

PREM 19/855

PART 3 ends:-

16. 7. 82

PART 4 begins:-

¹⁹
~~21~~. 7. 82

Published Papers

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

1. British Shipbuilders; Report and
Accounts 1980-81, 24 July 1981
ISBN-0-906543-02-9
2. House of Commons Paper 192: First Report
from Industry and Trade Committee,
Session 1981-82
HMSO, 4 March 1982
3. House of Commons Hansard,
27 April 1982, columns 726-733
"British Shipbuilders (Financial Support)"
4. First Special Report from Industry and
Trade Committee, Session 1981-82
HMSO, 19 May 1982

Signed M. Wayland Date 25 October 2012

PREM Records Team

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Nat Ind

10 DOWNING STREET

From the Private Secretary

16 July, 1982.

British Shipbuilders: Cunard Order

As I mentioned on the telephone yesterday, the Prime Minister has seen and noted without comment your Secretary of State's minute of 14 July, recording the conclusions of the Ministerial Sub-committee on Economic Affairs (E(EA)) about British Shipbuilders' request that they should be authorised to extend unusually generous terms to Cunard for the Atlantic Conveyor "replacement".

I am sending copies of this letter to Peter Mason (Department of Industry), Stephen Lamport (Foreign and Commonwealth Office), Nigel Fuller (Ministry of Defence), Murdo Maclean (Chief Whip's Office), Gerry Spence (CPRS), and David Wright (Cabinet Office).

M. C. SCHOLAR

Ms. Caroline Varley,
Department of Industry.

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ASAD

MBPM

EC(1)

MS 27/7

Foreign and Commonwealth Office

cc JV

London SW1A 2AH

14 July, 1982

From The Minister of State
Rt Hon Douglas Hurd CBE MP

Dear Patrick,

Thank you for your letter of 7 July about the use of soft credit and credit guarantees by British Shipbuilders and Harland and Wolff. I agree that the review of our practice in this field has been a timely one and it is most helpful to have the position set out so comprehensively in your letter.

I have no comments on your careful analysis other than to agree with your conclusion that the ground rules for the use of soft credit should continue to apply and that we should continue to be consulted about individual cases.

I am copying this letter to recipients of yours.

Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1

Yours,

Douglas

8 7 6 5 4 3 2 1

27 JUL 1982



CONFIDENTIAL

PRIME MINISTER

BRITISH SHIPBUILDERS : CUNARD ORDER

The Ministerial Sub-Committee on Economic Affairs discussed this morning what response the Government should make to British Shipbuilders' request that they should be authorised to extend more than usually generous credit terms to Cunard - 'soft credit' to try and win the order for the container ship which will in effect replace the Atlantic Conveyor.

2 Without soft credit British Shipbuilders (BS) have no chance of winning the order. The lowest price they can offer Cunard is some \$20 million more than the Korean and Japanese tenders. Even with soft credit, however, BS could not hope to win the order if it is allocated on strictly commercial grounds. Figures which Cunard have given in confidence show that BS would still be asking some \$10 million more than their Far Eastern competitors.

3 We cannot completely exclude the possibility that, if BS can get their bid down to the equivalent of about \$60 million, which they could if they offered soft credit, Cunard would be prepared to pay a premium for being seen to be patriotic. But the Sub-Committee judged that a very unlikely outcome. Cunard would

Prime Minister
To be answered

Cunard
Dy. Clerk

MB.



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have to be prepared to incur not only the cost penalty of some \$10 million but also a delay in delivery of seven months as compared with a Korean yard and eleven months as compared with the Japanese. The discussions which the Minister of State, Department of Industry and I have held with Lord Matthews do not give firm grounds for believing that Cunard would be willing to go as far as that.

4 In any case, there are very strong arguments against authorising soft credit. To do so would run counter to our general policy of reducing BS's subsidies and their dependence on the Exchequer. Soft credit, taken together with maximum assistance from the Shipbuilding Intervention Fund, the normal Shipbuilders Relief, and the Home Credit Scheme, would push the total effective subsidy given to Cunard up to about 38 per cent of the contract price, and bring the offer down to \$60 million. The use of the maximum Intervention Fund Assistance (£6.9m) on this one order would amount to about 17 per cent of the £40 million allocated to the Fund for both BS and the private sector for the year from July 1982, and increase the difficulties of staying within that figure.

