, our Manifesto commitment remains and we will review the matter again when the present uncertainties facing the industry have become clear.

Our decision not to change the present compensation terms came only after another very long hard look in which we weighed very carefully all the representations which have been made to us by the former owners and our Party colleagues. But we had to conclude, very reluctantly, that the arguments against amending the compensation terms, and the legislation that would be required to amend them, were overriding.

Yours
Michael

Michael Grylls, Esq., M.P.

DS



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

TELEPHONE DIRECT LINE 01-212 3301
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

Nick Sanders Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London
 SW1

7 August 1980

Dear Nick,

Thank you for your letter of 30 July attaching correspondence the Prime Minister has received from Michael Grylls MP, about compensation and de-nationalisation in the Aircraft and Shipbuilding Industries.

... 2. I attach a draft reply for the Prime Minister to send to Mr Grylls. My Secretary of State saw Mr Grylls' at 1.30 pm today to explain to him the Government's decision on compensation and privatisation.

*Yours ever,
 Pete*

PETER STREDDER
 Private Secretary



DRAFT REPLY FROM THE PRIME MINISTER TO MICHAEL GRYLLS MP

Michael Grylls MP
House of Commons
London
SW1A 0AA

date 6/8

GR
for MP

~~CGJG~~

Thank you for your letter of 29 July about nationalisation compensation and de-nationalisation of the warshipbuilders.

2 I can assure you that your views on privatisation and compensation, those of Sir John Rix and the arguments in the paper by John Redwood were given full weight during our consideration of these issues. I recognise, however, that you will be very disappointed at the announcement ~~today~~ yesterday by Keith Joseph.

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/we...



had to conclude, very reluctantly, that the arguments against amending the compensation terms were overriding.

CONFIDENTIAL

Ref. A02828

PRIME MINISTER

Compensation and Privatisation of Shipbuilding

(C(80) 51 and 52)

BACKGROUND

Last week the Cabinet invited the Secretary of State for Industry, in consultation with the Secretary of State for the Environment, to put forward further proposals on compensation to the former owners of shipyards nationalised in 1977, including that of offering the former owners of the warship yards the choice between compensation on existing terms or the return of their yards. In his memorandum (C(80) 51) the Secretary of State for Industry identifies three main options.

2. The yards could be offered back to their former owners at compensation value. The main arguments in favour are set out in paragraph 2 of the memorandum, and those against in paragraph 3. The points which are likely to weigh most with colleagues are:-

- (a) This arrangement would be no help to former shareholders who have sold their shares on the assumption that the compensation terms would stand, or to the former owners of the British Aircraft Corporation.
- (b) It would require long and complex legislation.
- (c) It would not yield the best price for the taxpayer.

3. Legislation for privatisation could be introduced and the yards offered back at market value with former owners having the right of first refusal. The Secretary of State advises against this, in his paragraph 8, mainly because:-

- (a) There would be an immediate cost to the PSBR of about £50 million net (because of the return of progress payments).
- (b) It would be against the advice of the new Chairman of British Shipbuilders; could well lose the co-operation of the workforce; and might lead to added costs through industrial action.

CONFIDENTIAL

4. In the face of the objections to the other possibilities, the Government could defer privatisation and make no change in the present compensation terms. This is the course which the Secretary of State for Industry recommends. In view of all the Parliamentary and public interest in this question he wishes to make a statement before the Recess. A draft is at Annex C (Annexes A and B offer draft statements which could be used if either of the other options were adopted).

5. The Lord Chancellor argues (C(80) 52) that the case for privatisation should be considered separately from the question of the compensation terms. He advises strongly against retrospective legislation to improve the compensation terms, and points out that it would be an injustice to those who have now sold their shares to cut their losses. As he puts it, the omelet cannot now be made to return to the egg shell.

HANDLING

6. After the Secretary of State for Industry and the Lord Chancellor have spoken to their papers, the Secretary of State for the Environment will wish to comment. You might then invite the Chancellor of the Exchequer to advise on the financial implications of the options; the Chancellor of the Duchy of Lancaster to give his views on the prospects of legislation; and the Secretary of State for Defence on any implications for the naval programme.

CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions:-
- (i) on which of the three options the Cabinet endorses;
 - (ii) authorising the Secretary of State for Industry to announce the decision before the Recess.

mt

RA

(Robert Armstrong)

6th August, 1980

New / ed

PRIME MINISTERCOMPENSATION AND PRIVATISATION OF SHIPBUILDING
C(80) 49BACKGROUND

In his paper (C(80) 49) the Secretary of State for Industry deals with the related questions of compensation for the nationalised shipbuilding and aircraft companies and the privatisation of parts of British Shipbuilders (BS).

2. The problems about compensation arise because the 1977 Act relates it to notional stock market value in a six months reference period ending on 28 February 1974. The fourteen companies whose values declined between then and vesting day have settled. But six other companies, whose profits rose substantially in the period, are strongly pressing the Government to change the terms.

3. The Secretary of State for Industry lists five options for dealing with these problems in his paragraph 2, and Annex A to his paper usefully tabulates the problems related to each.

4. Option (i) is to change the terms of the 1977 Act and not to privatise. The Secretary of State advises against this, mainly because -

- i. it would involve new and retrospective legislation;
- ii. it would cost at least £130 million.

5. His options (ii) and (iii) are to offer the warship yards back to their previous owners at either compensation or market values. Both are open to the objections that they would -

- i. have an immediate adverse effect on the PSBR of about £50 million (because BS are currently using progress payments to the warship builders to finance other activities);
- ii. there could be further costs from disruption in BS in protest against the sales;
- iii. immediate - though not later - privatisation would be strongly against the advice of the new Chairman of BS;

iv. it would not deal with the problems of the former owners of the British Aircraft Corporation (Vickers and GEC).

6. His option (iv) is a variant of (ii) and (iii) which provides for the Government to retain a minimum of 25 per cent of the equity of yards sold in order to prevent foreign control. The other objections noted above would remain.

7. Because of these difficulties the Secretary of State for Industry recommends that the terms of compensation should stand and that for the time being private sector capital should not be introduced into shipbuilding. He sees this solution as the least of the evils on offer. His draft statement to the House is at Annex D.

HANDLING

8. After the Secretary of State for Industry has introduced his paper you will wish to invite the Chancellor of the Exchequer to comment on the implications of the options for the PSBR and the Chancellor of the Duchy of Lancaster and the Chief Whip to advise on the implications for the legislative programme and the likely reactions of the House. The Secretary of State for Defence will wish to comment on the implications for the defence programme of any changes in the organisation of the shipbuilding industry.

9. The details are complicated but the Cabinet may feel that the legislative and financial difficulties point to the conclusion recommended by the Secretary of State for Industry. The main questions to consider are -

- i. Is it accepted that the terms of compensation under the 1977 Act should stand?
- ii. Are any of the options for returning the warship yards to previous owners acceptable?
- iii. If not, does the Cabinet accept the recommendations of the Secretary of State for Industry?

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions on the three main questions noted above.

11. If the Cabinet accepts the Secretary of State for Industry's recommendations, you will wish to authorise him to make the statement at Annex D to his paper before the Recess. If amendments to his statement are proposed, he should be invited to prepare a revised text for clearance with Cabinet colleagues before delivery.

RIA

30 July 1980



10 DOWNING STREET

PRIME MINISTER

JL
to see
MS
4/8

This letter from Michael Grylls is directly relevant to the Cabinet discussion of the aircraft and shipbuilding industries. I have sent a copy to Keith Joseph. We will let you have a draft reply.

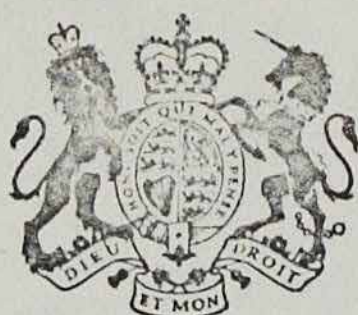


MS

There are some interesting ideas -
e.g. the formation
of British Warship
Builders

30 July 1980

from the 3
warship yards
ms



10 DOWNING STREET

From the Private Secretary

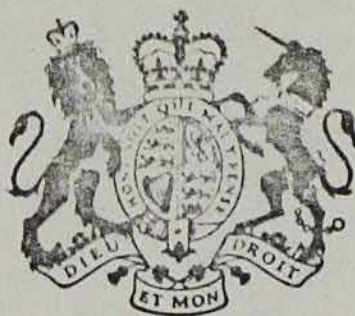
30 July 1980

I attach a copy of some correspondence the Prime Minister has received from Michael Grylls, M.P. about compensation and de-nationalisation in the aircraft and ship-building industries.

I should be grateful if you could let me have a draft reply to send to Mr. Grylls; I hope that it will be possible for you to let us have a draft which can be sent on the day of next week's announcement.

N. J. SANDERS

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



10 DOWNING STREET

From the Private Secretary

30 July 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 29 July. I will place your letter before her and a reply will be sent to you as soon as possible.

N. J. SANDERS

Michael Grylls, Esq., M.P.

From: Michael Grylls, M.P.

ccIG



HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
The Prime Minister,
10 Downing Street,
LONDON SW1

29th July 1980

R30

Dear Prime Minister,

I understand there is a possibility that the Cabinet will consider on Thursday the two issues of compensation (under the Aircraft and Shipbuilding Industries Act 1977) and the related question of the de-nationalisation of the warship builders.

May I say first of all that I do have a personal interest in that I am a Consultant for Bryan Balls & Partners who, in turn, act for the Vosper Group, whose Chairman is Sir John Rix.

You may remember having seen a copy of a document I sent in May 'A Path to Fairness', which gave a number of ways in which the unfairness of the compensation terms could be resolved. Shortly after that I had a further document prepared by John Redwood, which outlines the various methods by which the pledge of de-nationalisation could be honoured. I did not send this on to you at the time as I did not wish to burden you with masses of papers.

However, it seems to me that on both issues there is a possibility that the Government's action will fall short of what it said in opposition. In this respect, I have had several discussions with Keith Joseph, but I am doubtful whether I have convinced him!

With the greatest respect, I think our failure to amend the terms of compensation are doing the Government's image great damage in financial circles and, knowing Yarrows and Vickers, as well as Vospers, I know they are bitterly disappointed at the Government's refusal to put right the injustice of Labour's compensation terms.

As far as de-nationalisation /

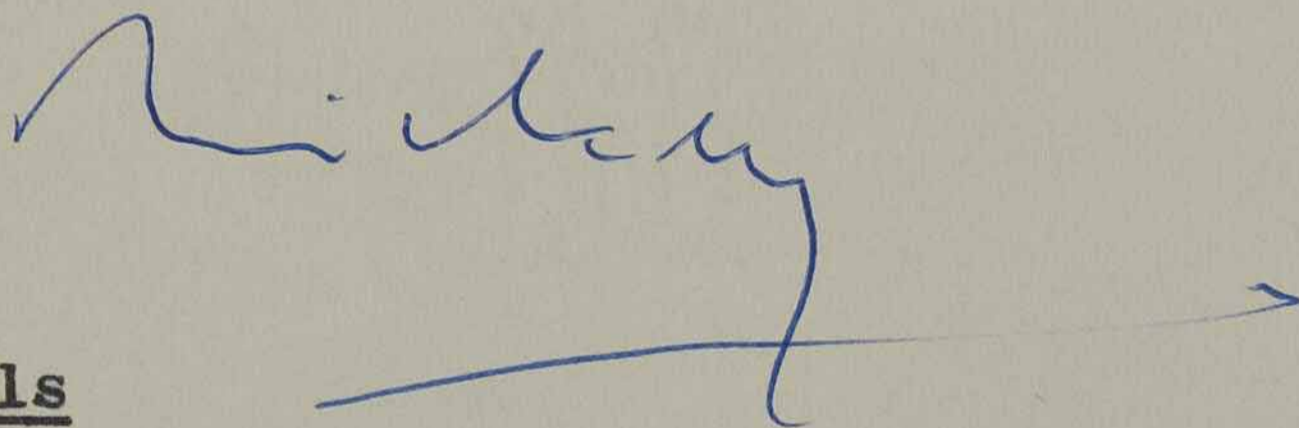
- 2 -

The Rt. Hon. Mrs. Margaret Thatcher, M.P.

As far as de-nationalisation is concerned, I am quite sure you are well aware of the arguments, but I thought you might like to glance briefly at the enclosed Report, as the matter seems to be coming to a head. In particular I would draw your attention to the summary and paragraph three, which sets out the disadvantages of warship building remaining in British Shipbuilders.

Maurice Macmillan is a non-executive Director of Yarrows and both he and I would, of course, be happy to talk with you at any time if you feel it would be helpful.

Yours ever,

A handwritten signature in blue ink, appearing to read "Michael Grylls", with a long horizontal stroke extending to the right.

Michael Grylls

Enc:

THE WARSHIP BUILDERS

HONOURING THE PLEDGE TO DENATIONALISE

John Redwood
April 1980

SUMMARY

- Paragraph I Sets out the timetable of nationalisation and the evolution of Conservative policy in favour of disposal of assets in British Shipbuilders up to the May 1979 election. It highlights the apparent reversal of policy since May 1979.
- Paragraph II Sets out the 4 options of (a) leaving all the companies within British Shipbuilders (b) offering the three warship builders back to their original owners (c) returning the three businesses to the market individually (d) formation of British Warshipbuilders as a united business with sale of shares to public, employees and industrial buyers.
- Paragraph III Sets out the disadvantages of remaining within British Shipbuilders. (a) lack of export growth in naval orders (b) management overstretched (c) businesses starved of cash owing to losses in rest of British Shipbuilders (d) PSBR - adverse effects.
- Paragraph IV Sets out the balance of advantage in returning the businesses to their original owners or selling the three separately.
- Paragraph V Examines the possibility of setting up a new company, British Warshipbuilders and selling shares in it.
- Paragraph VI Employee Participation. Recommends offers of shares to employees in any offer for sale of shares under options 2-4 above. ||
- Paragraph VII The Secretary of State's powers.

SUMMARY (cont'd)

Paragraph VIII Examines the opportunities for a private sector industry in improving the business.

Paragraph IX Concludes in favour of the sale of shares in a new company, British Warshipbuilders.

Appendix I Model for formation of 1948 Companies Act Company (Transport Bill 1980).

Appendix II PSBR effects of nationalised/privatised businesses.

WARSHIP BUILDERS

I

Timetable of Nationalisation and evolution of Conservative Policy

- 31st July 1974 Wedgwood Benn announced his intention to nationalise companies.
- 1st July 1977 Vesting Day for the transfer to British Shipbuilders.
- September 1973 to February 1974 The reference period for compensation purposes. In the case of a quoted company the base is the average share value during the period, for an unquoted company the equated share price.
- 1976 The Right Approach p.33
"The Government must set clear boundaries to the Corporations' spheres of action, without which there will remain the serious risk of unfair competition with the private sector. In some cases it may also be appropriate to sell back to private enterprise assets of activities where willing buyers can be found."
- October 1977 The Right Approach to the Economy p.47
"The long-term aim must be to reduce the preponderance of state ownership and to widen the base of ownership in our community. Ownership by the state is not the same as ownership by the people."
- April 1979 Conservative manifesto states intention to denationalise the warship builders businesses.
"We will offer to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns, giving their employees the opportunity to purchase shares." Manifesto p.15.

July 1979

Conservative government vetoes the idea of returning warship builders companies to their original owners and concludes it is inappropriate at that juncture to introduce private finance into the shipbuilding industry.

August 1979

Naval Shipbuilders announce intentions to pursue their compensation claims more actively in the light of the Government's attitude.

The companies are still in a position of having lost a material portion of their assets but having no idea of the time or amount of the final settlement of compensation money. This has made corporate planning almost impossible and has meant that the businesses have been unable to pursue the policy of rebuilding their interests as they do not know how much cash will be available in order to do this.

In the case of Vickers the company has had to announce the sale of Roneo Vickers, an important office equipment subsidiary, owing to cash pressures on the group. This indicates the urgency of a need for a solution.

II

The options open to the Secretary of State

The Secretary of State for Industry has four principal options open in his approach to warship builders.

(a) The three companies could remain wholly owned subsidiaries of British Shipbuilders as they are at present. The compensation payments would have to be made to the three original owner companies following settlement.

(b) The three companies could be offered back to the original owners following agreement on, and payment of compensation.

(c) The three companies could be offered separately on a commercial basis to the highest bidders.

(d) A new company, say called British Warshipbuilders Ltd, could be formed to hold all of the warship building yards and related assets. Shareholdings in this company could then be sold to the public, employees and industrial shareholders in whatever proportions were deemed appropriate.

III

Option 1

The option to remain with British Shipbuilders seems undesirable for the following reasons;

(a) British Shipbuilders' management is overstretched in its efforts to deal with the varied problems throughout the group.

(b) In particular the sales effort going into warships is now insufficient to maintain the necessary momentum for this fiercely competitive international business. The export performance since nationalisation has been most disappointing.

(c) British Shipbuilders has financially overstretched itself and it is more likely that cash limits and financial targets in the financial year 1980/1981 will not be met. A government policy is not well disposed towards increasing subsidies towards businesses that fail to hit their targets one of the few remaining options is to sell assets. The warship building business represents in conjunction with selected ship repair yards obvious candidates for sale to deal with this problem.

The arguments that will be advanced in favour of maintaining British Shipbuilders control of the warship business are that;

i) They are profit making and contribute to the group and

ii) Sale of part of British Shipbuilders' business will be disruptive.