5 To agree to soft credit would also cause considerable difficulties so far as the European Community is concerned if it leaked, as it would. The Commission might then rule that in this case (where other shipyards in the Community are actual or



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potential competitors) soft credit was incompatible with the Treaty of Rome; they would be likely at least to attach conditions. And our attempts to negotiate the Commission's approval for the 1982-83 Intervention Fund arrangements would be endangered.

6 The Sub-Committee was in no doubt about the strength of the criticism which we shall face if the Cunard order goes to the Far East. It will be said that compensation of £9.2 million is going straight to foreign shipyards; and that, in failing to find some way of ensuring that the order goes to British Shipbuilders, the Government is putting at risk the jobs of up to 1,500 men at Swan Hunter on Tyneside who worked round the clock during the Falklands crisis to get HMS Illustrious ready ahead of schedule. Our critics are also likely to contrast unfavourably a Far Eastern order by Cunard with the orders which Cunard's Swedish and French partners in the Atlantic Containers Line consortium are likely to place with Swedish and French yards (the Swedes offer exceptionally generous credit terms; the nationalised French shipping company concerned is likely to be pressed by the Government to buy French).

7 The Sub-Committee concluded that notwithstanding these political arguments, the case against soft credit was so strong that BS should not be authorised to offer it to Cunard. We shall clearly need to present such a conclusion with great care.



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9 I am copying this minute to members of E(EA), to the Minister of State, Department of Industry (Norman Lamont), the Minister of State, Foreign and Commonwealth Office (Douglas Hurd), the Parliamentary Under Secretary of State for Defence Procurement (Geoffrey Pattie), The Chief Whip, John Sparrow and Sir Robert Armstrong.

J. P. Spencer

M P J

14 July 1982

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

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB



PS/JF 1144
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

13 July 1982

T Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Tim,

CUNARD ORDER

I attach a draft reply for the Prime Minister's signature to the telegram sent by Mr Bill Sirs, which asks the Prime Minister to instruct Cunard to buy British.

2 My Secretary of State wrote to the Prime Minister on 6 July to explain the background to this order. This explained that BS are not competitive on price or delivery with European or Far Eastern yards. Negotiations between BS and Cunard are not yet completed but Lord Matthews has made it very plain publicly that unless BS can make a competitive bid the order will have to go abroad. It seems likely that Cunard will wish to announce their final decision on the order about mid-July though timing is as yet uncertain.

3 As you know, however, there have been further developments since my Secretary of State wrote on 6 July, of which we shall keep you informed.

Yours ever

Caroline Varley

CAROLINE VARLEY
Private Secretary

JF1145



Pl type for PM

Mus 13/7

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

W Sirs Esq
General Secretary
Iron and Steel Trades Confederation
324 Grays Inn Road
LONDON
WC1

Thank you for your telegram of 25 June 1982 in which you urged me to instruct Cunard to purchase a British built ship to replace the lost Atlantic Conveyor.

I should first explain that the loss of the Atlantic Conveyor is not really related to the proposed new order. Before the Falklands conflict, Cunard together with their fellow shareholders in Atlantic Container Line comprising Swedish, Dutch and French shipowners, ^{was} ~~has been~~ considering a modernisation plan which would replace six ships of which Atlantic Conveyor was one, with five more efficient ships. This order would certainly have been placed even without the loss of the Atlantic Conveyor in the Falklands.

Naturally, like you, I prefer a situation where British shipowners feel able to buy British ships. But it would be quite wrong for me to instruct any UK shipowner to "buy British" and I

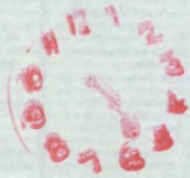


have no powers to do so. British shipping itself is a very important industry and unless it can buy where it chooses, it will lose its competitive edge. Of course we have taken a close interest in this order but for the reasons I have given these matters must in the last analysis be for the commercial judgement of Cunard.

I share your hope that the shipbuilding industry will be able to secure some part of the ACL orders. I appreciate very much the benefit shipbuilding orders bring to the steel industry. The Government provides very substantial help to the shipbuilding industry through the Intervention Fund and the general financing of British Shipbuilders. This support certainly compares favourably with what other countries have been doing to support their industry. Since coming into office approaching £600 million has been provided through Public Dividend Capital, the Intervention Fund and the Shipbuilding Redundancy Payments Scheme to British Shipbuilders. I am glad to say that BS have made very substantial progress in cutting losses and reducing their dependence upon Exchequer support.