These arguments have little force when it is remembered that the sale of such assets simplifies management's task rather than complicating it whilst the fact that the subsidiaries are profitable enables them to be sold for a reasonable sum of money.

The recent statements from British Shipbuilders have demonstrated that the tight cash limit regime coupled with the persistent losses of the merchant marine business are penalising the success of the warship business.

"Shortage of cash and the need to increase borrowing has entailed very stringent controls over capital expenditure. No major schemes were authorised during the year (1978-9) although £23m was spent on normal replacements and completion of schemes in progress when nationalised" (Chief Executive's review of operations Annual Report and Accounts).

The Chief Executive has therefore acknowledged that the warship business has not benefited from any major new capital spending scheme since 1977 as a result of its incorporation in the nationalised business. Coupled to this is the disconcerting lack of buoyancy in the order book for naval vessels where the year to March 1979 showed only 41 vessels ordered, the same level as the preceeding three years, and sharply down on 65 orders in the year to March 1975.

Completions have faired even worse with only 14 in 1978 compared with 24 in 1977. This decline in completions and declining orders is taking place against the background of a major rearmament programme for NATO and other non-communist countries.

Naval Completions and Order Books in number of Vessels

Naval Completions

<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u> <u>1st Q</u>
33	14	24	14	3

Naval Order book (total)

65	53	46	43	41
----	----	----	----	----

of which specialist Naval Yards order books

36	29	29	28	29
----	----	----	----	----

Within the general pattern of decline the specialist naval yards have performed relatively well in the naval sector.

(d) Finally, this option entails the heaviest public sector expenditure as there will be no capital receipts from sale of assets, and any increase in capital spending on naval shipbuilding (which is much needed in order to remain competitive) will be an additional burden on the PSBR.

IV

Option 2

To expedite the return of the companies to their original owners. Their record under private sector management was good and there is every reason to believe that the return to their original owners would i) simplify the corporate planning of those companies and ii) strengthen the British industrial position with regard to international competition in world wide markets and could aid improved efficiency in the supply of warships to the Royal Navy.

The financial arrangements would be complicated and require detailed negotiation in the light of i) the amount of money invested by British Shipbuilders in the business following vesting day and ii) the progress or lack of progress made by

the new management in handling these businesses since vesting day. The aim should be to come to an amicable decision quickly to minimise the damage being done to these businesses by continued management from British Shipbuilders headquarters.

The fairest solution would be to take account of the low level of capital investment and the static order volume in such a way that the original undervaluation of the three companies could be reflected in the cash price for resale.

The main objection which will be argued to this case is that the warship builders are worth rather more than the figures suggested in preliminary discussions by the original owners, and that therefore it would be inappropriate for the government to sell them on this basis.

Assuming this objection could be overcome, this solution has the following added advantages: it is the easiest to accomplish, it restores the element of competition, it enables the original world renown names to continue to be effective from a marketing point of view and it would be the least disruptive to good industrial relations.

IV

Option 3

To return the three business to the market individually. This would necessitate the sale by the Department of Industry of each warship builder to the highest bidder. This could be done by allowing a period for bids to be made to the department for these businesses or by seeking an independent city institution to fix a value for independent offers for sale. In such a sales programme it would be up to the original owners to bid for the business like anyone else but they would of course have to make a decision as to the wisdom of such investment in the same way that

they would contemplate any other new project. It would be most unfair on them as they could easily end up paying - if they were interested - a substantial premium over the value of the business calculated for compensation purposes and in certain cases would not be able to afford the business as their cash flow has been adversely affected by the loss of their warship building subsidiaries and the delay in compensation payments.

The disadvantage of this scheme is that it would require 3 separate management and marketing teams representing companies that would not be large in relation to their most important overseas competitors.

V

Option 4

A most interesting option is to form an entirely new business out of all the existing warship building yards. To facilitate discussion we will call it British Warship Builders. This company should be a 1948 Companies Act Company and should have control of all of the assets of the warship building section of British Shipbuilders passed to it on a suitable vesting day as soon as possible. It would not need any share of British Shipbuilders headquarters staff, leaving them free for their mainstream business.

Once such a company has been formed the options are then several;

1. A management contract could be negotiated with one of the three original owners. It is known for example, that Vosper have both the capability and the interest in such an arrangement. To vest management in a reputable group such as Vosper would facilitate pursuing the other options reviewed beneath by enhancing the standing of the company in the eyes of the financial community. It would also negate any British

Shipbuilders claim that denationalisation of a portion of their business would dilute management.

2. Whole or part of the business could be sold to the public leaving the business either completely de-nationalised or arranged on BP lines or with a government majority and a public minority shareholding.

Of these the one that seems less desirable is the one where private shareholdings remain in the minority as it is unlikely to produce as firm a discipline as de-nationalisation can encourage, whilst raising less cash to assist in government financing.

3. In 2-3 years British Warshipbuilders could be fully returned to private industry.

4. Selling shares in this new company could allow employee participation in the business.

5. The shares sold or given to the original owners in compensation should be geared to the success of the venture. This could be achieved by having different rules for their dividend payments such that the dividend on these shares automatically rose or fell by say 125% of the percentage increase or decrease in profits. The attractions of such gearing to encourage management are obvious; employee shares could also be geared in this way.

6. Shares in the new company could be allocated to cancel the necessary compensation payments that had to be made to the original owners.

7. Warship building would then be freed from British Shipbuilders' cash limits and could raise cash like any other private company.

VI

Employee Participation

It is recommended that if any of the options involving share sales to the public are adopted an element of employee shareholding should be encouraged because:

a) it makes re-nationalisation much more difficult particularly without compensation as it increases the number of voters who would suffer from such action.

b) Labour negotiations cannot be harmed by people in the business having a stake in its success and it is quite possible that they will be improved.

c) Government policy favours such participation and should be furthered in the interests of extending ownership generally outside the housing market.

"We will expand and build on existing schemes for encouraging employee share ownership and our tax policies generally will provide incentive to save and build up capital" Manifesto p.14

"We will offer to sell back to private ownership the recently nationalised aerospace and shipbuilding concerns, giving their employees an opportunity to purchase shares" Manifesto p.15

"... recently published draft proposals suggesting tax reliefs to encourage employee share ownership schemes, based on profit sharing or added value sharing. In particular, we see the attraction in giving incentives to deferred share schemes which give a fuller benefit of ownership to employees the longer they hold on to the shares in question"

Right Approach to Economy p.34

VII

The Secretary of State's powers

The Secretary of State has the necessary powers to order British Shipbuilders to divest itself of portions of its business or to instruct it to form a new company or companies out of its existing assets.

The powers are conferred by the Aircraft and Shipbuilding Industries Act 1977 Chapter 3. Under Section 3: 1a) and b) the Secretary of State has to give permission and could therefore withdraw permission to carry on particular types of activities. Clause 3: 3b) required the Secretary of State's approval to dispose of companies whilst section 4: 2 and 3 entitles the Secretary of State to issue general directions and 7: 1f) gives the Secretary of State power to specify items for inclusion in the annual corporate plan.

Thus the Secretary of State can issue a general directive to divest certain companies at the same time granting the necessary permission under clause 3: 3b) and he could withhold his permission to carry on particular activities following the issue of such a directive. The powers should be watertight.

The response to such a directive might be to argue that it would impose financial difficulties on the corporation. It could be argued that a financial duty is to be settled under clause 10: 1 and that under 10: 5 such a financial target must not imply an "inadequate return on capital employed". However it is difficult to see what the force of this clause in the Act is as the financial duties laid down for the corporation since vesting day have been in clear conflict with this particular clause in the legislation as the targets set have implied that the corporation should lose money on its turnover. It is difficult to see how this could on any construction be deemed an adequate return on capital employed.

In conclusion the powers are adequate without involving legislation but the disposal of the warship builders would mean

that clause 10: 5 was ignored to a slightly greater extent than it has been to date. This would not seem to be any cause for concern. It if were thought to be a cause for concern, it would still be up to the Secretary of State to set a target which was not in conflict with clause 10: 5 and the fact that the corporation was unable to meet it would be the Corporation's problem rather than the Secretary of State's. To date no-one has challenged the position under this clause whilst the sale of the warship businesses make no difference to the lack of return on the main assets employed in merchant shipbuilding and little difference to the overall losses on total capital employed.

VIII

The opportunities for a revitalised British Warshipbuilding industry

As soon as agreement is reached on restructuring the new management would;

1. Carry out an extensive world market survey to analyse potential demand.
2. Revitalise the sales force to ensure British Warship builders products were well known and understood world wide.
3. As a matter of urgency allocate more resources to strengthen the design teams to implement the findings in 1. above to ensure British Warship builders had the right products.
4. Tighten financial controls on stocks and working capital.
5. Negotiate improved productivity on the back of a rising order book - which enables maintenance of employment.
6. Reduce overheads, currently high owing to the high costs of British Shipbuilder headquarters operation.

IX

Conclusion

It is recommended that the Government consider options in the following order:-

1. The formation of a 1948 Companies Act company thereby removing all of the financial requirement for warship building from the public sector borrowing requirement and facilitating the sale of equity.

2. Sale of shares to the public to leave only a minority share holding with the government. In such an offer for sale there should be three reserved categories of allocation; i) free shares allocated to the original owners to cancel the compensation debt owing to them. ii) Employee shares which can be both free deferred shares and shares offered at a discount according to the number of individuals wishing to acquire and iii) Discount shares available to the original owners, the level of the discount to be subject to negotiation in relation to the compensation negotiations. These shares could have a gearing element as part of the management contract remuneration.

Appendix I

There are now precedents for drafting a suitable denationalisation bill. The Civil Aviation Bill before the House of Commons illustrates the method for British Aerospace whilst the Transport Bill contains provision for enabling the sale of shares in National Freight Corporation.

National Freight

Immediately before the appointed day, the commencing capital debt and outstanding loans to the Corporation from the Minister shall be extinguished. The successor company shall issue to the Minister or to his nominees fully paid up shares of such nominal value as the Minister, with the consent of the Treasury, may direct. Shares in the successor company can be disposed of with the consent of the Treasury. All dividends, and receipts from sales of shares shall be paid into the Consolidated Fund. Stamp duty shall not be chargeable in respect of any increase in the share capital of the successor company which is certified by the Treasury as having been effected for the purposes of the transaction.

Appendix II

When a company is controlled by the State as is British Shipbuilders all of its capital expenditure becomes part of the Public Sector Borrowing Requirement. In addition the compensation payments have to be financed.

The loss of the annual profits would be more than offset by these savings for several years, whilst the risk of major losses from commercial errors would also be eliminated for the government by sale of the companies. There would be no PSBR effects from capital spending if a 1948 Companies Act Company were formed and a majority shareholding sold unless the government wanted to take up rights issue shares.

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Not lady

CS



Prime Minister

Mr Atkinson's

Caxton House Tothill Street London SW1H 9NA

negative views on privatisation

Telephone Direct Line 01-213.....

6400

Switchboard 01-213 3000

A British shipbuilder

Tim Lankester Esq
10 Downing Street
London SW1

25 July 1980

Dear Tim,

*MS requested
28/5*

BRITISH SHIPBUILDERS

My Secretary of State met Mr Robert Atkinson, Chairman of British Shipbuilders on 23 July. In view of the discussion to be taken at Cabinet next week Mr Prior thought the Prime Minister and the Chancellor should see the enclosed note of the meeting recording, in particular, the strong views expressed by Mr Atkinson on the question of privatisation.

I am sending a copy of this to John Wiggins (Treasury). A copy of the note has already gone to Peter Stredder (Department of Industry) but I am sending him also a copy of this letter.

*Yours
Richard Dykes*

R T B DYKES
Principal Private
Secretary

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NOTE OF A MEETING BETWEEN THE SECRETARY OF STATE AND MR ATKINSON,
CHAIRMAN OF BRITISH SHIPBUILDERS - 23 JULY 1980

Present:	Secretary of State	Mr Atkinson
	Mr West	Mr Clark
	Mr Dykes	

1. Mr Atkinson said he was grateful for the opportunity to outline his current concerns about the shipbuilding industry particularly in respect of employment prospects and about the damaging consequences of any early moves towards privatisation.

2. In the short time since his appointment he had already identified considerable scope for savings on administration and other overheads, but there was no doubt that the cash limit for this year would be exceeded. The market situation was still very tight. He had had a meeting on the previous day with the Secretary of State for Defence who had told him that there was no prospect of bringing forward further naval contracts. While this at least had the merit of clarity, he felt the Government should be in no doubt about the serious employment consequences that would be felt in sensitive areas like Merseyside and the Clyde.

3. Productivity was still a major problem. So far from there being improvements in this area, productivity had in fact declined and he was determined to face up to this squarely with the trade unions. Their acceptance of an 11% pay deal this year was not enough in itself; they had so far failed to deliver the productivity improvements which formed part of the settlement. In addition he thought some further restructuring was now inevitable.

4. On the question of privatisation Mr Atkinson said that in principle he was all in favour of making moves in this direction at the right time. He was already in the process of organising BS into separate divisions which would facilitate either the injection of private capital on the BP model into the yards or the selling off of the general engineering companies which might be practicable very soon.

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5. For the present, however, he was convinced that to take steps to dispose of any of the yards would be disastrous. Almost all the senior management in the industry were against it. Morale was already low and it was increasingly difficult to attract and retain management personnel of the high quality that was needed. It would also lead to resignations from the Board. The 3 trade union members, Mr Chalmers, Mr Robson and Mr Baker were all dedicated, able and reasonable men with a real contribution to make; they would almost certainly resign as would some other full time members including Mr Griffin, the Deputy Chairman.

6. The most important factor against such a move at this stage, however, was the effect this would have on the depleted industry that would remain under BS control. He could see no way in which such a rump of merchant yards could ever be made viable and profitable if they were put under such a handicap now. They were in fact no more inefficient than the naval yards, which were protected by cost-plus contract arrangements. By far the better course was to keep the Corporation as one entity for the time being, concentrate on rationalising capacity and improving competitiveness against the time when better market conditions allowed the injection of private capital to be more effectively achieved.

7. The Secretary of State thanked Mr Atkinson for expressing his thoughts so clearly. The Government had made no decisions as yet on the future structure for the industry, although these were imminent. His views would certainly be taken fully into account.

RD

R T B DYKES

24 July 1980



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25 JUL 1980

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incl p.p.



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

24 July 1980

cc Mr Ingham

Petra Laidlaw
Private Secretary to
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
London SW1A 2AT

1. Mr Spence MS has seen
2. P. Ingham MS

This matt seems
 alright. Content
 subject to someone's
 views?

Dear Petra,

STATEMENT ON BRITISH SHIPBUILDERS FINANCIAL POSITION

12
24/7

I enclose a copy of the statement which Mr Butler intends to make to the House of Commons on either 28 or 30 July. As you know, originally it was hoped to include a statement on the privatisation of BS and the compensation of former owners but since this matter is still to be discussed by Cabinet on 31 July it will be necessary to make a separate statement on the finances before the Accounts of British Shipbuilders are published on 30 July. If the statement is on 28 July the Accounts will be laid before the House by means of an answer to a written Parliamentary Question.

This statement has previously been circulated to Members of E(EA) and the Secretaries of State for Foreign and Commonwealth Affairs, Defence and Northern Ireland.

I am sending a copy of this to Nick Sanders, and the Private Secretaries to Members of E(EA), the Secretaries of State for Foreign and Commonwealth Affairs, Defence and Northern Ireland, the Paymaster General, Murdo Maclean and the Chief Press Secretary at No. 10.

Yours sincerely,

Jonathan Hudson

Jonathan Hudson
Private Secretary



DRAFT STATEMENT ON SHIPBUILDING

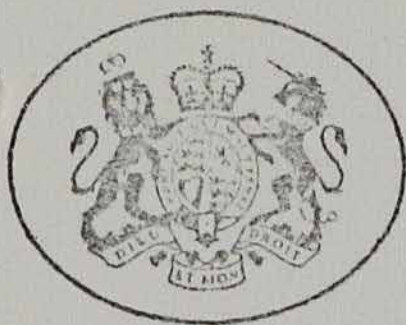
With permission, Mr Speaker, I wish to make a statement on British Shipbuilders.

2 Last July I informed the House of the framework of the Government's support behind British Shipbuilders' efforts to achieve viability within the financial limits set. For the last financial year, BS were within their external financial limit of £250 million; but on their latest estimates will exceed by a small amount the trading loss limit of £100 million, after crediting Intervention Fund assistance. There are, in addition, substantial extraordinary losses relating to restructuring. BS' Report and Accounts are expected very shortly.

3 For the current financial year, BS have an external financial limit of £120 million. In February the Corporation warned me that BS might need to exceed their external financial limit by some £20 million but, in view of the uncertainties, it was agreed that a further review of the Corporation's cash needs should be carried out as soon as the situation had clarified. At the end of May, the Corporation advised me that their forecast cash requirement for the year had risen to £187 million.

4 Some part of the increase in their cash needs is due to causes outside the direct control of the Corporation, such as the steel strike; but, like the private sector, BS have to be able to react to the unexpected. We are not satisfied that sufficient action and economies have yet been taken by BS to reduce the rate of loss in merchant shipbuilding, shiprepair and marine engine building, and generally to curtail expenditure

/ ... and



and increase efficiency, and to raise funds through such measures as disposals. I have asked the new Chairman to examine all possible ways of staying within the limit of £120 million and to report to me on the options for reducing BS' cash requirements for both this year and next. I have also stressed the importance of staying within this year's loss limit. Without corrective action there is a risk that their cash requirements for next year would also remain unacceptably high. The Chairman has already reported to me that he sees scope for savings in administration.

5 We are unable to consider BS' financial requirements until the Chairman has completed this assessment. Should the Government then decide, after consultation with the Commission, to advance additional funds, this would involve a winter Supplementary Estimate, and if needed before then would be provided by a repayable advance from the Contingencies Fund. I shall report to the House again later this year.

6 Mr Speaker, the market for both shipbuilding and shiprepair remains difficult. The number of merchant ship orders placed with BS over recent months has been welcome; nevertheless, as the new Chairman warned on the first day of his appointment, those orders are not sufficient to ensure viability. Nearly every order has been taken at the maximum permissible subsidy level. [Whilst there has been notable co-operation between management and unions in meeting the difficulties of the past year - and I would like to pay tribute to that co-operation -] there is still a very great deal that needs doing, particularly in improving productivity, if the industry is to achieve the levels of competitiveness essential for a secure future.

and delivery on time
NB

24 JUL 1980



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10 DOWNING STREET

From the Private Secretary

23 July 1980

Dear Mr.

As you know, the Prime Minister held a meeting this morning with your Secretary of State, the Secretary of State for the Environment and the Chief Secretary to discuss the question of compensation for aircraft and shipbuilding nationalisation. They had before them your Secretary of State's two minutes of 2 July and also his minute of 21 July reporting on the discussion in E(EA) about the scope for introducing private sector capital into British Shipbuilders.

Sir Keith explained that Ministers were faced with a choice of two evils: he had come to the conclusion that adhering to the existing compensation terms was preferable to changing them.

The Prime Minister said that she recognised that changing the compensation terms would raise great difficulties. On the other hand, she still found the terms that were on offer to some of the companies totally unacceptable; she had in mind, in particular, Vosper and Yarrow. A possible solution would be to offer those companies where settlements had yet to be reached back to their former owners - at nil cost to them except for the repayment of any payments on account. She understood that this would be very difficult in the case of BAC because it would involve the unscrambling of Vickers' and GEC's former shareholdings. But insofar as your Department's offer was not far short of the stockholder representative's claim, it might be possible to defend confining the denationalisation option just to the shipbuilding companies.

Sir Keith said that the Prime Minister's suggestion would itself involve difficulties - including the fact that any move to privatise would increase the likelihood of costly disputes in the industry. But it was worth considering. The Prime Minister said that she would be grateful if Sir Keith would prepare a paper for Cabinet with a view to a decision before the Recess.

I am sending copies of this letter to Alastair Pirie (Chief Secretary's Office), David Edmonds (DOE), Robin Birch (Chancellor of the Duchy of Lancaster's Office) and David Wright (Cabinet Office).

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

*Nat Ind
DSG*

file

Mr. ...

Tin Laker

Nab Ind



10 DOWNING STREET

Prime Minister

You have not
seen the attached note
which suggests that the
existing compensation
terms might be more
palatable if we legislated
to permit privatisation.
But privatisation would involve
a net cost to the PSBR
because of the need to return
advance payments. But so too
would any improvement in the 227.80
compensation terms. IL



PRIME MINISTER

BRITISH SHIPBUILDERS

At the meeting of E(EA) on 17 July (E(EA)(80)15th Meeting) we considered a paper by Adam Butler (E(EA)(80)39) on the question of introducing private sector capital into British Shipbuilders, in accordance with our manifesto commitment.

2 This is an issue which Ministers considered collectively last July. (E(DL)(79) 4th Meeting). We concluded then that privatisation was not practicable partly because of British Shipbuilders' poor prospects, and more specifically because there would be a substantial net cost to the PSBR.

3 When E(EA) considered the issue this time, we were of the firm view that privatisation was desirable in principle. However, we noted that the practical difficulties largely remained:-

(i) On British Shipbuilders' present performance, of their mainstream shipbuilding activities only the specialist warship-builders are really saleable, and for the most part their prospects will suffer from the fall in naval orders.

(ii) There would still be a substantial cost to the PSBR, probably well over £50 million, because sale of the warship-builders would require British Shipbuilders to repay advance deposits for work in progress, and these represent substantially greater sums than the likely proceeds of the sale.

/(iii) ...



(iii) There would be very substantial opposition to the proposals from the unions, which could further increase British Shipbuilders' financial difficulties at a time when there is real doubt over whether they can remain within their EFL for this year.

4 On the other hand we are, as you know, facing difficulties over the terms for compensation for previous nationalisation; and selling some of the subsidiaries to their original owners might help them to accept more willingly our current proposed terms for compensation - although it would not of course help with the difficulties we similarly face on aircraft nationalisation.

5 I therefore suggest that we should consider the two issues of privatisation and compensation together. We have, I think, broadly two options on privatisation:

(i) To announce our intention now to introduce a Bill next Session to permit privatisation, recognising the strong resistance we can expect from the unions and from the Opposition, and the adverse effects on the PSBR.

(ii) To defer a decision on privatisation for at least one year, though recognising that the prospects are unlikely to improve in the immediate future. If we took this line we should make it clear that future legislation had not been ruled out. We should also emphasise the need for Mr Atkinson, the new Chairman, to pursue the maximum degree of privatisation within existing legislation. This would not please all our supporters, but it



would avoid the difficulties referred to above, and it is the course strongly preferred by Mr Atkinson. We would also require a short Bill next Session if we decide to extend the Shipbuilding Redundancy Payments scheme.

6 It would be helpful to reach a decision on this soon, so that we can make a statement before British Shipbuilders publish their annual accounts due on 30 July.

7 I am copying this minute to the members of E and E(EA), the Secretary of State for Northern Ireland, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip and Sir Robert Armstrong.

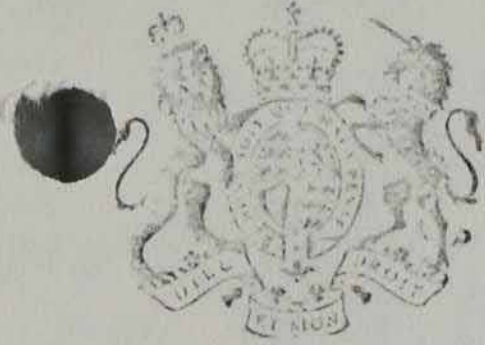
K J
21 July 1980

Department of Industry
Ashdown House
123 Victoria Street



21 JUL 1980





Next hel

CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS

OR 233 7029

CONFIDENTIAL

18 July 1980

Ian Ellison Esq,
Private Secretary to
Secretary of State for Industry,
Ashdown House,
123 Victoria Street,
LONDON SW1

R
21/7

Dear Ian

BRITISH SHIPBUILDERS

At E(EA)'s discussion of British Shipbuilders yesterday it was agreed that the question of privatisation ought to be considered alongside that of compensation. Your Secretary of State said that he would send a minute to the Prime Minister reflecting the Sub Committee's discussion and with a view to possible further discussion by E. I suggested to him after the meeting that, in view of the tight timetable if a statement is to be made by 30 July, it might be better for the matter to be dealt with at the Prime Minister's informal meeting to talk about compensation after E on Wednesday 23 July. I have put this suggestion to Tim Lankester.

The attached draft deliberately glosses over when and in what forum the discussion would take place.

In view of the urgency I am sending a copy of this to Arthur Russell in your Shipbuilding Division so that he can let you have any corrections which may be necessary to the facts.

Yours ever

David Moore

D J L MOORE

Attachment:

cc A C Russell Esq,
Shipbuilding Division,
Department of Industry,
1 Victoria Street. SW1.

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D R A F T M I N U T E

FROM: SECRETARY OF STATE FOR INDUSTRY TO: PRIME MINISTER

BRITISH SHIPBUILDERS

At the meeting of E(EA) on 17 July (E(EA)(80)15th Meeting) we considered a paper by Adam Butler (E(EA)(80)39) on the question of introducing private sector capital into British Shipbuilders, in accordance with our manifesto commitment.

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3. When E(EA) considered the issue this time, we were of the firm view that privatisation was desirable in principle. However we noted that the practical difficulties largely remained:-

(i) On British Shipbuilders' present performance only the warship-builders, of their mainstream shipbuilding activities, are really saleable, and for the most part their prospects will suffer from the fall in naval orders.

(ii) There would still be a substantial cost to the PSBR, probably well over £50 million, because sale of the warship-builders would require British Shipbuilders to repay advance deposits for work in progress, and these represent substantially greater sums than the likely proceeds of the sale.

(iii) There would be very substantial opposition to the proposals from the unions, which could further increase British Shipbuilders' financial difficulties at a time when there is real doubt over whether they can remain within their EFL for this year.

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4. On the other hand we are, as you know, facing difficulties over the terms for compensation for previous nationalisation; and selling some of the subsidiaries to their original owners might help them to accept more willingly our current proposed terms for compensation - although it would not of course help with the difficulties we similarly face on aircraft nationalisation.

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We have, I think, broadly two options on privatisation:-

(i) To announce our intention now to introduce a Bill next Session to permit privatisation, recognising the strong resistance we can expect from the unions and from the Opposition, and the adverse effects on the PSBR.

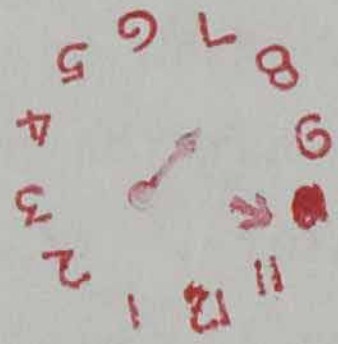
(ii) To defer a decision on privatisation for at least one year, though recognising that the prospects are unlikely to improve in the immediate future. If we took this line we should make it clear that future legislation had not been ruled out. We should also emphasise the need for Mr Atkinson, the new Chairman, to pursue the maximum degree of privatisation within existing legislation. This would not please all our supporters, but it would avoid the difficulties referred to above, and it is the course strongly preferred by Mr Atkinson. We would also require a short Bill next Session extending the Shipbuilding Redundancy Payments scheme.

6. It would be helpful to reach a decision on this soon, so that we can make a statement before British Shipbuilders publish their annual accounts due on 30 July.

7. I am copying this minute to the members of E and E(EA), the Secretary of State for Northern Ireland, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip and Sir Robert Armstrong.

KEITH JOSEPH

18 July 1980



18 JUL 1980

Original - GR



file Nat hds

cc J/E

for how

10 DOWNING STREET

THE PRIME MINISTER

10 July 1980

Dear Sir Eric.

Thank you for your letter of 20 June, about the compensation issues following the formation of British Shipbuilders.

I did have a talk with Sir David Brown last October in which these matters were raised, but I have not seen a Vickers deputation on this subject. I have asked Keith Joseph to look at all these questions, and I think it would be most useful if you could make your representations direct to him. I have passed to him the papers you sent me, and I know that he is expecting to hear from you.

Yours sincerely

Raymond Storer

Sir Eric Yarrow, Bt., M.B.E., D.L.

SB



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Treasury Chambers, Parliament Street, SW1P 3AG

Hon Adam Butler MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

R 9/7
9 July 1980

Dear Minister

THE FINANCES OF BRITISH SHIPBUILDERS *requested*

Thank you for your letter of 7 July.

I do not propose to comment now on the very large increase sought by BS on this year's EFL of £120 million. I share your view that the new Chairman will not be able to give us his views on future options before the end of August.

The point of immediate concern to me is your proposal that Mr Atkinson should be given a written assurance:

'that the EFL will need to be revised in order that the Corporation may continue to trade...'

I think that it would be very difficult to square this statement with Keith Joseph's statement on BSC on 26 June:

'Until Mr MacGregor has made his proposals, and until we are satisfied that the Corporation is taking the necessary measures, we are not prepared to reconsider the level of the external financing limit...'

I recognise that the BS auditors intend to qualify the BS annual report and accounts if the Government are not prepared to promise an increase in the EFL. I agree with you that we should rule out an attempt to delay the report and accounts until the autumn. This would only add suspicion to uncertainty. So this means that we either have to persuade the auditors to remove their qualification - with its undesirable effects on the finances of BS and the very difficult situation it would create for the new Chairman - or conclude that there is no acceptable price we can pay to avoid this qualification.

I do see the greatest difficulty in treating BS and BSC differently, and it would in my view be embarrassing to explain to the House of Commons that we were promising an increase in the BS EFL because their auditors had insisted on it. My conclusion is that any letter to the Chairman cannot go beyond the terms of Keith Joseph's announcement on the BSC.

Apart from the reference to 'revising' the EFL I am very content with the terms of the proposed letter to Mr Atkinson, including the reference to continued trading with the acquiescence of HMG, and the reassurance to creditors. These are in line with the BSC statement.

If you still conclude that the attitude of the auditors obliges you to give assurances on the EFL which have not been given to BSC I am obliged to reserve my position. I suggest that you should prepare a very early paper for E(EA) to consider whether it would be tolerable to treat BS and BSC differently.

In any event it seems to me that the Government will be obliged to make a statement on the financial position of BS before the Summer Recess, whether the report and accounts are qualified by the auditors or not. A paper for E(EA) would enable us to consider collectively what ground should be covered by such a statement.

I am copying this letter to the Prime Minister, members of E(EA) and the Secretaries of State for Defence and Northern Ireland.

Yours sincerely

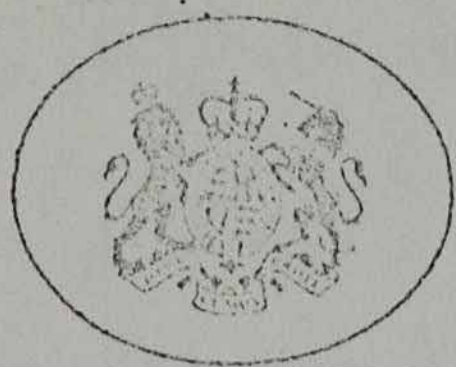
R. Watts

^{PP} JOHN BIFFEN
[Approved by the Chief Secretary
and signed in his absence]

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9 JUL 1980

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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

The Hon Adam Butler MP

The Rt Hon John Biffen MP
Chief Secretary
H M Treasury
Parliament Street
London SW1

R
9/7

7 July 1980

Dear Chief Secretary,

BS's FINANCES

will request if required

When I wrote to you on 11 June I told you that BS were looking for Government financing this year of the order of £185 million but that I would ask Mr Atkinson to report on the options for cutting this back to the EFL of £120 million this year and to near the path provided for in PES provisions for future years.

The prime reasons for the increase and approximate costs are:-

- a) the steel strike - £21 million;
- b) additional overtime required because of the steel strike - £10 million;
- c) naval orders less than expected - £16 million;
- d) adverse cash flow at naval shipbuilders due to lack of exports resulting in lower advance payments - £26 million;

Total - £73 million.

As will be seen, some of the causes are not under BS's direct control. We are, however, very conscious that in a comparable situation a private sector company would not go over its borrowing limit.

I do not expect that Mr Atkinson will be able to present us with the result of his studies on the options until the end of August. In the meantime, BS's auditors have told BS of their intention of qualifying BS's report and accounts originally due for publication on July 23 unless they are informed that the EFL will be raised in order that the Corporation may continue to trade on an on-going basis. It would be

possible/.....

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possible for BS to delay the report and accounts till after the recess but that would, in my view, lead to most damaging speculation. Equally, publication of qualified reports would be injurious to BS particularly as regards their international customers and, indeed, I think it would be unprecedented for the report and accounts of a nationalised industry to be qualified.

... To solve these difficulties, I propose, subject to your approval, to write to the Chairman of BS on the lines of the attached draft. BS's auditors would remove their qualification if such a letter was sent. The letter does not inhibit in any way economy measures or closures which may be thought desirable when we have the Chairman's response to our request for a study of the options. The letter recognises that the EFL will need to be raised, but I think this is, in practice, inevitable. Our task must be to limit the increase to the minimum possible.

I hope, therefore, that you can give your early approval to the letter. BS because of their difficulties with the auditors are having to delay publication of their report and accounts by a week to July 30, and if they are to meet this revised timetable it would be necessary for them to receive the letter on July 14.

We shall clearly have to consider a statement to Parliament about BS's cash crisis before the recess, and I will be in touch with you about this soon.

I am copying this letter to the Prime Minister, other members of E(EA) and the Secretaries of State for Defence and Northern Ireland, together with a copy of my letter to BS expressing my deep concern at their cash forecasts.

Yours sincerely,

Jonathan Hudson

ADAM BUTLER (Approved by Mr Butler
and signed in his absence)

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DRAFT LETTER FOR THE MINISTER TO SEND TO MR ATKINSON

BS's Finances

I wrote to your predecessor, Admiral Griffin, on June 11 to advise him that the forecast cash requirement of £187 million was unacceptable and that he would need to examine all possible ways of staying within the EFL of £120 million. I also asked him to set in hand a study of options for reducing cash needs next year as well.

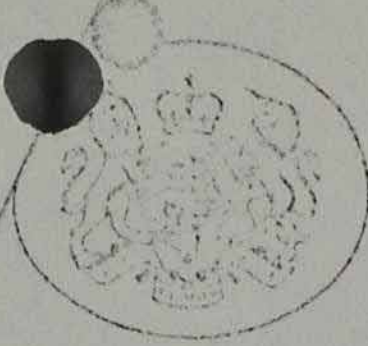
While we agree that certain factors outside the control of the Corporation have contributed to the deteriorating cash position, for example, the steel strike, we are not satisfied that sufficient actions and economies have yet been taken to reduce the rate of loss in merchant shipbuilding, shiprepair and marine engine building:

and generally to curtail expenditure and increase efficiency, and to raise funds through such measures as disposals.