I am sure too that Cunard would prefer to buy British but they have to take into account their need to be competitive and to secure the order British Shipbuilders will need to offer a competitive price and delivery.

13 JUL 1982



COMPTON

100



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

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

Norman Lamont MP

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria St
London SW1

CWR
+1

MS

Prime Minister

2

To see that the Dept. of
Industry are moving towards
no more subsidy
12 July 1982 for the Atlantic
Conveyor substitute.

MUS 12/7

Dear Secretary of State

You know that there has been much public concern over the likelihood that Cunard will order from the Far East a prestigious third generation container ship which BS have tendered for. This order is Cunard's contribution to the ACL consortium. The other shareholders are French, Dutch and Swedish. Cunard's own presentation of the order has heightened public concern because it has given the impression that the order only arises because of the loss of the Atlantic Conveyor and that the compensation paid of £9.2 million will go straight to finance a Far Eastern purchase. The actual position is that Cunard and their partners in ACL were contemplating well before the Falklands conflict replacing six ships; of which the Atlantic Conveyor was one, with five more efficient ships.

BS themselves have fanned the controversy by asserting without justification that their price is the cheapest in Europe. If as seems likely the French shareholders will order one ship in a national yard, and the Swedish shareholders three ships in Swedish yards, BS will use this as an argument that we should give even more support to the shipbuilding industry.

BS have now asked whether the Government would be prepared to authorise the use of soft credit. They have reduced their bid from \$89.7 million (£49.75 million) to \$81 million (£46.8 million) partly by increasing the Intervention Fund to the maximum permissible (£6.9 million) and by making some savings in materials costs (BSC have reduced their price for steel by £1 million). BS have suggested that they should offer 100% credit (compared to the 80% available under the Home Credit Scheme) and a two year moratorium on capital repayments. This would give a Present Day Value (PDV) for the BS bid of \$62 million (£35.8 million) which could well not be enough since Cunard are saying that BS must get down to a PDV of around \$55 million and it remains to be seen whether Japan and Korea will cut prices further. However if BS were authorised to give the soft credit



which they have requested, the total subsidy would total 24.5%, of contract price of which Intervention Fund and Shipbuilders Relief are 17% and the soft credit an extra 7.5%, on top of the 13.5% subsidy represented by the normal terms of the Home Credit Scheme. The subsidy cost of the soft credit in PDV terms may appear somewhat low but this reflects the long BS construction time of 29 months.

The industrial case which BS advance is that steel work at Swan Hunter is running down and the ship would safeguard 1,500 jobs. Mr Atkinson claims that the recent decision to make redundant 1,500 at the Tyne Ship Repair Group not far from Swan Hunter will cause severe difficulties for BS without adding to them through losing this order. They also maintain that there is no distortion of competition if aid is given to prevent an order going to the Far East.

I am very dubious about whether we should authorise soft credit in this case. If the issue of soft credit for UK shipowners came into the open with the Commission, it would imperil our current negotiations on the next tranche of Intervention Fund which are providing difficult. Moreover, the Commission could require us not to use soft credit and refer the matter to the European Court of Justice if we fail to comply. They could also require cancellation of commitments already entered into and the repayment of past aid. It is for this reason that we have restricted its use to where there is no European competition and where it can be used with discretion. In this case every European yard has been asked to tender, and there has been widespread publicity about the size of the gap between BS and the competition.

/to

However the fact is that according to figures given privately to us by Cunard, BS are not and never have been the cheapest bidder in Europe. As the attached table shows, Sweden and France are cheaper and the gap between BS's current bid and the Far East in PDV terms taking account of credit is of the order of \$20 million. BS are of course concerned at the very long credit being offered by the Swedes but the Swedes do not give production aids, and the subsidy value of the Swedish credit is around 10%.

Leaving aside the EEC complications it is very questionable whether we should contemplate subsidies of 24.5% on a ship. Our policy on British Shipbuilders is to reduce subsidies and their dependence upon the Exchequer, and if BS cannot get alternative orders to the Cunard ship with very much less subsidy than they are asking for now, it is questionable whether we can afford an industry of the present size. Moreover if we allow BS to use up on a single ship £6.9 million out of the proposed tranche of £40 million for BS and the private sector from July this year until July next, BS may come to us next year to say that there will be a precipitate collapse of the industry unless the Intervention Fund can be increased.