You assured me at my meeting with you on July 3 that you had action in hand to effect economies and otherwise improve the position and that you would report to me by the end of August on the studies which I had asked you to make on the cash needs of the Corporation.

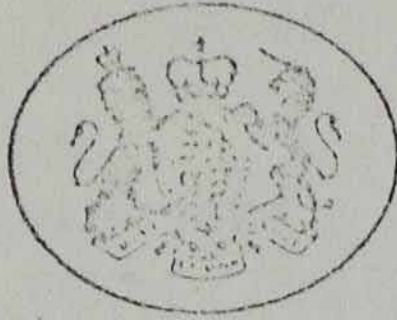
As a result of our discussion, I can tell you that the Government recognises that the EFL will need to be revised in order that the Corporation may continue to trade on an on-going basis but are not prepared at this stage to determine the level of a

C O N F I D E N T I A L



revised cash provision for 1980/81. Our assessment of this must wait for your report and your views after taking stock of the general situation of the Corporation. In the meantime, you have confirmed that you will take urgent corrective action by whatever economies are practicable.

Meanwhile, I confirm that the Corporation is continuing to trade with the acquiescence of HMG who would, in the last resort, have to ensure that creditors of the Corporation had their claims fully met. BS should, therefore, continue to trade normally.



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

Admiral Sir Anthony Griffin GCB
Chairman
British Shipbuilders
243 Knightsbridge
London SW7 1DG

10 June 1980

Dear Sir Anthony,

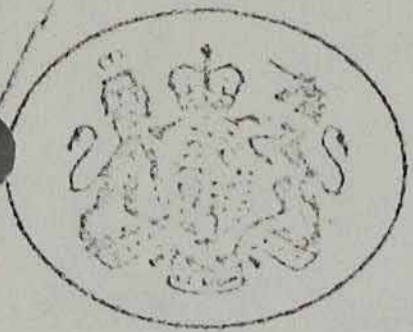
I am very concerned indeed to learn that the Corporation's possible cash requirement this year has risen to £187 million and that the loss limits for both last year and this year are at risk.

I have to tell you that this is unacceptable. The fact is that since the "Corporation cost to Government" exercise last June when the cash requirement for this year was forecast to be £90 million in 1979 prices, there has been a continuing deterioration in the Corporation's cash position. During the discussions in the Autumn on cash requirement the Corporation's bid was for £185 million but BS then reduced the bid by agreeing to a target of £10 million for disposals and the removal from the bid of a £30 million contingency allowance for further closures additional to the Board's strategy. It was made clear that we would consider extra money for any such extraordinary costs on a case by case basis but I had to say that the residual £145 million was too high, and the most I could accept was £120 million.

Despite a continuously deteriorating cash position it is only at this late stage that officials have been told that your Board will be asked in July to consider disposal of companies not essential to your main line activities, and that the target for disposals which is now considered to be realistic is as little as £3 million this year.

The external financing limit (EFL) for 1980/81 stands at £120 million - your Board must look upon this figure as a maximum and consider what action it can take, in the way in which a private sector company would have to do when faced with a comparable situation. You will want to make this absolutely clear to them.

/ ... You will.



You will need to examine the options which will avoid a breaking of the £120 million EFL. I will need to consider these before I can come to any conclusions. You on the other hand will I am sure be seeing to take urgent corrective action now.

The excessively high cash requirement springs mainly from the continuing high rate of loss in merchant shipbuilding, shiprepair, and marine engine building after taking into account profits on naval ships and Intervention Fund assistance, and these are areas where there do seem to be options for avoiding a continuing high requirement for cash.

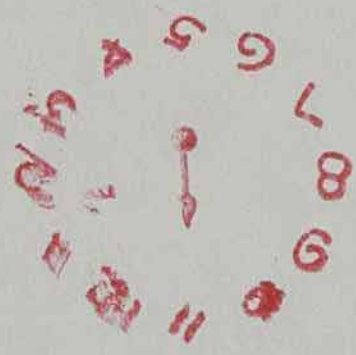
I therefore have to ask the Corporation to examine as quickly as possible:

- a) the feasibility and financial implications of keeping to the EFL this year on the assumption that if this means further restructuring costs I would be prepared to look at the case for regarding them as outside the EFL for management purposes.
- b) on the assumption that unless action is taken now there is no reason to suppose that next year's cash requirement will be appreciably better than BS' present forecast for this year, the feasibility and implications of reducing the cash requirement for next year by £70 million and £100 million respectively on the same assumptions about restructuring costs as in (a) above.

I appreciate that this exercise probably cannot be concluded until after 1 July and I am therefore copying this letter to Robert Atkinson.

Yours sincerely
Adam Butler

ADAM BUTLER



0861 700 6-

NAA mds



10 DOWNING STREET

CAROLINE

BF 14. 7. 80
no extra brief-
pps

Please could you
arrange a meeting for the
Prime Minister with Sir
Keith and, if he wishes
to be involved, the
Chancellor (or the Chief
Secretary).

R.

7 July 1980

1/2 min:

Arranged for 15.30
text is ready at head/c.
any further papers
required. 28.7.77.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

7 July 1980

The Prime Minister has considered your Secretary of State's two minutes of 2 July on the question of compensation for aircraft and shipbuilding nationalisation. She has asked me to say that she is not persuaded by the arguments in these minutes, nor by the conclusion that the Government should stick by the existing compensation terms; and she would like to discuss the matter with Sir Keith as soon as possible. We will be in touch with you to arrange a meeting.

I am sending a copy of this letter to John Wiggins (H.M. Treasury), David Edmonds (Department of the Environment), Robin Birch (Chancellor of the Duchy of Lancaster's Office) Alastair Pirie (Chief Secretary's Office) and David Wright (Cabinet Office).

T. P. LANKESTER

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

CONFIDENTIAL

Handwritten signature

Handwritten mark



PRIME MINISTER

Handwritten initials 'R' and '7/7'

COMPENSATION FOR AIRCRAFT AND SHIPBUILDING NATIONALISATION

I have seen copies of Keith Joseph's two minutes to you of 2 July.

Handwritten blue vertical mark

Why not consider dealing with the problem by offering the companies back? The terms were indefensible.

Handwritten blue arrow pointing right

This is an issue which, I believe, E(EA) should discuss.

I am copying this minute as before.

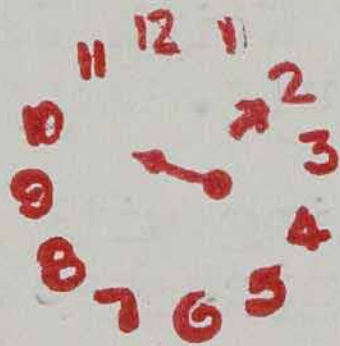
Handwritten initials 'WJA'

MH

7 July 1980

Handwritten note:
→ The same thought had occurred to me
Handwritten initials 'MB'

7 JUL 1980



CONFIDENTIAL

VLB

FILE

Nat. Ind

cc HMT
DOE
CDL
CST
CO

BC
Caroline
Stephens

7 July 1980

The Prime Minister has considered your Secretary of State's two minutes of 2 July on the question of compensation for aircraft and shipbuilding nationalisation. She has asked me to say that she is not persuaded by the arguments in these minutes, nor by the conclusion that the Government should stick by the existing compensation terms; and she would like to discuss the matter with Sir Keith as soon as possible. We will be in touch with you to arrange a meeting.

I am sending a copy of this letter to John Wiggins (H.M. Treasury), David Edmonds (Department of the Environment), Robin Birch (Chancellor of the Duchy of Lancaster's Office) Alastair Pirie (Chief Secretary's Office) and David Wright (Cabinet Office).

T P LANKESTER

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

GB

Prime Minister



*We have arranged
for you to discuss
this issue with
Sir Keith and with
the Chancellor or Chief
Secretary.*

not

PRIME MINISTER

COMPENSATION FOR AIRCRAFT AND SHIPBUILDING NATIONALISATION

I have seen copies of the Secretary of State for Industry's
two minutes to you of 2 July.

*12
7/7*

2. This is to record that I agree with his conclusion that we should not contemplate amending legislation. I assume that this means that in some or all of these cases the matter will have to be decided by arbitration. That is what the Act provides for, and I think it is right to accept this possibility.

3. I am copying this minute to the Secretary of State for the Environment, the Chancellor of the Duchy of Lancaster, and Sir Robert Armstrong.

WJB

JOHN BIFFEN
7 July 1980



RECEIVED
B 11 12 11
6 9 7 8 9
4 3 2 1
- 7 JUL 1980

I have seen copies of the Secretary of State for Massachusetts
two minutes to you at 11:15.

It is to report that I agree with the conclusion that
the above-mentioned provisions of the
that this was not in some or all of those cases the matter
will have to be decided by the courts. That is what the law
provides for, and I think it is right to accept this possibility.

I am copying this minute to the Secretary of State for the
Governor, the Chancellor of the University of Massachusetts, and
the Board of Regents.

JULY 1980
JULY 1980



PRIME MINISTER

*cc Mr Butler
Mr Hoopes*

I cannot agree

*with either the conclusion
in the (Planning) documents*

COMPENSATION FOR AIRCRAFT AND SHIPBUILDING NATIONALISATION

*Prime Minister
Are you content with
No Sir Keith's proposals -
essentially to stand by
the existing compensation
terms? If not, you will
presumably want to discuss
with him.
Yes not*

Play A

1. My accompanying minute sets out the position under the 1977 Act as it stands, and concludes that there should be no change in the legislation. In this minute I am commenting further on the political aspects of the problem.

*12
317*

2. Criticism of the Government's attitude stems from 2 sources:-

- a stockholders with a financial interest;
- b Parliamentary colleagues who have been approached by the former stockholder companies or shareholders in those companies.

3. The former stockholders principally concerned are:-

- a Vosper Ltd
- b Yarrow and Co Ltd
- c Vickers Ltd
- d The General Electric Company (GEC) Ltd) qua British Aircraft Corporation
- e Rea Brothers Ltd qua Hall Russell
- f Dowsett Holdings Ltd qua Brooke Marine

4. So far, overt political activity has been undertaken by Vosper Ltd, where Sir David Brown has a substantial and controlling interest. More discreet initiatives at the political level have been taken



by Sir Eric Yarrow and by Mr Salomon of Rea Brothers. Vickers Ltd and GEC Ltd have largely held their fire, because they hope for a negotiated settlement.

5. All our Parliamentary colleagues have been approached by Sir John Rix of Vosper Ltd, on which the Act arguably bears more harshly than in any other case. They have received reasoned (?) replies from Department of Industry Ministers. It is our impression that, while Parliamentary colleagues are not happy about the compensation provisions in view of our attitude in Opposition, most of them recognise the formidable difficulties detailed ... in my attached minute.

6. This is the hornet's nest we face if we stand fast and refuse to amend. Sir Arnold Weinstock and Mr Salomon may add their formidable voices.

7. If we change our policy and agree to amend the compensation terms we shall be attacked by:-

a the Opposition. They would fight any suggestion that the Act was unjust; would attack any changes as lacking in a defensible rationale and as raiding the Exchequer to help a select few; and would use the opportunity to seek to subvert our privatisation plans; and to justify declarations that they would renationalise without compensation;

b those of our Parliamentary colleagues who would think

/it ...



it wrong in principle to amend the compensation terms enacted by a previous Parliament;

c probably the City, because of the retroactive creation of a false market in securities. Mullens, the Government's brokers, have advised that City reaction to a change in terms would be unfavourable and we understand that at least one major institution (the Prudential) considers that settlements under the Act represent rough justice. We would almost certainly be attacked on behalf of and by;

very rough.

d shareholders in former holding companies who have disposed of their shares in the belief that the existing compensation terms would not be changed. There are very many of these. In the particular case of Vosper, a majority of shares other than those held by Sir David Brown interests appears to have changed hands since the beginning of 1975;

8. I cannot guarantee that this will amount to as damaging a hornet's nest as the first, but it could be even worse.
9. Whatever we do, amend or not amend, there will be a political row. If we amend, this row will be very protracted, because of the legislative process, and we shall be exposed to attack on principle. If we do not amend, there will be bitterness spread by Sir Eric Yarrow and Sir John Rix, perhaps fanned by the two even more powerful voices mentioned; it may remain as a blot on our record among many supporters. But in Parliamentary terms



row will be very much shorter, perhaps one adjournment debate, and we shall be less exposed to attack on principle and also to attack on privatisation.

10. I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for the Environment, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

KJ

2^{K J}
July 1980

Department of Industry
Rm 11.01 Ashdown House
123 Victoria Street



PRIME MINISTER

COMPENSATION FOR BRITISH AIRCRAFT CORPORATION (HOLDINGS) LTD
(BAC) AND FOUR SHIPBUILDING COMPANIES

1. The Aircraft and Shipbuilding Industries Act, 1977, nationalised 25 privately owned companies. Negotiated settlements have been concluded and announced for 14 companies, 3 since we assumed office. Formal settlement and announcement of one very small case is in suspense at the request of the stockholders' representative (SR). Arbitration has been initiated in 2 cases and appears inescapable in respect of 2 financially weak companies in the shipbuilding sector: these 4 companies raise no significant political issue.

2. However, 5 unsettled cases, covering 6 companies, pose a major policy issue for the Government. These are British Aircraft Corporation (Holdings) Ltd (BAC) and 4 relatively small and profitable shipbuilding companies or company groups: Vosper Thornycroft (UK) Ltd with Vosper Shiprepairers Ltd (Vosper); Yarrow (Shipbuilders) Ltd (YSL); Brooke Marine Ltd (BM) and Hall Russell & Co Ltd (HR).

The problem

3. The issue arises because the Act relates compensation to notional stock market value in the 6 months reference period ended 28 February 1974, while the profits of these 5 companies rose substantially in the 3 years thereafter before vesting date in 1977.

/In ...



In their negotiating posture the SRs have been influenced by their view of the vesting date value of their companies, although the BAC claim has been greatly reduced in negotiation. They are reluctant to have recourse to the arbitration tribunal established under the Act, since the tribunal must relate compensation to the reference period and since proceedings could involve a further delay of about 2 years. All SRs are looking for a "generous" interpretation of the Act from this Administration because in Opposition we argued strongly that the compensation terms were unfair. In the case of BAC and 3 of the shipbuilding companies, the SRs have threatened to pursue a claim for "fair compensation" under the European Convention on Human Rights. Vosper Ltd has publicly pressed for statutory amendment to the compensation terms and the other stockholders could well mount a similar campaign.

4. The Department of Industry has legal advice that no weight can be given under the Act to the value at vesting date. It is advised on the reference period valuation by 3 City firms (accountants, stockbrokers and a merchant bank) and, within the limits of such advice, is constrained by the need to be able to defend before the Public Accounts Committee, as a matter of prudent and economical administration, any settlement made.
5. The Act allows for Ministerial discretion in deciding what offers for compensation should be made within the terms of the Act. However, my discretion is limited by the top of the valuation range of the Department's financial advisers. In practice this

/means ...



means that I could increase the Department's final offers in 4 cases, but only by relatively small amounts.

6. For ease of reference the various positions are tabulated in the Annex. The BAC stockholders have so far said that they are not prepared to settle at the maximum figure that could be offered within the exercise of Ministerial discretion (ie £95m). I do not consider that the exercise of my discretion would achieve a settlement in any of the other cases concerned: even if such a possibility emerged, I should need to consider very carefully whether I could justify it as a matter of even-handed administration of the Act.
7. The options before the Government in practice, therefore, are either to change the statutory basis of compensation or not to go beyond the final offers which the Department thinks it can defend under the present Act, that is offers which do not involve the use of Ministerial discretion.

The rationale of the present Act

8. The Act followed well-established precedent in basing compensation on the actual or notional Stock Exchange values of the shares to be nationalised. The choice of the 1 September 1973 - 28 February 1974 reference period was more controversial but had a certain logic. The previous Administration came into office in March 1974 with a manifesto commitment to nationalise the aircraft and shipbuilding industries. They published on 17 March, 1975 a detailed "safeguarding statement" setting out the basis



of nationalisation. Effectively under the Act ownership of the companies being nationalised passed to the Government on 17 March, 1975, with legally enforceable safeguarding provisions applying thereafter. A reference period in the future, for example one related to vesting date, would have been inconsistent with this effective transfer of ownership from March, 1975. If a past reference period had to be designated, their choice of the 6 months ended 28 February 1974 had some merit, not only because this period immediately preceded their entry into office but also because the year thereafter saw a very sharp decline in Stock Exchange prices. (The FTT Actuaries Industrial Group Index fell from a reference period average of 151.45 to a low of 59.01 on 13 December 1974 and by 17 March 1975 had recovered only to 117.09).

9. The Act is complex and can be criticised on many grounds. In the present context, however, the main weakness is that, in view of the great delay in the passing of the Act, the fortunes of companies changed radically (some for the better, most for the worse) between the reference period and vesting date. Naturally it is the stockholders of those companies whose fortunes changed for the better who make their dissatisfaction heard.
10. The rationale of the previous Government in maintaining the safeguarding statement's terms despite the delay in the Act's passage was no doubt partly the need to avoid a change in terms having implications for the Stock Market. Much more fundamentally, however, it was an acceptance of the rough (companies of declining value) with the smooth (companies with rising value) on the basis



that the safeguarding statement date in March, 1975 was the effective date of the "contract" being entered into (albeit on a compulsory basis), the vesting date in 1977 being no more than the "completion date" on which the assets would be handed over to their new owners.

Problems of rationale and principle in changing the Act

*11. We do not
anticipate
proceeding*

11. If we were to amend the Act, we would need to have a defensible rationale. Work within the Department suggests that the only practical course would be to give the stockholders of all companies nationalised the choice of an alternative and later reference period, say the last 6 months of 1976. In practice, only the stockholders of those companies whose notional stock market value had risen rather than fallen since the first reference period (the 5 now in question and possibly 1 or 2 others) would choose the second. The Government would no longer be taking the rough with the smooth but accepting the worst of both worlds at an additional cost to the Exchequer estimated to be at least £130m including accrued interest to date. However unfairly the existing compensation terms bear on the stockholders of the 5 companies, it is not clear that there is a defensible rationale for such acceptance.

12. Apart from the question of rationale, there is a major difficulty of principle. The shares of Vickers Ltd, Yarrow & Co Ltd and Vosper Ltd (former parent companies), whose value would be radically altered by any change in the compensation terms, have, according to advice from our stockbrokers, been traded



substantially during the 5 years since the basis of the compensation terms was announced in March 1975. In opposing the nationalisation Bill we gave no undertaking to amend the compensation terms, nor did we suggest in our 1979 Manifesto that this would be done. The Act had been law for 2 years, and compensation agreed for all companies, before the present Government took office. Our stockbrokers advise that, since we took office, there have been bouts of speculative share purchases (and concomitantly sales by their former owners) in all these companies based on hopes of more generous compensation. However, Ministers of this Administration, who have settled 3 further compensation cases on the basis of the present Act, have said on more than one occasion to interested parties that it would be impractical and unfair to amend the Act and have consistently in widely quoted correspondence pointed to the difficulties in the way of changing the compensation terms. For the Government to change the statutory basis of compensation at this stage would retroactively create a false market in the shares of these 3 former parent companies (and perhaps in the shares of the former parents of 1 or 2 other companies already settled), expose us to the criticism that our action had resulted in the misleading of investors, create a whole new range of problems and fresh unfairness and set a very dangerous precedent by reversing the compensation terms of a previous Parliament. We should be changing the rules of the game after the match had been played.

13. Michael Grylls has suggested that the market place would treat

/a...



a change in compensation terms "in the way it does any other piece of Government policy eg Petroleum Revenue Tax (PRT)'s effects on BP shares that have been sold on the basis of a different tax regime earlier". I do not find this argument persuasive. The BP prospectus drew attention to the existence of PRT, made clear that BP's operations could be affected "by developments", and gave no profit forecast. It is normal for a Government to make tax changes from time to time which may have an effect on Stock Exchange prices. Such changes are of general application or apply without discrimination to a complete sector: while they may have some retroactive effect, they are not specifically retroactive in application. In contrast, a change in the compensation terms enacted by a previous Parliament would in practice be specific to selected companies within a sector and totally retroactive in application.

Practical and political difficulties in changing the Act

14. In addition, statutory change would create considerable practical difficulties. The Government would be in no position to announce precise alternative compensation terms for some months. Any suggestion that alternative terms were to be examined, whether internally within the Government or by way of some kind of outside enquiry, would promote intense speculation in the shares of the 3 companies, with the risk of recrimination if expectations were disappointed. It would be equally unacceptable to allow the situation to drift for some months and neither make final offers for the 5 companies nor say that alternative terms were being examined.



15. Beyond that, any alternative reference period would involve not only controversial legislation but also considerable work for our financial advisers, particularly if more than the 5 companies became involved. Legislation and substantive new negotiation would almost certainly take at least 2 further years, with no certainty of agreed settlements in all cases. Moreover, once the question of an alternative reference period had been reopened, other features of the Act would no doubt come under attack and present us with other difficult issues. For example, the Act makes no provision for the effects of inflation since the reference period: to remedy this on the basis of existing settlements or offers could cost the Exchequer over £250m.
16. There is then the question of our privatisation policy. I believe that most of our Parliamentary colleagues would accept, if reluctantly, a decision that the compensation terms cannot now be amended. However, some might find it very difficult to accept the sale of shares of identifiable companies at a price substantially higher than the compensation offered (or subsequently awarded by the tribunal), most particularly if sold back to the previous owners. This situation is, for a variety of reasons, unlikely to arise with British Aerospace. It would certainly arise if, say, Vosper were sold separately in due course. Against this, however, there is the problem that a change in the compensation terms, without an apparently defensible rationale, could lead the Opposition to make much stronger statements about "re-nationalisation without compensation" which would damage if not vitiate our privatisation policy. I think that our Parliamentary colleagues would take this point.



European Convention on Human Rights

17. Our legal advisers consider that the adequacy of compensation is a question on which a ruling can be obtained under the European Convention on Human Rights. However, they think it unlikely that the European Court would regard the principle of making nationalisation financially effective from 17 March 1975 (the safeguarding date) though vesting the assets in 1977, as a breach of the Convention. The complaint about the compensation terms involves a contrast between valuations in 1977 and share values in the reference period 1973/1974. The contrast is not the same when the safeguarding date is taken and not the vesting date. In any event the compensation terms were enacted by a democratically elected Parliament and this is a point which should weigh with the Commission and the Court if an application were made under the Convention. But the mere threat of action against the Government under the Convention is not in any case an acceptable reason for a change in the compensation terms in the face of the arguments against such a change. In the unlikely event of a case being sustained, the position would have to be looked at: but that is a bridge that cannot be crossed now.

Conclusion

18. I therefore conclude that the arguments against amending the compensation terms of the Act are overriding and that, in all circumstances, we can well defend both publicly and to our Parliamentary colleagues a decision to make no change in the compensation legislation enacted by a previous Parliament and to decline to arrange for any



form of inquiry into the legislation.

19. Subject to your views, I therefore propose that:-

a we make clear that there will be no amendment to the statutory compensation terms;

b final offers should be made to the SRs at the highest levels which the Department thinks it can defend before the Public Accounts Committee (ie those set out in column 5 of the Annex) subject to any new points arising which permit the Department to go further, with the approval of the Chief Secretary, as a matter of prudent and economical administration;

c the possible use of Ministerial discretion should be considered on an ad hoc basis only if developments clearly indicate that the small increases in offers (as shown in column 6 of the Annex) would produce a settlement.

20. I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for the Environment, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

14
K J

2 July 1980

Department of Industry
Ashdown House
123 Victoria Street



(1)	(2)	(3)	(4)	(5)	(6)	(7)
Company	DOI's estimate of vesting date value	SR's claim	DOI's existing offer	DOI's final offer	Possible offer by Ministerial discretion	Former Stockholders
	£m	£m	£m	£m	£m	
BAC	200 + 	115	90	90	95	Vickers and GEC equally
Vosper	16 to 21 	35.4	4.5	4.8* 	4.8	Vosper Ltd (David Brown Holdings Ltd has 40% holding and voting control)
YSL	10	12	4.6	5*	6	Yarrow & Co Ltd (Vosper Ltd has 23% holding)
BM	3	4.5	1.25	1.45*	1.5	Dowsett Holdings Ltd
HR	1.5	3.5	1	1.25*	1.7	Four investment trusts managed by Rea Bros Ltd

*Note: Treasury approval being sought in the light of new advice and information.

2 - JUL 1980
B G B H H 1
22 23 24



File



10 DOWNING STREET

From the Private Secretary

28 May 1980

As you know, the Prime Minister visited Austin & Pickersgill in Sunderland last Friday.

You may be interested to know of the following points which Mr. Kimber, the Chairman of the company, made in discussion with the Prime Minister:

I The combination of higher inflation and the appreciation of sterling had produced a 40% worsening of price competitiveness compared with Japanese shipyards over the past two years. In addition, the yard had suffered a 7% loss as a result of the abolition of shipbuilders relief and the 5% reduction in intervention fund assistance. As a consequence, whereas A & P had previously been profitable, over the last two years the company had been operating at a loss. Mr. Kimber added that A & P would need an exchange rate of around two dollars in order to sell at a profit. In response, the Prime Minister said that the Government had no means of getting the exchange rate down without jeopardising its monetary objectives - to which Mr. Kimber responded that, in that case, the Government ought to provide additional subsidies to the shipbuilding industry.

II The Government ought to be more generous in the provision of credit facilities, including facilities under the home credit scheme. He suggested, for example, that there should be a "repayment holiday" for two years to provide ship owners with a breathing space until the ship market improved. He argued that HMG was much more punctilious in sticking to the OECD rules on credit than were other governments. The Prime Minister pointed out that, even if there might be a case for offering more flexible terms, the Government would still have the problem of finding the necessary finance.

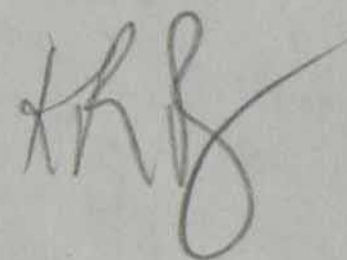
III Mr. Kimber said that the company were short of steel because BSC had been very slow to resume supplies after

/ the

the steel strike. He attributed the shortage partly to the unwillingness of British Shipbuilders to allow companies in the group to seek alternative supplies from abroad.

TPL ?

Peter Stredder, Esq.,
Department of Industry.

A handwritten signature in dark ink, appearing to be 'KRB' or similar, located in the bottom right corner of the page.

VLB



10 DOWNING STREET

THE PRIME MINISTER

13 May 1980

Dear Tim,

Thank you for your letter of 6 May. I am sorry that we did not have an opportunity to talk for longer at the Churchill ceremony. I value your forthright views on the matters on which you have such great experience. I hope that we will have a chance of further discussion before too long. I shall be looking for an opportunity to go over some of this ground with you and Keith Joseph together, although it may be a few weeks before my overcrowded diary offers a suitable slot.

Yours sincerely

Raymond Stobart

Sir William Lithgow

Handwritten mark

FILE

VLB

B/F 22.5.80

12 May 1980

Chase pls.
✓ 28/5

I have sent you several letters on the compensation issue in respect of Vospers. The Prime Minister has also had approaches about other outstanding compensation issues arising from the formation of British Shipbuilders. It would be helpful if we could have a note on the current position of compensation for assets taken over to form British Shipbuilders. Please could this reach me by Thursday, 22 May.

M A PATTISON

Peter Stredder, Esq.,
Department of Industry.

23

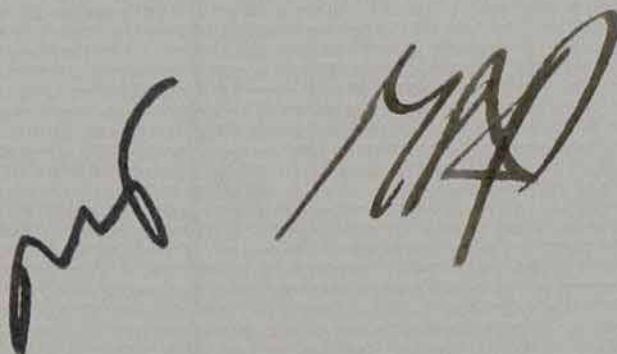
PRIME MINISTER

There is no immediate opportunity to have Sir William Lithgow and Sir Keith Joseph in together. They will both be included on the first suitable future guest list.

In the meantime, I have asked Sir Keith Joseph's office to let us have a note on the issue of compensation for assets absorbed into British Shipbuilders, without identifying Sir William's part in this. (We have had other representations over Vosper.)

Would you like to send an interim acknowledgement to Sir William as in the attached draft?

12 May 1980

Two handwritten signatures in black ink. The first signature is a cursive 'M' followed by a flourish. The second signature is a cursive 'M' followed by a flourish.

1.

PRIME MINISTER

Following the Churchill ceremony, Sir William Lithgow has written to you again: he argues here that industry is seriously harmed by unnecessary bureaucracy.

Last time he wrote, he asked for an interview and we offered him one with Adam Butler. There is little that you can say in reply to his generalised charges. Would you like Sir Keith Joseph's comments on the compensation issue raised at X, for inclusion in a further personal letter from you? Would you like to put Sir William on a lunch/reception guest list in the future?

MA

7 May 1980

The earliest
position lunch, for
that K.S. is also
there on.

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

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

PA14 5JH

6th May, 1980.

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
No. 10 Downing Street,
London SW1.

R7

Dear Prime Minister,

It was a great pleasure to have a brief chat at the Churchill ceremony. You asked what our continuing family business was doing that competitors were not. We are rapidly developing new technologies and markets, some unique, creating new jobs and skills. Our remaining shipyard is unusual in making profits from merchant shipbuilding, despite the unbelievable frustrations of fishery policy. I have enclosed a note.

Relations with some Ministers are frosty. As foreigners have noted, British Governments lack understanding of how industry works. Permanent officials' recruitment and training, more so than politicians' is the reason. In a recent example, the new Government inherited a hiatus in fishing vessel construction policy; it has taken a year to get Ministerial decisions; an efficient capital goods sector which we need for the future has been unreasonably disrupted. We deal with our sponsoring Ministry, D. of I., M.A.F.F., S.O.; Treasury confirm that cuts are not the cause of delays. Industry finds interdepartmental policy hang ups exasperating. If M.A.F.F.'s narrow short term interests are at variance with our sponsoring Ministry's, that should be resolved without our agency.

+ / The D. of I. apparently lacks the will to offer a reasonable settlement for the assets nationalised three years ago on the basis of values of six years ago (since when money has depreciated 60%.) This concerns not public expenditure, but private venture capital, in our case, formed by Clydeside industry. The Department does not work within the timetables for arbitration laid down by the Act. Contemporaries, especially in Socialist countries, are amazed at British indifference to natural justice and the importance of releasing wealth creating potential.

I have no connection with Scott Lithgow now. Shipbuilding has turned out very much as predicted when last I reported to you in person. I saw Adam Butler as requested. Action may have been taken in time to prevent a U.C.S. replay on a national scale by giving back some authority to local management and curbing the excesses of centralists. It is never too late to rebuild, hopefully on advanced technology base.

Income Tax changes have been helpful to industrial companies, the abolition of exchange control and bureacracy, stimulating. Undamped, often/

The Rt. Hon. Margaret Thatcher, M.P.

6th May, 1980.

often artificial forces in the market mechanism, particularly with Sterling, have damaged prospects. There is still too much bumbledom - for every bureaucrat hour mounted against industry, we have to find another hour to respond. Further elimination of unnecessary functions and, so, staff, especially in Local Government, will work wonders. I am concerned at Government shortcircuiting effective Quangos, viz. the W.F.A., in preference for a civil service department clearly anxious to perpetuate its importance, despite lack of specialised knowledge. One hopes the Permanent Secretaries will stand up, count and be counted, for given the necessity, one soon finds who one can do without.

Many of my contemporaries in industry and commerce are still too apologetic about the importance of efficient wealth creation, but the message is getting through to ordinary people. We wish you well, not least in the pursuit of justice within the E.E.C. With the Community budget burdened with agricultural surplusses, why are Europeans almost alone in not turning to energy and feedstock crops? We seem unable to see the trees for the wood.

With all good wishes,

Yours sincerely
Bill Hargreaves

6th May, 1980.

NOTE:

Lithgows Holdings. The Group is essentially one of small specialised companies with substantial management autonomy operating within an overall framework which provides backup as required. It has a market and technical logic based on innovation. Principally engineering and marine, it also embraces primary production and a small hotel and leisure division. It includes:

1. Campbeltown Shipyard (100% owned) - Britain's only specialised builder in steel inshore fishing vessels and market leader (generally 80ft. class costing c. £750,000).
 - (a) Currently profitable at 8% of turnover.
 - (b) World leader in seiner/pocket trawler/long line design - Canadian Government and Australian builder licensed, vessels exported to Faroes, Eire etc.

2. Perenco (Engineers - 100%).
Perth, (non union, attracting refugees from harassment elsewhere).
 - (a) Makes specialized components for electronics industry, otherwise brought from England or abroad.
 - (b) Has developed unique hydraulic actuator for robotic applications, particularly sub-sea.

3. Prosper (S.D.A. interest presently being acquired will result in Group status with management minority shareholders - previously rescued from involuntary takeover by French).
 - (a) European leaders in thread rolling with design and manufacture of dies, tools and finished product under one roof.
 - (b) Sole European manufacturers of brake adjusting screws for suppliers to the motor truck industry.
 - (c) Rapid manufacturing methods eliminate the need for oil and chemical industry to hold stocks of studbolts, (local finishing and distribution being established overseas - viz. Lithgows Pty. of Western Australia already successfully competing with East European and Japanese suppliers).
 - (d) Specialized products being supplied to European and U.K. manufacturers of heat exchangers, screwjacks etc.
 - (e) Machine developed to recognize correct orientation of components and fit them, viz. assembling nuts on studs the right way round.

Prosper, operating primarily from a former chicken hatchery in Ayrshire, was founded by an American large corporation executive, supported by a Cambridge mathematician and a Scottish production engineer.

 4. Sullom Voe Engineering, (40%) - part of the Shetland based partnership with the private Wood Group of Aberdeen, has secured the contract to service the requirements of the twenty four oil companies at Sullom Voe in the face of international competition.

 5. Underpressure Engineering, Mansfield (50%) - taken from receivership to a flourishing business supplies the water and gas industry with/

6th May, 1980.

with specialized fittings, uniquely one which allows a new branch to be teed into a live main without the interruption of supply - export markets now being broken into.