I am therefore inclined to the view that we should not authorise the soft credit, and that we should be prepared to defend ourselves in this case by the very generous support we give to the shipbuilding industry which compares favourably with that of other countries, and the fact that in this case BS are not able to match the delivery performance of their competitors. Since coming into office we have provided BS with approaching £600 million through the Intervention Fund, Public Dividend Capital and the Shipbuilding Redundancy Payments Scheme.

The situation is however still somewhat fluid, and I will report the latest developments at the E(EA) meeting on Wednesday. It is likely that it will be announced publicly on Friday that the Swedish yard Kockums have won three ships out of the five, and if we are to intervene in the Cunard order, it will be essential to tell British Shipbuilders on Thursday.

Copies of this letter go to the Prime Minister, to other members of E(EA) and to Douglas Hurd and Geoffrey Pattie.

Yours Sincerely

John Atky

NORMAN LAMONT

(Signed on Mr Lamont's behalf
in his absence)

	Price (Cash) - \$ Million	Price (Credit) \$ Million (PDV)	Delivery
BS	81	75 (Estimated)(a)	29 months
Korea	55 (approx)	50 (Estimated)	22 months
Japan	61 "	54 (approx)	18 months
Sweden	68 "	49	20.5 months
France	70 "	65	27 months

- Sweden: - No production aids
 - Home Credit aid for Swedish shipowners:
 - 10% of contract price over 15 years
 - No interest or amortisation for up to first 5 years

- France: - Production Aid up to 20% of contract price
 - Home Credit Scheme similar to UK's but not tied to orders in French yards
 - Investment incentives to shipowners

Note:

(a) The \$75 million PDV of BSC's bid would be reduced to \$62 million if BS were authorised to offer 100% credit with a 2 year moratorium.

11 2 JUL 1982



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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

7 July 1982

Rt Hon Douglas Hurd CBE MP
Minister of State for
Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street SW1

Prime Minister

For information

A.J.C. 9/7

Dear Douglas

In his letter to Humphrey Atkins of 1 March, concerning the BSC order for Harland and Wolff, Jim Prior referred to the possible need to reconsider the use of soft credit in the context of our Community obligations. The suggestion was timely given the signs of a possible hardening of the Commission's attitude on the enforcement of Community competition rules. Departments have therefore considered the issue at official level and this letter takes into account the views expressed in these discussions.

2 Following consideration of this matter at E(EA)(79)23rd meeting BS and H&W were informed that we would be prepared to accept the use of soft credit, but that it should be used with discretion and should be restricted to established United Kingdom owners to obtain a limited number of large and particularly valuable orders. We made it clear that our agreement was subject to a number of conditions, in particular that soft credit should not be used where competition from another EEC yard was known or suspected. We knew at that time that the use of soft credit was open to challenge by the Commission, and that it could be held that, under Community rules, we were required to notify the practice formally to the Commission. In view of the possibility that the Commission would rule out the practice we decided not to notify but confirmed that the use of soft credit should be subjected to certain ground rules, whose object was to minimise the chances of the practice becoming widely known and to ensure that we could put a reasonable defence against any Community criticism. The Public Accounts Committee was, however, told in confidence.

In terms of Community Law there can be little doubt that the use of soft credit is notifiable. The argument for this is essentially that BS and H&W could not afford to offer soft credit to their customers if their losses were not financed by Government and that such Government finance could therefore be



held to distort or threaten to distort competition by favouring BS or H&W, thereby affecting trade between member states. It is very probable therefore that the European Court - if the issue ever came before it - would rule that the aids which make it possible to use soft credit were notifiable.

If the Commission were to be apprised of the practice and found that it was incompatible with Community rules it would be open to the Commission to require us to abolish or alter it and to refer the matter to the European Court of Justice if we failed to comply. Furthermore the Commission could require cancellation of commitments already entered into and repayment of past aid.

On policy grounds, however, there is a strong case against notification and there are arguments which could be used to justify non-notification to the Commission. Because of its lack of competitiveness H&W will continue to need soft credit as an aid to securing orders. BS stopped using soft credit in Spring of 1980 as the world market for ships improved, but it is a useful weapon for BS to keep in reserve given present deteriorating market conditions.