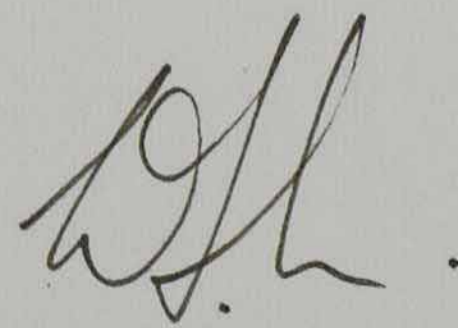
6. Western Ferries - although, in the face of unfair competition from the heavily subsidised S.T.G., forced to retrench the service which carried variously, the total, and then two-thirds of the traffic to Islay, now carries two-thirds of the traffic on the lower Clyde crossing, making money against very heavy S.T.G. losses. Successfully pioneered passenger services with Norwegian highspeed allweather craft.
7. New Project - Consortium - now about to become operational in salvaging copper, gutta percha, and steel from redundant sub-sea telephone cables by unique techniques.
8. Inver Salmon, (100%) - building a complete integrated salmon farm onshore in Argyll, using hydro energy of fresh water supply to juvenile unit to circulate seawater to fattening unit. The bulk of the scheduled output of 100,000 large fish per annum will be exported. Proven technology is being combined on a single site. Nothing directly comparable exists elsewhere in the World.

Consolidated outputs for 1979 were £10M.; which in real terms has more than doubled in two years. Numbers employed have not quite doubled to around a thousand. Most growth has been generated internally. Protracted delays in the settlement of debts by Government under the A. & S.I. Act which discriminates heavily against private business, are preventing further development and diverting top executive effort.

Amounts paid to Lithgows to date:

1. Loan to Scott Lithgow - overdue interest paid after raising Court action, (£800,000 principal outstanding).
2. Equity - Scott Lithgow Drydocks - £225,000 (50% of £450,000), (stockholders' representative's valuation, £8.5M.).
3. Scott Lithgow Limited - 40% of £300,000 = £120,000.

Total Compensation Stock received to date, £345,000 (nothing since May, 1979).



CF to note
Original
in L/R



C. DRS
DI
DT
MAFF

10 DOWNING STREET

Nationalised
Industries

THE PRIME MINISTER

27 March 1980

Dear Mr. Kampman,

Thank you for your letter of 27 February about the Natural Environment Research Council's order for the conversion of one of its ships being placed with a Belgian shipyard.

As regards Government subsidies, the Belgian authorities have confirmed, in response to an enquiry by the Department of Industry, that no production subsidies are given to the Belgian shipbuilding industry, whether generally or for this particular contract. I understand that credit is not involved.

The Government policy is to advance public sector orders, where practicable, as a means of assisting our shipbuilders, and the Departments concerned, in consultation with the Department of Industry, already ensure that our yards are given every opportunity to secure these orders. But obviously it is necessary to take into account the cost to public funds, and other relevant factors, when considering the placing of public sector orders. Success in obtaining shipbuilding orders will depend increasingly on the industry's ability to

/ improve

UMP

improve productivity and to offer prices and deliveries which match those of its foreign competitors. The Government is also ready to help by using the Intervention Fund where this is appropriate and can be justified. It cannot however be used for conversions.

In this case, the N.E.R.C. invited tenders from 11 British yards and five yards in other E.E.C. countries. Thus they gave the British shipbuilding industry every chance to compete for the job. Only four British yards tendered. The Belgian tender, which was comparable with the lowest British tender in all material respects, was however substantially below the British one. Given N.E.R.C.'s duty to obtain the best value for the public money they spend, I believe that they were justified in putting British yards into fair competition with selected foreign yards. The event showed, very regrettably, such a big price difference that it was right for N.E.R.C. to accept the Belgian tender.

Yours sincerely
Robert Dilke

The Rt. Hon. Gerald Kaufman, M.P.

Similar letters to John Smith MP

Andrew McMahon MP



cc: D/Indl,
JS
File

Not Incl.

10 DOWNING STREET

THE PRIME MINISTER

19 March 1980

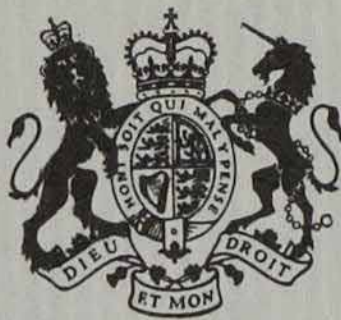
Thank you for your letter of 7 March about the reports in the Press that British Shipbuilders had turned away an enquiry concerning a car carrier by the Colt Car Company.

I found your account of the background most helpful. I accept, of course, that this matter is for the commercial judgement of British Shipbuilders; it is unfortunate that it was reported in the way that it was.

(sgd) Margaret Thatcher

Admiral Sir Anthony Griffin, GCB.

R



3

10 DOWNING STREET

PRIME MINISTER

I attach a draft reply
to the letter from the Chairman
of British Shipbuilders.

MS

18 March 1980



DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

SWITCHBOARD 01-212 7676

Secretary of State for Industry

17 March 1980

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

SK-
Lan PM
written
R

Dear Tim,

Thank you for your letter of 10 March to
Ian Ellison asking for a reply for the
Prime Minister to send to the Chairman
of British Shipbuilders in reply to his
letter of 7 March.

R
1/5/5

I attach a draft reply for the Prime
Minister.

Yours ever,
Pete

OM
R

PETER STREDDER
Private Secretary

19/3



DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO

Admiral Griffin
British Shipbuilders
243 Knightsbridge
London SW7 1DG

Thank you for your letter of 7 March about the reports in the Press that British Shipbuilders had turned away an enquiry concerning a car carrier by the Colt Car Company.

I found your account of the background most helpful. I accept, of course, that this matter is for the commercial judgement of British Shipbuilders; ~~but~~ it is unfortunate that it was reported in the way that it was.

~~B/F 14-3-80~~



MAA (2/17)

10 DOWNING STREET

From the Private Secretary

10 March 1980

The Prime Minister has received the enclosed letter from the Chairman of British Shipbuilders. I would be grateful for a draft reply for her to send by Friday 14 March.

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

VLS

JS

7 March 1980

I am writing to thank you for your letter of 7 March, which I have placed before the Prime Minister.

TPL

Admiral Sir Anthony Griffin, GCB.

TR

British Shipbuilders

243 Knightsbridge, London SW7 1DG. Telephone 01-589 3488. Telex 917060

Admiral Sir Anthony Griffin G.C.B.
Chairman

The Rt. Hon. Margaret Thatcher, MP,
10 Downing Street,
London, S.W.1.

7th March 1980.

Dear Prime Minister,

You will, of course, have seen the reports in yesterday's evening and this morning's Press suggesting that British Shipbuilders have turned away an order for an £8 million car carrier from the Colt Car Company. Since that Company's UK representative has said that he will be contacting you, I thought it might be helpful if you were aware of the following facts:-

- 1) This was not an order, but a very tentative inquiry made by telephone just a few days before the story appeared in the Press.
- 2) The Press reports came initially from the Geneva motor show, where every car maker is seeking publicity.
- 3) B.S. policy has been to concentrate its efforts in those areas of the market best suited to its facilities and where there is a reasonable chance of getting business at an acceptable price.
- 4) Accordingly British Shipbuilders has over 100 designs on offer in its range, but car carriers are not among them.
- 5) The Corporation receives annually about 1,500 enquiries, and last year we responded positively to about 850.
- 6) The car carrier market is very small, accounting for probably less than one per cent of the world fleet.
- 7) The shipping market in this sector is dominated by the Japanese since they are the major exporters of cars.
- 8) Japanese owners traditionally build all their ships in Japan - few, if any, are built abroad.
- 9) Because of the above policy Japan also dominates the car carrier shipbuilding sector (see attached article from Norwegian Shipping News, 15th February 1980).
- 10) Colt Cars are part of the Mitsubishi Group - which also builds ships, including car carriers, and which like every other shipbuilder is urgently seeking new work.

/11) Contd...

Prime Minister

we will get a
draft reply from

himself.

R.
7/3

cc Mr Longman

ml

- 11) B.S. was surprised to receive the inquiry in view of all the above factors, and was reluctant to direct hard-pressed design and estimating staff from the areas where there is a reasonable chance of concluding business.

I hope the foregoing will help put this matter into perspective and if there is any further information you require, do please let me know.

I am copying this letter to Sir Keith Joseph, and in view of Mr Orr's activities, I am releasing the text to the Press.

Yours sincerely

Tommy Griffin .

Encl:

P. O. Box 9070 — Vaterland
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Telex: 17 622 Newso N

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Car carrying Japanese style

The fact that Japanese shipping firms dominate car carrying is not surprising considering Japan is the world's largest exporter of cars. Drove of these fuel efficient automobiles have etched themselves into a comfortable niche of the vast American market, a situation which has led to considerable headscratching in Washington. The Carter Administration's mileage standard directives have forced American car manufacturers to downsize their behemoths, but the miniaturisation process has a long way to go before answering to the new car buying needs of a currently energy conscious public. Rumours are aloft that a delegation of American car manufacturing representatives have hammered out an agreement with Toyota to slice exports from 60 000 to 40 or 50 000 cars a month to the US from April. If this is correct other manufacturers will follow suit. A feasibility study concerning the manufacture of Honda cars in the US has entered a final stage and construction of a plant could begin before the end of 1980. The present plan calls for a automobile plant capable of producing 10 000 cars a month two years after construction. It would cost Honda \$200m.

The consequences of these moves for car carrying will range accordingly with America's ability to adjust drastically, and fast, to the new demands of the market. For the time being, the current pattern of shipping will not change essentially.

Japanese car carriers have 40 some PCC's on order, and all of these are due for delivery this and next year. This obviously means the Japanese are still banking on their powers of export, especially in increasing market areas as South America, Australia, the Mid East and the Persian Gulf. Nobody these days orders a PCC on pure speculation. The big

carriers take 6 000 cars, while the majority on order load between 3 000 and 5 000. The trade is distinguished by the six major carriers' close contact with the gigantic car manufacturers and outsiders are hard put to wedge their way in.

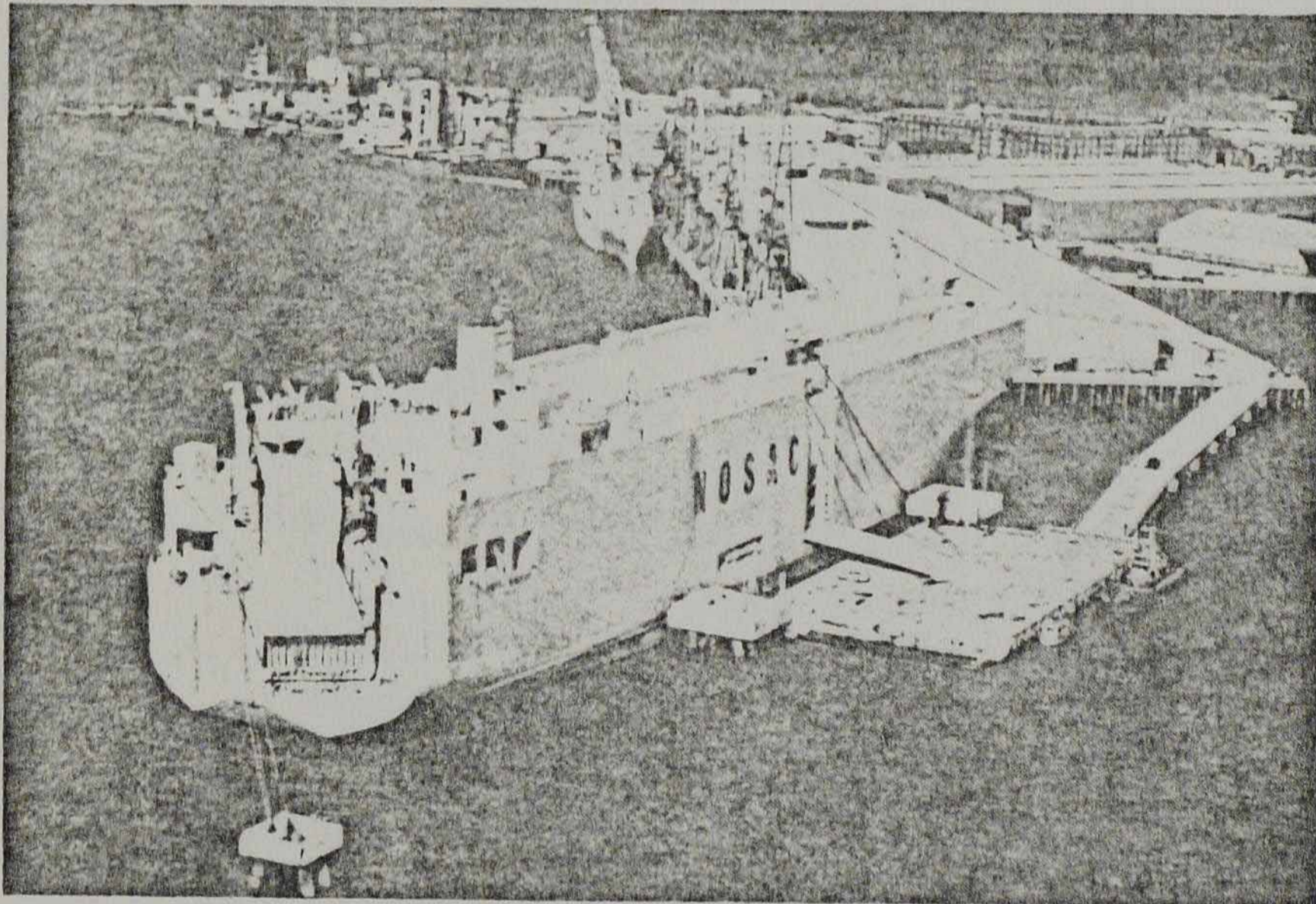
A possible reduction of Japanese exports has created some uncertainty, but the few third flag carriers or Third World countries involved in the trade are not in danger of being shoved to the side on political grounds. Japan does not want to be criticised for monopolising the market. Almost overnight, imports have captured 20 to 25% of the American new car market. The sudden crush for gas misers was met by modern Japanese robot production, something American manufacturers would have to spend billions on to restructure their factories to produce the same results. In spite of the energy shortage, the big car still has its affluent fans. The structure of the excellent American road system invites the use of the use of the luxury car and changing the standards of an automobile dependent society is no easy thing to do. The 1973 energy crisis produced a fashionable liking for small cars for one year until old habits won out again. American manufacturers haven't forgotten this even though Chrysler has gotten itself in deep trouble by changing its ways too late.

Japanese exporters will continue to control car carrying in the near future. Even though new markets open up, the established carriers' ability to think trade in terms of the manufacturer's needs makes them the natural competitors for the job.

It's too late for outsiders to splash into the car carrying business. The pioneer epoch in the trade is over and Japan will dominate the field even more in the near future.

The movement of vehicles is a very one-sided affair, emanating from Japan to the USA and Europe. The combined exports of West Germany, France, Italy and the UK can only just match the flow of vehicles from Japan. Will the Japanese sell as many cars next year is a good question. Or better still, will the Americans and Europeans buy as many cars next year.

The spate of problems which have cropped up within the automobile industry over the past years has been remarkable. In addition to fuel economy steel problems, finance problems, add now problems of legislation. For the first time in many years the US auto industry will be setting the pace for car production in Europe. The demands of the US government to downsize cars for better fuel economy is bound to reflect on the plans of the major European producers. However the benefits will also be felt this side of the Atlantic.



As a step to reduce energy consumption in the US, the Government introduced a programme designed to reduce the average fuel consumption of automobiles in the US to 20 mpg. This means that a producer, for example Chrysler, will be responsible for ensuring that all the vehicles it sells will average 20 mpg. If not then it will cost the producer dearly. If Ford were in 1980 to sell its typical volume of 2.7m units with an average mileage of 19.5 mpg rather than 20 mpg, Ford would have to pay \$67m in fines. Any further deficiency would cost an additional \$5 per unit or \$13.5m for every tenth of a mile shortfall.

Rather than continue the production of the unsellable large gas guzzlers that sold so well only 12 months ago manufacturers are closing down

plants until things improve. Fifteen more factories were shut down in November bringing to 100 000 the number of layoffs in the latter months of '79. Not since the 1973 oil embargo have things looked so black and there is worse to come. The companies have had no choice. Sales in 1979 slumped 10% and fell a further 20%—30% since the new models were introduced in October 1979.

Translated into dollars and cents, the figures are terrifying. Chrysler needs a \$1 300m bail out from the Government and Ford have admitted to a loss of 1 000m in 1979. General Motors have also admitted to losses of around \$100m for the three months up to new car announcement time.

But there are some still making money. Ironically the importers in the US have managed to grab a 23% share of new car sales. Japan alone this year will sell some 1 800 000 units in the US, much to the benefit of Scandina-

vian car carriers. The race is on to produce the same small car success story and the eventual outcome will have serious effects on car carriers plying the American markets. Firstly the volume of Japanese cars will drop. If American small car production can keep up with the demand, then the target of 15% for imports is a realistic one. This will represent a reduction of some 600 000 units coming from Japan to the US. Many argue that it is an impossible target, but a revving up of American manufacturing dynamics and marketing expertise may soon smoothen the gap. Exports from the US to Europe will not likely continue on any large scale. Sending over small car makes to Europe to compete with their own continental subsidiaries is simply not good business in these troubled days.

Six car carrier companies dominate the field

The car carrying trade is dominated by six major carriers divided between the Japanese and Scandinavians. Each of the six have some form of contract with at least one of the major Japanese manufacturers. The Japanese carriers, Mitsui-OSK, Kawasaki, and Nippon Yusen Kaisha dominate the field. Leading Scandinavian carriers are Høegh-Ugland, NOSAC and Wallenius.

From Jan-Erik Dyvi's pioneering move in the sixties, the development of the Pure Car Carriers (PCC) has been fast and expert. The PCC of today is designed and operated to meet the very strict and demanding conditions of the car manufacturer.



The VW at right is about to be driven into one of NOSAC PCC's in service, the «Nopal Mascot». The vessel is of 17 646 grt and was built in 1978 by Mitsui Zosen K. K.

From the end of the production line to the consumer vast sums of capital are involved. But most important, the units must arrive intact. Today the incidence of damage incurred on board PCC's is so small it is almost impossible to arrive at a percentage. In Japan, where companies provide their own drivers, it is not unusual to see cars entering the vessels at speeds in excess of 60 km and broadsiding to cope with the tight corners.

Two of the major carriers are still trying to improve the present PCC system. Høegh and NOSAC are trying to eliminate the need for vehicles to turn corners during the loading process. Despite differing opinions, the various operators are trying and succeeding in

the battle to reduce the time vehicles are on board and any damage that may occur. In today's high interest world these are the carriers who will win the rich contracts from the Japanese.

Although the PCC is the answer to many problems, the sheer nature of the vessels dictates that she will at some time ballast back to a loading port, a problem not shared with the car/bulker. It would seem logical therefore to see an increase in this type of dual purpose vessel, especially as the prospect of Japan becoming an important car importer is very unlikely as the figures show.

1979 automobile exports from Japan by destination (Jan.—Sept.)

Asia	274 525
Middle Near East	274 244
Europe	706 474
North America	1 518 989
USA	1 468 757
Latin America	143 980
Africa	169 663
Oceania	164 829
Others	1 023
Total	3 253 727

Source: JAMA

1979 imports into Japan by countries of origin (Jan.—Aug.)

Passenger cars

France	1 093
West Germany	21 729
Italy	1 912
UK	3 001
Austria	5
Sweden	1 452
Switzerland	7
Canada	52
USA	13 569
Australia	69
Others	24
Total	42 913

Trucks/busses/others

France	—
West Germany	43
Italy	81
UK	56
Austria	10
Sweden	4
Switzerland	1
Canada	—
USA	754
Australia	—
Others	2
Total	951

Source: Ministry of Finance (Japan)

The spreading of production facilities around the world is continuing, and this will further the cause of the combi-carrier. VW for example have established themselves in Mexico and their planned production of 10 000 units a year in Egypt, due to start in two years, will keep the car/bulk vessel actively employed. The lion's share of the major producing land's car production will still be moved on PCC's.

It is possible to carry containers on board PCC's but there seems to be a reluctance to engage in this type of «fill» on ballast trips. Although the three major Scandinavian carriers draw their recruits from the traditional shipping trades, a new type of executive who is more at home in a customer's office or talking the language of the car manufacture, than poised over the telex and talking to his broker, has metamorphosised.

The development of the PCC is a truly trailer-made transport system and some fine alterations are yet to be made. The importance of efficiency and service to the customer will pay off for present operators in the future. The Big Six today could possibly be the only six in years to come.

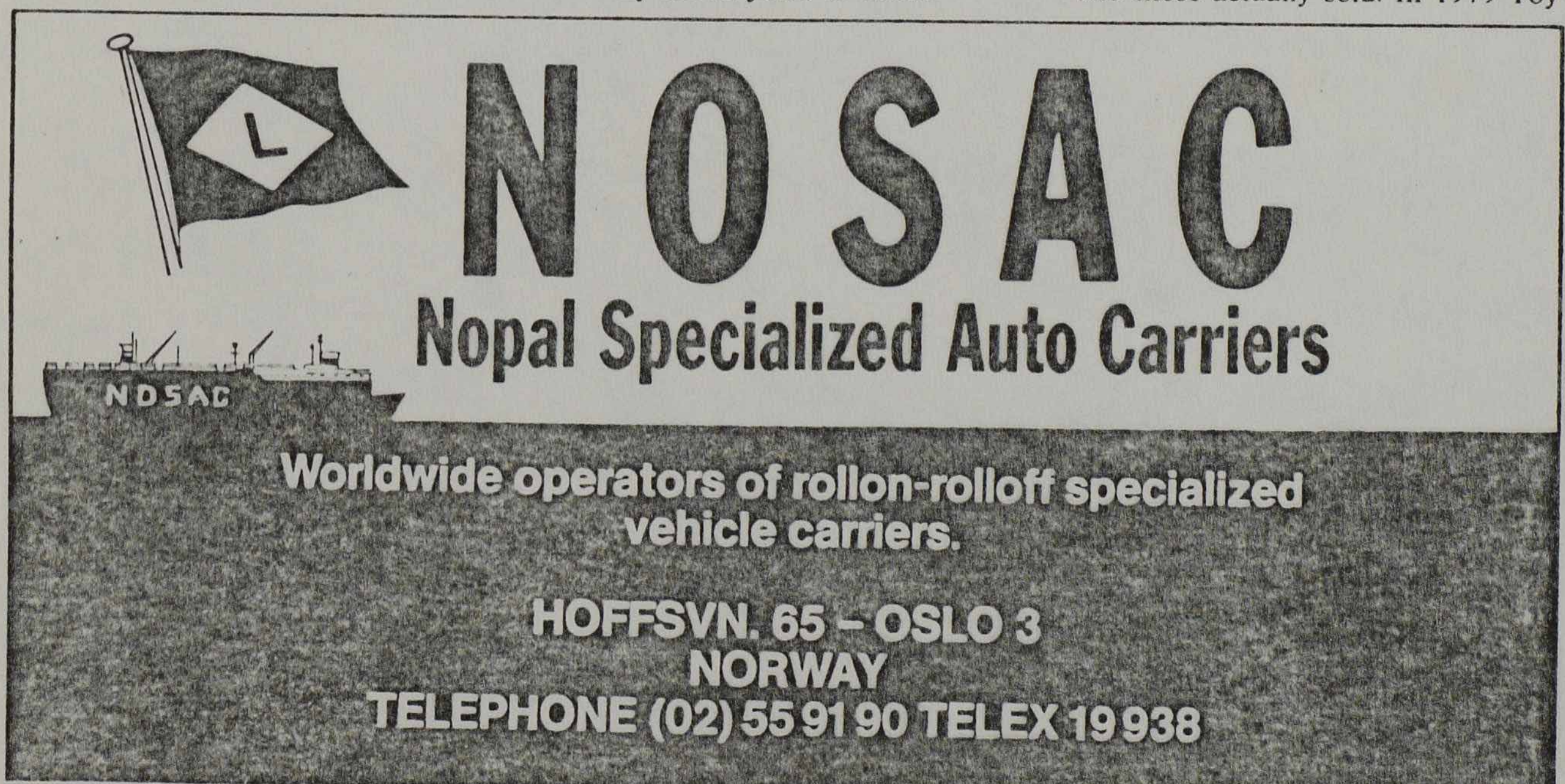
UK car sales symptomatic

Many will consider it unrealistic to use the US sales of motor vehicles as any kind of a guide. However the UK is displaying symptoms that we all share, have shared or are likely to share in the future. It is therefore fair to use the figures. In 1979 sales of cars in the UK went down from 1.64m to 1.53m units. On the surface this is not so devastating however when one looks deeper into the activities of the individual importers a very uncertain pattern develops.

In the first 11 months of 1979 Colt sold 155 fewer units or 1.5%. Datsun went up by 4 013 units or 4.22%. Honda increased by 1 379 units or 7.88%. Mazda sold 4 970 fewer units representing some 18.38% and Toyota went down 3 661 units or 11.73%. The Japanese market cannot be considered as one unit. It must be seen as it is, a source of different shippers each with its own problems, sales targets, and each as susceptible to swings and consumer demand as the other.

From a marketing and investment point of view the number of points a manufacturer can afford to lose pre-determines his next move. The alternatives are local production or assembly, re-structuring to a down market, layoffs or closure.

The problem is further compounded. A fact very seldom admitted is the vast difference between imported units and those actually sold. In 1979 Toy-



N O S A C
Nopal Specialized Auto Carriers

Worldwide operators of rollon-rolloff specialized vehicle carriers.

**HOFFSVN. 65 – OSLO 3
 NORWAY**
TELEPHONE (02) 55 91 90 TELEX 19 938

Increased shipments to the UK over 1978 by approximately 20% yet 1979 sales figures show a drop of nearly 12%. The difference represents an estimated stockholding of 8 600 units. At today's prices and interest rates this could mean an additional cost to the consumer of £425 or Nkr4 675. One does not have to be an economist to realise that consumers are not willing to bear that cost. These figures are for the UK. However, they are very similar for Germany. In 1979 Renault moved up into second place in Germany. She pushed the total accumulated Japanese sales into third place. Admittedly, two Japanese manufacturers showed marginal increases, but were they enough to delay the ultimate decision of local assembly. In Italy the Japanese have very little chance of capturing enough market to justify any form of investment and France appears to have held the invasion off.

The most obvious and logical direction for the Japanese car manufacturers and the Japanese Government is to arrive at agreements for the establishment of assembly plants in Europe. Spain and Portugal are the most logical choices. Admittedly the units will consist of a very large percentage of Japanese manufactured parts, but it will go a long way to reducing the balance of payments between Europe and Japan. The eventual establishment of local auto assembly plants can be accomplished cheaper, quicker and easier than trying to iron out the trade imbalance by establishing a multitude of other factories themselves.

With the development potential of the plastics and electronics industries envisioned for the eighties it will be easier for the Japanese to licence electronic production in Europe and then supply the locally established assembly plants.

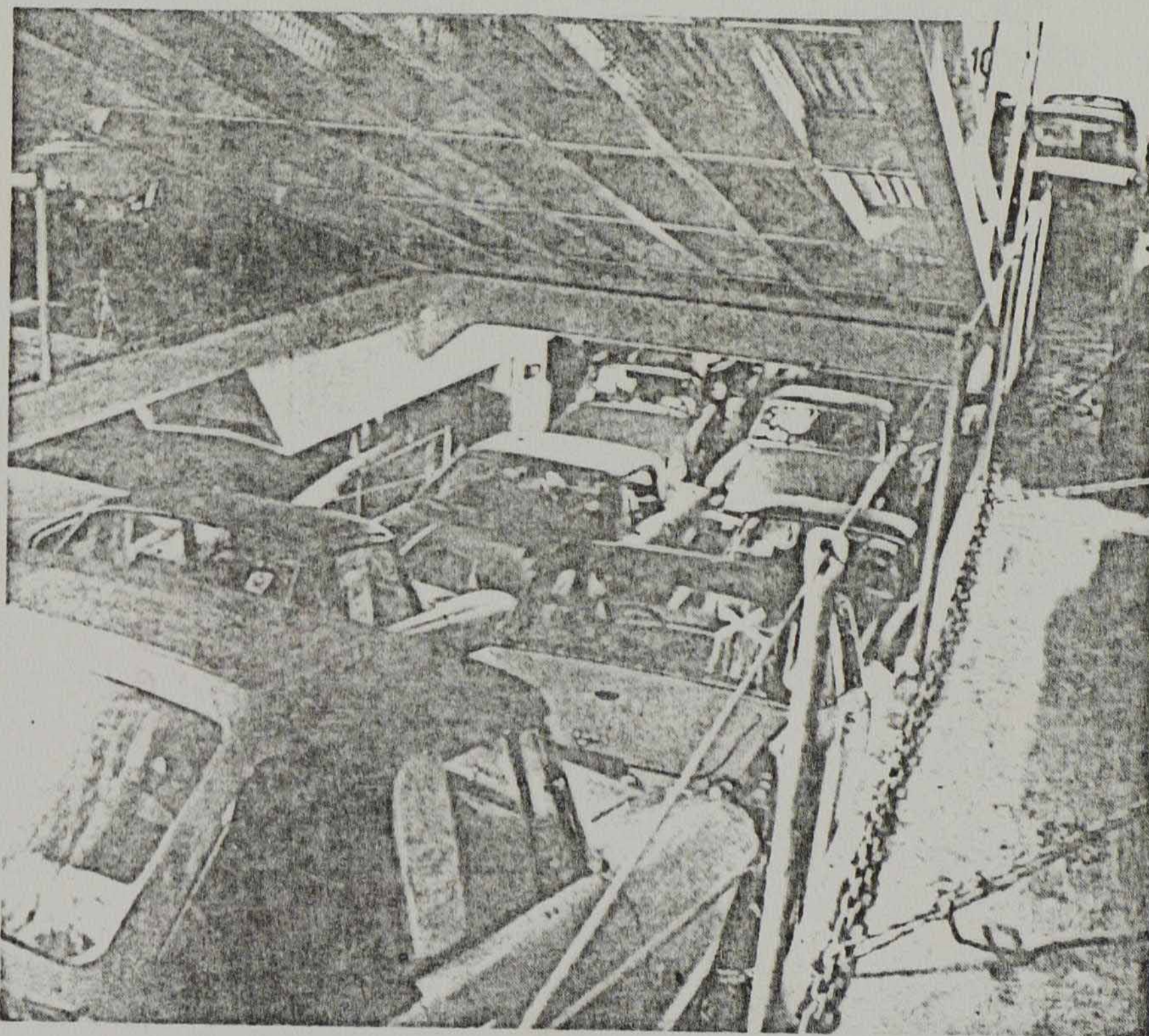
China awakens to car market

One of the most significant developments during the run-in to the 1980's and in car carrying terms, the potential counterweight to the one sided Japan-US and Europe trade, was the first shipment of motor vehicles from a European port to the People's Republic of China. In October 1978 the «Nopal Branco» discharged 96 trucks in the port of Lüta. The trucks which loaded in Gothenburg, came close on the heels of the «Chinese Re-opening» and

illustrates the commercial awareness of NOSAC, the car carrying subsidiary of Øivind Lorentzen A/S Sobral. Since the original shipment NOSAC have been carrying vehicles into China from Hamburg and more recently Hungarian built busses from Yugoslavia.

The inscrutable approach of the Chinese complicates any realistic prognosis of the potential trade with China. However, one undeniable fact is the

cade rolls on. They have stated that they will be building up an automotive industry. Under normal circumstances to achieve the level and expertise of the US and Japanese car manufacturers would take many years. But the Chinese are sitting on vast natural resources and appear willing to some extent to trade these off against industrial expertise. Motor vehicles are an important category.



Storing of cars in Pure Car Carriers is bumper to bumper, but safe. The low incidence of damage is one explanation of the PCC's success. In the above picture we see one of the many driving ramps between one of the numerous decks aboard a PCC. At left the load is secured.

fervent desire of the Chinese to achieve the status of a fully fledged industrial nation half way through the nineties. If the predictions on a more general scale are to be believed, and there is evidence enough today that they are correct, then the Europe to China car carrying route will provide the answers to the many problems of the car carrying trade resulting from the very unbalanced movements from Japan to the West.

The Chinese will not be content to just import cars and trucks as this de-

The Chinese play the game very close to the chest. They are unwilling to give out contracts whereby an operator could in turn go out and charter in vessels. They are aware of a carrier's capacity and will only award contracts within that carrier's capacity.

The expertise and professionalism of today's car carriers could to a large extent be one of the areas of expertise that the Chinese will be content to buy during the time the Chinese build up their own fleet to carry their own trade.



E-7 MAR 1980

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MAT. LMS 2



DEPARTMENT OF INDUSTRY
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LONDON SW1E 6RB

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SWITCHBOARD 01-212 7676

Secretary of State for Industry

10 January 1980

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

Mr. Lankester

den Tim

Mr.

TL

1/1

BRITISH SHIPBUILDERS WAGE NEGOTIATIONS

You may have seen reports in the Press of pay negotiations between British Shipbuilders and the Confederation of Shipbuilding and Engineering Unions. A note about these negotiations is attached for your information.

...

I am copying this letter to Martin Hall (Treasury) and Ian Fair (Employment).

*Yours sincerely
Peter Mason*

PETER MASON
Private Secretary

DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

113 VICTORIA STREET

LONDON, SW1E 5RB

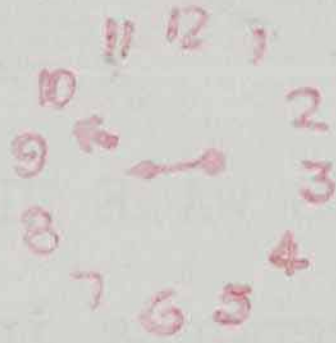
TELEPHONE DIRECT LINE 23 21 500

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January 1980

11 JAN 1980



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IN THE NAME

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BRITISH SHIPBUILDERS WAGE NEGOTIATIONS

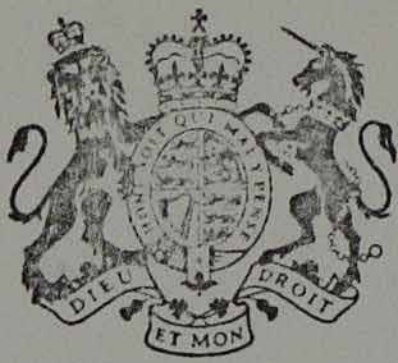
The Confederation of Shipbuilding and Engineering Unions (CSEU) had a first round negotiation with British Shipbuilders (BS) on 9 January.