Although we have no firm evidence, it is very unlikely that amongst Community shipbuilders, BS & H&W are alone in using soft credit. The Commission have not so far initiated enquiries into member states' practices in this area, but they would almost certainly interpret notification by the UK as an admission that soft credit involved questionable use of Government aid and would feel bound to act. They could also ask embarrassing questions about our failure to notify at an earlier stage.

If we did not notify the use of soft credit the chances that the practice would be formally brought to the Commission's attention are small, given the ground rules we have established. In order to be sure that there is little risk of a complaint being brought to the Commission by an aggrieved competitor, we should have to be particularly careful about the absence of EEC competition. On a strict interpretation of the law, soft credit which depends on Government funding should be used only when there are no other Community yards capable of competing for the order concerned. It would not be practicable, however, to apply such a criterion because almost every type of vessel which the UK industry can build could also be built by some yard in another member state. But we should certainly, as we have done hitherto, try to avoid the use of soft credit where actual competition is known or suspected.

If the Commission were to have its attention drawn to the practice of soft credit we should have some arguments to deploy in justification of non-notification. We would argue that the Community rules in question apply to Governments and not to commercial undertakings and that BS and H&W, as with other such

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undertakings, should be free to offer credit on any terms they wish to their customers. We could also point out that the Commission had been notified of and approved the provision of Government finance to cover the trading losses of BS and H&W and that soft credit was only granted within the loss limits notified to the Commission. Losses due to soft credit are published in BS accounts and an accountant should be able to identify them as such. Moreover, BS are now close to breaking even. The Commission might not be won over by our arguments but they should be strong enough at least to persuade the Commission not to unpick past cases.

Given the sensitivity of the issue, however, I am sure that the ground rules we have laid down for the use of soft credit should continue to apply and that we should continue to be consulted on individual cases.

Many of the same considerations apply to the giving of guarantees by BS and H&W in respect of loans taken out by shipowners to finance the purchase of vessels. The Commission have not been notified of these guarantees and I do not think they should be. They are not part of the usual sales armoury of BS or H&W and the defence against any Commission criticism would turn on the fact that a private sector company would act in the same way. We could also point to the fact that the use of guarantees is rare - less than 1 per year since BS was formed.

I am copying this letter to E(NI) and OD(E) colleagues, Jim Prior and Sir Robert Armstrong.

Yours ever
*R
Pate*



Nat Inq
Shipbuilding

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FILE

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Nat Ind

B/C: JV

10 DOWNING STREET

From the Private Secretary

7 July, 1982

@

CUNARD

The Prime Minister has seen your Secretary of State's minute of 6 July.

She agrees with him that there is no prospect of intervening to influence Cunard to buy British.

I am sending a copy of this letter to Mike Hopkins (Northern Ireland Office) and John Rhodes (Department of Trade).

M. C. SCHOLAR

J Spencer, Esq.,
Department of Industry

CONFIDENTIAL



PRIME MINISTER

CJV ✓

Prime Minister

① Compensation payable in Relation to Falkland Id.

Content that ~~conard~~There should be no intervention in this situation?

Yes

MS

MCS 6/7

I think you should be aware that Cunard are likely to order from the Far East a prestigious third generation container ship which BS have tendered for. This order is Cunard's contribution to the ACL Consortium. The other shareholders are French, Dutch and Swedish.

2 There is likely to be a strong public reaction to this. Cunard have given the impression that the order only arises because of the loss of the Atlantic Conveyor and that the compensation (£9.27m) will go straight to finance a Far Eastern purchase. In fact, before the Falklands crisis Cunard had gone to tender for the order and were contemplating arrangements for the sale of the Atlantic Conveyor. The link between the order and the loss of the Conveyor is not therefore as close as portrayed publicly. However, the loss of a prestige order will also be used as an argument that we should give even more support to the shipbuilding industry. Since coming into Office we have provided nearly £600 million to British Shipbuilders. Even so we have the difficulty that the French and Swedish members of ACL will probably place their orders in their national yards.