The CSEU elaborated on their provisional claim, which BS calculated would add over 25% to the cost of their present annual wage bill of £400 million. In addition the CSEU want a shorter working week and are apparently seeking a much larger reduction than the one hour for manual workers recently agreed by the Engineering Employers Federation. The CSEU also expressed the view that the Corporation's cash limit should not be a constraint upon the industry.

BS reiterated their dismay about the claim; they stressed the continuing weakness of the market, and their competitive and financial position, but made no counter offer whatever.

The meeting was adjourned until 12/13 February, when the Corporation will be expected by the CSEU to give their detailed response to the claim. The CSEU know that the Corporation will give close attention to developments in the pay dispute at BSC.

The Corporation will of course inform the Department before tabling their proposals.



10 DOWNING STREET

cc CS, HMT
 DN
 DOT
 MAFF
 DM
 LPO
 DOI
 FCO
 HO
 CO

Wat Ind

From the Private Secretary

28 December 1979

Govan Shipbuilders: Liberty Maritime Order

The Prime Minister has now had an opportunity to consider the Chancellor's minute of 12 December, and also the minute of 20 December from Sir Keith Joseph.

The Prime Minister has noted that Sir Keith does not dissent from the Chancellor's proposals, which she strongly endorses.

I am sending a copy of this letter to Private Secretaries to members of E committee and to Martin Vile (Cabinet Office).

T. P. LANKESTER

A.M.W. Battishill Esq
 HM Treasury

20

A

CONFIDENTIAL



PRIME MINISTER

GOVAN SHIPBUILDERS - LIBERTY MARITIME ORDER

Geoffrey Howe wrote to you on 12 December expressing the disquiet we all felt about this order.

I can certainly give the assurance he rightly seeks that no further orders of this type will be approved by my Department for BS. Further, BS have been firmly reminded that letters of intent are not to be publicised or used in future negotiations with the Unions, ahead of firm approval by my Department of any orders to which they refer.

BS are in no doubt about the "strength of purpose" behind our policy towards the shipbuilding industry, and I believe it is due to that strength of purpose which we have shown throughout, and which they have accepted, that progress towards the contraction of the industry has been achieved as satisfactorily as it has been with the cooperation of the Unions and the local workforces.

I would like to make two further points; one in regard to the Liberty Maritime order, the other on the future. In our policy of necessary contraction, it was recognised and established at an early stage - last summer - that a distinct element in our strategy was that a coincidence of the closure of both Govan yards should not occur, in order to avoid a confrontation.

/Accordingly ...



CONFIDENTIAL

2.

Accordingly, BS went ahead with efforts to find orders for Govan (Fairfield) to avoid closure there, while that at Govan (Scotstoun) took place.

The Liberty Maritime order was put to my Department as early as July - but BS were asked to try and find alternative orders from UK shipowners. As you are aware, no better alternatives could be found.

In regard to the use of the letter of intent for Govan, I understand that local management exceeded their authority from British Shipbuilders, in providing information to the workforce. British Shipbuilders had serious grounds for dissatisfaction with local management, and as my officials have told yours, BS dismissed the Chief Executive of the Govan yard when announcing the order, earlier this month. This action was of course entirely at their initiative.

As for the future of the Govan yards, Scotstoun will close for merchant shipbuilding by the end of March. Fairfield, which has modern facilities and is a yard which BS would retain as part of their 430,000 ton capacity plan, will only get further orders if they can be obtained competitively, and with genuine productivity improvements, within the normal terms for assistance agreed for other yards. If they cannot do so, BS will close the yard; but Fairfield must have a fair chance of winning orders, and they

/have been ...



CONFIDENTIAL

3.

have been told that their chances depend on a greatly improved performance.

As far as British Shipbuilders as a whole is concerned, the level of Intervention Fund assistance has been reduced from 30% to 25%, and BS' loss and cash limits for next year are greatly restricted. BS' financial performance this year to date is in line with their target; whilst there are small but encouraging signs that the market is improving. It must still be doubtful, however, whether BS capacity target of 430,000 cgrt can be achieved on acceptable terms; if not, further contraction and redundancies beyond that already intended will have to take place.

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

KJ

K J
20 December 1979

Department of Industry
Ashdown House
123 Victoria Street
London SW1



Faint, illegible text, likely bleed-through from the reverse side of the page.



21 DEC 1979



Faint text at the bottom right, possibly a signature or reference number.

Prime Minister



The Chancellor's points make a lot of sense. Sir Keith goes along with them essentially.

Treasury Chambers, Parliament Street, SW1P 3AG

(Flag A)

01-233 3000

Agree subject to

his Keith's glasses?

Yes - very much so

R

27/12

PRIME MINISTER

GOVAN SHIPBUILDERS : LIBERTY MARITIME ORDER

Flag A

I have seen Keith Joseph's minute to you of 5th December and your Private Secretary's reply of 7th December. I note that the assurances you sought, notably on George Younger's commitment to meet any additional costs of the Liberty Maritime order from his Scottish programmes, have now been given, and the order has been allowed to proceed. In the circumstances, I accept that there is now no alternative course. Although I have no wish to reopen detailed arguments on this matter, I feel sufficiently uneasy about the decision, to put my views on record in the hope that we can reduce what remains a serious risk of unwelcome repercussions in the future.

2. Neither I nor my Treasury colleagues have made any secret of the fact that we have all along felt that the Liberty Maritime deal involves and could be seen as involving surrender to industrial blackmail; it was clearly based on the unstated premise that an uneconomic price has to be paid to avert the threat of "blocking". In the present case we collectively accepted that other considerations should prevail; but for the future in the shipbuilding field we should in my view proceed on the following assumptions:-

- (i) that no further speculative orders of this type will be approved for Govan or any other yard;
- (ii) that British Shipbuilders are instructed that they should never again dangle the possibility of such deals before the workforce (much of the pressure on this deal has arisen because the Govan workers were



told about it by the local management);

- (iii) it is accepted that all the Govan yards must close except in the highly unlikely event of their getting sufficient orders on strictly commercial terms to justify their being kept open;
- (iv) following on from the importance you have rightly attached to maintaining the work schedule on the orders at Govan, we should seek from BS management urgent advice as to how they intend to ensure that such blackmail is not attempted again. If the Department of Industry cannot obtain adequate assurances from the firm, Keith Joseph will wish to consider what further sanctions or pressures can be brought to bear, e.g. through modification of the cash limit.

If Govan is not closed the Government's plans for BS stand, in my view, a very poor chance of success.

3. Unless we display strength of purpose in dealing with the shipbuilding industry on the lines outlined above, I am in no doubt that our whole stance on wider issues could well be placed in jeopardy.

4. I am copying this minute to other Members of E Committee and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

12 December 1979

12 DEC 1979



CONFIDENTIAL

'E' Committee

CONFIDENTIAL

DSG

HIO

FCO

HMT

(D/Ind)

hd. Pres.

D/Emp.

MAFF

D/Trade

D/Energy

Chief Sec.

+ C.O.

Not ind.

10 December 1979

GOVAN SHIPBUILDERS

The Prime Minister has read your letter of 7 December and also John Wilson's letter of the same date. In the light of the assurances given in these two letters, the Prime Minister agrees that the Liberty Maritime order should now proceed.

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

T. P. LANKESTER

Peter Mason, Esq.,
Department of the Industry.

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DSG



Chancellor is content

R.
12/12

Prime Minister

The two conditions which you set have ^{now} been met. Agree that the order may now go ahead - subject to the Chancellor accepting the wording of this letter on the funding question?

7 December 1979

Agreed met.

R.
7/12

(see letter at Play A also)

CONFIDENTIAL

Tim Lankester Esq
Private Secretary
No 10 Downing Street
LONDON SW1

Dear Tim,

GOVAN SHIPBUILDERS

You wrote to Ian Ellison on 7 December seeking, among other things, further assurances regarding any additional cost which might have to be met.

This is to say that my Secretary of State undertakes to meet any excess cost which might result should Liberty Maritime withdraw from the deal and which cannot be met from British Shipbuilders' cash and loss limits. If, in the event, the amount of any excess proves greater than can be accommodated by his Trade, Industry, Employment and Energy programme alone in any one year, my Secretary of State will, of course, have to look elsewhere in his programmes.

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

Yours sincerely,

John S. Wilson

J S WILSON
Private Secretary

1-7 DEC 1979



cc Mr Duguid

A
of 17 Hall (Hurt)

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DEPARTMENT OF INDUSTRY
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123 VICTORIA STREET
LONDON SW1E 6RB

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SWITCHBOARD 01-212 7676

Secretary of State for Industry

7, December 1979

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

Dear Tim

GOVAN SHIPBUILDERS

Thank you for your letter of 7 December. I am writing to confirm the information which I gave over the telephone last night, namely that, in respect to the E Committee's remit of 28 November, British Shipbuilders have been made aware that Government assistance for the two Liberty Maritime ships is dependent upon progress on the two ships proceeding in accordance with the schedule for the completion of the various stages of construction supplied to this Department. British Shipbuilders accept this condition and are aware that Intervention Fund support in respect of the Liberty Maritime ships would be discontinued if at any time the conditions were not met. The Chief Executive of British Shipbuilders will be seeing representatives of the Govan workforce on Monday and he would propose, in the event of the Government deciding to give Intervention Fund support, to inform them of this condition, which he considers will be helpful to management.

Copies of this letter go to the Private Secretaries to Members of E Committee, to Godfrey Robson (Scottish Office) and to Martin Vile (Cabinet Office).

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

125 VICTORIA STREET

LONDON SW1E 6RB

NO

TELEPHONE DIRECT LINE 01-235 4000

FACSIMILE 01-235 4000



December 1979

Mr. [Name] [Address] [City] [Postcode]

I am writing to you in connection with the information which I gave you in my letter of 28 October 1979. I am sorry that I have not been able to get back to you more quickly. The information which I gave you in my letter of 28 October 1979 was that the Government was considering the possibility of introducing a new system of... [The rest of the letter text is extremely faint and difficult to read.]

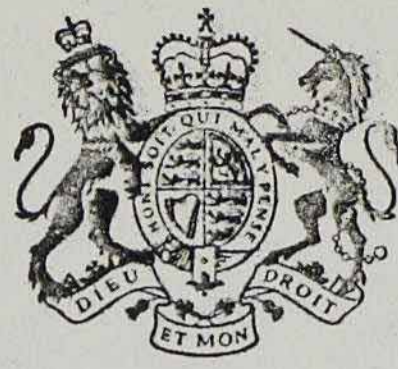
7 DEC 1979



Yours faithfully,
[Signature]

CONFIDENTIAL

Policy Unit B12



10 DOWNING STREET

From the Private Secretary

7 December 1979

Dear Sir,

Govan Shipbuilders

The Prime Minister has read your Secretary of State's minute of 5 December on the above subject.

She has noted that it has been established that Liberty Maritime will commit themselves to contributing approximately £½ million to this Order. On the other hand, it has not been possible to obtain a further financial contribution from Hambros Bank.

As regards the other conditions which the Prime Minister mentioned in her summing up in E Committee on 28 November, Sir Keith's minute says that the Secretary of State for Scotland has confirmed that he would be prepared to consider the possibility of meeting any excess cost resulting from Liberty Maritime withdrawing from the deal, which cannot be met from British Shipbuilders cash and loss limits, from his trade, industry, employment and energy programmes. The Prime Minister is only prepared to allow the order to go ahead if Mr. Younger will accept in writing that there will be this offset on his programmes if there is any additional cost which has to be met.

There is no mention of the other two conditions which the Prime Minister mentioned in her summing up. First, she asked that steps should be taken to ensure that Liberty Maritime complied with the requirements of the Companies Acts. I understand from the Department of Trade that the necessary steps are now being taken. Second, British Shipbuilders were to be told that the Government's contribution to financing the Order was conditional on the work schedule for the ships being maintained. I understand that your Department have now been in touch with British shipbuilders on this point, but the Prime Minister would

/like to have

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CONFIDENTIAL

- 2 -

like to have confirmation of this in writing.

In sum, the Prime Minister is prepared to waive the condition relating to a further contribution from Hambros Bank. But she wishes to have written assurances on the question of additional funding from the Scottish Office (if there has to be any), and on the Government's contribution to financing being conditional on the work schedule being maintained. Provided these two points can be met, she is prepared to agree that the Order should proceed.

I am sending copies of this letter to the Private Secretaries to members of E Committee and to Martin Vile (Cabinet Office) *and to Godfrey Robson, Scottish Office.*

See ev.

The Labour.

Ian Ellison, Esq.,
Department of Industry

CONFIDENTIAL

①
Next Ind

PRIME MINISTER

The DOI have telephoned about the fourth condition set out in Mr. Lankester's minute below.

It has been made clear to British Shipbuilders that financial assistance is dependent on adherence to work schedules and the completion of the Polish ships on time. British Shipbuilders are also aware that the drawing down of assistance on the Liberty Maritime Order will be dependent on Govan meeting the timetable which they (British Shipbuilders) have already drawn up.

Theresa Rowston

Duty Clerk

6 December 1979

PRIME MINISTER

Govan Shipbuilders

Sir Keith Joseph's minute of 5 December asks you to approve the Liberty Maritime Order.

It seems from this minute that he has not been able to satisfy the five conditions which you set out in your summing up of E Committee (Flag A). The five conditions were:

- ✓(i) Liberty Maritime should commit £½ million to the contract.
Sir Keith has met this point.
- (ii) Steps should be taken to ensure that Liberty Maritime comply with the requirements of the Companies Act.
There is no mention of this in the minute, but I understand that Companies House have sent them an order asking them to file their accounts. Whether they will do so, of course, is another matter.
- (iii) There should be a further financial contribution from Hambros.
Hambros have refused.
- (iv) The Government's contribution to financing the order should be conditional on the work schedule for the ships being maintained.

There is no mention of this either; DOI are now trying to negotiate this with British shipbuilders at my instigation.

- There must be something in writing to this effect.*
- (v) Any excess costs falling on the public purse over the proposed £7.9 million subsidy would have to be offset by reductions in the funds available to the SDA.

The Secretary of State for Scotland merely says that he is prepared to consider the possibility of this.

This must be agreed and recorded, that he. See Scotland should sign

On this showing, you would have good reason to reject the proposal. Sir Keith still thinks that a public sector order is totally unacceptable. My own personal view is that unless Sir Keith can come up with further improvements on the package the order should now be rejected. These improvements should consist of the following:

/(i) DOI should

- (i) DOI should insist on the financing being linked to the work schedule for the ships being maintained.
- (ii) Mr. Younger should agree without qualification that SDA funds should be used to offset any increases in extra costs over the £7.9 million subsidy which cannot be met from British shipbuilders cash and loss limits.
- (iii) That Liberty Maritime agree forthwith to comply with the Companies Act.

I do not believe it will be possible to get a contribution from Hambros, but these other three conditions really ought to be attainable.

Do you want to reject the proposal out of hand or do you wish to approve it subject to the three points in the preceding paragraph?

TL

See comments on (i) & (ii). The money must come from SDA. Laurent, Joly & Co. and the other bank are to check. under card.

6 December 1979



PRIME MINISTER

We agreed at E Committee (E(79)) ⁶15th meeting that the Liberty Maritime order could proceed if the conditions outlined in your summing up could be met. I was invited to explore urgently the financial conditions as they affected Liberty Maritime and Hambros.

I can confirm that the full Liberty Maritime contribution of approximately £ $\frac{1}{2}$ million - £240,000 per ship - will be committed to the order. The contract will stipulate that £40,000 per ship will be paid on signature of the contract, and the remainder would be paid in instalments on building progress. Liberty Maritime have a strong interest in maintaining a good reputation. They operate 22 vessels, of which six or seven are beneficially owned by the three principals of Liberty Maritime. The ships business is arranged on the Baltic Exchange and Liberty Maritime's reputation there would be put in jeopardy if they were to default on a contract. Liberty Maritime are not willing to put more at stake on this order.

British Shipbuilders have sought to secure some positive involvement of Hambros through the provision of finance. But Hambros are only slowly recovering from their heavy losses in Norwegian shipping and are not willing to have more than the role of intermediary.

/The ...



The Secretary of State for Scotland has confirmed that he would be prepared to consider the possibility of meeting from his Trade, Industry, Employment and Energy programmes, (TIEE) any excess cost resulting from Liberty Maritime withdrawing from the deal, which cannot be met from BS' cash and loss limits. If the full contingent liability of some £17.6 million were to be required, this could not be met from that part of the TIEE programme allocated to the SDA alone.

I should also confirm that there is no chance of an alternative order from the private sector. You know also that in my view it would be most unwise suddenly to produce a public sector order for Govan. Although the workforce at Govan Shipbuilders have been remarkably disciplined over their anxieties on the future of the Fairfield yard since the letter of intent and the closure of Scotstoun was announced in August, BS, who have taken responsibility for the delay on their own shoulders, have advised me that it is essential for them to be able to say something positive to the workforce on Monday.

I hope therefore that in the light of the assurance that Liberty Maritime are fully committed to paying their financial contribution before launch, and have also their reputation on the Baltic Exchange to consider, you will agree that I can tell BS this

/week ...

CONFIDENTIAL



3

week that we are prepared to authorise the order.

I am sending copies of this letter to E Committee and Sir John
Hunt.

14

K J

5 December 1979

Department of Industry
Ashdown House
123 Victoria Street
London SW1

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12 11 10 9 8 7 6 5 4 3 2 1

15 DEC 1970



Department of Industry
London W1

PART 1 ends:-

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

PART 2 begins:-

S/S lnd to PM 5.12.79