3 We cannot see any way in which Cunard can be influenced to "buy British". The price gap between the Japanese and South Korean prices and BSC is of the order of \$30 million though some allowance has to be made for foreign currency risks and inferior



credit abroad which would reduce this gap somewhat. It would have been wrong to attempt to use the compensation paid for the Atlantic Conveyor to influence the Cunard decision. The Government is obliged in law to pay the value of the lost ship, and would be taken to arbitration if we failed to do so in full. We have on occasion authorised BS to use soft credit to win such UK orders but on legal grounds this is challengeable by the Commission and we have restricted its use to where there is no EC competition. In this case there is French and German competition. Moreover, at present the Commission are being rather difficult about our application for the further tranche of Intervention Fund for the shipbuilding industry agreed by Ministers in March. Even if we were to take the risk, it seems doubtful whether BS could accommodate the cost of credit within their loss limit for this year of £10m after Intervention Fund assistance.

4 I have carefully considered whether an intervention by you could secure this order but I see no chance of Lord Matthews moving unless he is promised substantial aid.

5 A copy of this letter goes to Jim Prior and Lord Cockfield.

PJ

PJ

6 July 1982

Department of Industry



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

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

John Corrie Esq MP
House of Commons
London
SW1A 0AA

28 June 1982

Dear John

Thank you for your letter of 9 June 1982 enclosing one from your constituent Mr Keith Murray about a shiprepair contract which Smiths' Shiprepairers lost to British Shipbuilders. I return Mr Murray's letter herewith.

We have received several other allegations that British Shipbuilders have taken shiprepair contracts at prices which do not adequately cover overheads. I have passed yours on to BS, as I have done the others. I am not in a position myself to make a judgement because individual tenders are often not directly comparable. But, as I said in the House on 27 April, I am concerned at the continuing losses of British Shipbuilders' shiprepair division and would not want to see the private sector undermined by loss making contracts taken by the public sector shiprepairers.

As I told the House, British Shipbuilders' Chairman is equally concerned at the unsatisfactory performance of the Corporation's shiprepair operations and he is reviewing the position with a view to seeing what action can be taken.

NORMAN LAMONT

*Yours
Norman*

Silvercraigs,
St Cuthbert's Road,
Kirkcudbright,
S.W.Scotland.

Dear *John*

Further to our meeting I give you the full details of figures involved in the shiprepair job which I mentioned to you.

SMITH'S SHIPREPAIRERS NORTH SHIELDS LTD.

£ 345,660

BRITISH SHIPBUILDERS

Came in with a figure of £176,000 less, and got the work.

Result is now with no work at Yard and 400 men at Smith's have been paid off.

Kind regards,

Yours sincerely,

Wish *Thurray*

12
5/7

Bill SIRs

Chased today - was told that
S/S was writing to PM. 6/7
received 6/7.

RM



10 DOWNING STREET

From the Private Secretary

25 June, 1982

I enclose a copy of a telegram the
Prime Minister has received from Mr Bill Sirs,
General Secretary of the ISTC.

I should be grateful if you could let
me have a draft reply for the Prime Minister's
signature by Wednesday, 5 July.

Monday

TF

Dr David Saunders
Department of Industry

Hll



RM

10 DOWNING STREET

From the Private Secretary

25 June, 1982

I am writing on behalf of the Prime Minister to thank you for your telegram received today.

This is receiving attention and you will be sent a reply as soon as possible.

TF

W Sirs, Esq., J.P.,

s dial the number
ur dialling instructions

British
TELECOM

for enquiries dial the number
shown in your dialling instructions

Telegram

for enquiries dial the number
shown in your dialling instructions



R25/6.

25 JUN 1982/0947
ZCZC TXE6095 MRE986 4521LOND
GBXX CO GBMR 066
DOUGLASISLEOFMAN 66/63 25 0915 PAGE1/50

PRIME MINISTER MRS MARGARET THATCHER
10 DOWNING ST
LONDONSW1

THE ANNUAL DELEGATE CONFERENCE OF THE IRON AND STEEL TRADES
CONFEDERATION MEETING AT DOUGLAS ISLE OF MAN HAS CONDEMNED PROPOSED
INTENTION ON CUNARD TO PLACE ORDER FOR ATLANTIC CONVEYOR REPLACEMENT
WITH JAPANESE OR KOREAN SHIPBUILDERS.
CONFERENCE ASKS YOU TO INSTRUCT CUNARD

COL 10 LONDONSW1

MRE986 4521LOND THATCHER PAGE2/13

TO PURCHASE BRITISH BUILT SHIP USING BRITISH STEEL.
BILL SIRS GENERAL SECRETARY I.S.T.C

NNNN
889113 PO SW G
SQ TRC TELEGRAM G

for enquiries dial the number
shown in your dialling instructions
Telegram

for enquiries dial the number
shown in your dialling instructions
TELECOM

British
TELE

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

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

Ian Gow Esq MP
10 Downing Street
Whitehall
London SW1

28 May 1982

Dear Ian

Thank you for your letter of 6 May 1982 enclosing a copy of a letter from Christopher Bailey to the Clerk of the Commons Select Committee on Industry and Trade which reported on British Shipbuilders in March. Bristol Channel Shiprepairers also wrote to me.

BS have been asked to comment on the case in so far as it can be identified, but it is very difficult to decide on the basis of individual cases whether competition is fair or unfair. It is often the practice of shiprepairers both public and private to quote at a price which does not cover fully overheads, in the expectation that the eventual outcome of the contract taking into account additional work at the shipowners' request will compensate for this.

The main thrust of the allegations by the private sector that BS competes unfairly lies in BS's losses on shiprepair. We are very concerned at the large losses the shiprepair division of BS is making. We have made it very clear to BS that we wish to see an end to losses in shiprepair and that we cannot accept a situation where private sector jobs are undermined by losses in the public sector. You will know that BS's financial target this year has been reduced to £10 million after Intervention Fund assistance, and this will put financial pressure as well on BS to tackle their shiprepair problems quickly.

BS do accept that the present situation is unsatisfactory, and are reviewing it as a matter of urgency. Since Vesting Day they have reduced employment on shiprepair by over half from 9,000 to around 3,500 at the present day. They are currently considering plans which will reduce employment by around another 1,000. They have however with my agreement delayed discussing these plans with the trade unions because of the fear that labour unrest might hold up the completion of HMS Illustrious at Swan Hunter which may be required for the Task Force. The reductions will however take place and will be mainly concentrated at the Tyne Shiprepair Group where most of BS's problems lie.

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Under current legislation we have no powers to intervene in shiprepair. Indeed the Nationalisation Act places a statutory duty on BS to promote the efficient and economical repair of ships. However we intend - time permitting - to introduce legislation next session which will remove this statutory duty on shiprepair, and give us powers to direct BS to dispose or to discontinue or restrict any of their activities. We shall certainly consider using this range of powers in shiprepair if BS have not made satisfactory progress by then. We also need to pursue our objective of returning BS's shiprepair to the private sector as soon as possible. I can assure you that we shall continue to watch the situation very closely.

I would be most grateful if you would treat the information in this letter as confidential. The information about BS's future plans on shiprepair is very sensitive.

NORMAN LAMONT

*Yours
Norman*

CONFIDENTIAL

6th May, 1982

Bristol Channel Ship Repairers
Limited

I am enclosing a copy of a letter dated 23rd April, which was sent by Mr. Christopher Bailey to the Clerk to the Industry & Trade Committee.

Are the facts as stated by Mr. Bailey, in the second paragraph of his letter, really true?

LAN GOW

Norman Lamont, Esq. M.P.
Minister of State,
Department of Industry,
123 Victoria Street,
London SW1

PRIME MINISTER

② *noted*

Statement on British Shipbuilders

Norman Lamont made his Statement to a pretty empty House. It was a low key occasion, and one which went off without any difficulty for the Government.

John Cunningham argued that this was an inappropriate time to make the Statement, since the postponement of the Defence White Paper meant that British Shipbuilders could not be sure of the Government's naval shipbuilding plans. He opposed the reduction in the EFL and loss limit, argued that we should not reduce support to the industry during the Falklands crisis, and drew attention to the statutory obligation of the BS Board to maintain a ship repairing capability. James Molyneaux expressed anxieties about the impact of the review of marine engineering on Harland and Wolff. Neville Trotter worried about the impact of British Shipbuilders' continued ship repairing losses on the private sector ship repairers, and lamented the industry's failure to secure naval export business. Michael Grylls complained about British Shipbuilders' recent pay settlement: why had they increased their offer from 3% to over 7%? A number of Opposition MPs feared that the reduced EFL would mean further redundancies (Norman Lamont said that these would be no more than 2-3,000 over 4 years), and complained about the uncertainty which would be introduced by the Government's privatisation plans. Robin Maxwell-Hyslop argued powerfully that British Shipbuilders and the Department of Industry had failed to control BS's ship repairing losses, and suggested that no further public funds should be made available to BS unless these losses were brought to an end. Michael Morris said that the lack of progress on privatisation was a major disappointment, and several other Backbenchers on our side worried about the effects on the private sector of continued losses in BS's ship repairing function.

MCS

27 April 1982



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

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Lamont MP

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
Whitehall
London SW1

27 April 1982

Dear Michael

STATEMENT ON FUTURE FINANCIAL SUPPORT FOR BRITISH SHIPBUILDERS

... I enclose a copy of the final version of a statement on British Shipbuilders which my Minister will be making in the House today, 27 April.

I am copying this letter and its enclosure to the private secretaries to the Chancellor of the Duchy of Lancaster, the Leader of the House, the Chief Whip and Bernard Ingham.

Yours,
John

JOHN ALTY
Private Secretary



FUTURE FINANCIAL SUPPORT FOR BS

With permission Mr Speaker, I shall make a statement on future financial support for British Shipbuilders.

The House will be aware that the industry's financial performance has shown some striking gains after the painful adjustments of the last two years. Losses have declined from £110 million in 1979/80 to a target of £25 million in 1981/82 after Intervention Fund assistance. BS's cash needs have declined from £236 million in 1979/80 to £150 million in 1981/82. These gains are a tribute to the leadership of Mr Atkinson and the realistic response of the employees and trade unions.

Under their Corporate Plan, BS aim to break even in 1983/84 and thereafter to move into profit without Intervention Fund assistance. But for BS to achieve their target will require continued substantial improvements in performance.

Productivity still has to surpass prenationalisation levels.

Moreover, BS's plans assume a sustained increase in real prices for ships. However, in present market conditions it would be wrong to place any great reliance on this happening. This makes it all the more important for BS to control costs tightly and become more competitive.



While the volume of Ministry of Defence orders will remain substantial - last year orders were placed to the value of £460 million including associated weapons - BS seem likely to need to make adjustments and will need to regain export markets. BS have already made a start on the adjustment process by diversifying Cammell Laird and Scott Lithgow, and have had a welcome success in securing off-shore orders.

Against this background the Government has considered the question of financial support for 1982/83 only and will review the position later. For 1982/83 an external financing limit has already been announced of £123 million which takes account of my Rt Hon and learned Friend the Chancellor's decision on the National Insurance Surcharge. For the same year we are setting a trading loss limit of £10 million after Intervention Fund assistance. The present tranche of the Intervention Fund expires in July this year and BS have sought further Intervention Fund support. The Commission are currently considering the general question of aids to shipbuilding and how best to ensure that where these are given they foster progress towards viability. I will report later to the House on the progress of consultation with them.

With the agreement of BS and Harland and Wolff we are going to ask consultants to look into the question of marine engine capacity at BS and Harland and Wolff to see whether the total

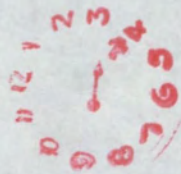


capacity could be more effectively deployed. We have also been mindful that private sector engine manufacturers have over a long period complained about unfair competition from BS and Harland and Wolff. My Rt Hon Friend will very shortly announce Government funding for Harland and Wolff for 1982/83. We have also put to Mr Atkinson the concern of the private sector shiprepairers on unfair competition from British Shipbuilders which was highlighted by the recent report on the Select Committee on Industry and Trade. I know that Mr Atkinson regards the performance of this sector as unsatisfactory and BS is reviewing the situation as a matter of urgency.

On the question of privatisation it remains the Government's firm intention - time permitting - to take powers to facilitate the introduction of private capital for British Shipbuilders. I recognise the impatience of Hon Friends for the Government to make progress in this area.

Very substantial support has been given by the Government to British Shipbuilders but BS still face a task of considerable magnitude in obtaining a firm prospect of viability. The Government is determined that aid to British Shipbuilders will be temporary and diminishing. Government support by itself cannot buy viability or security of employment. The need to improve performance remains urgent. The fuller order books this year represent an opportunity for the industry to prove itself.

27 APR 1982





ds

Nat Ind

cc	HMT	DOT
	DOE	D/Trans
	SO	CSO, HMT
	Industry	D/N
		D/M
		CO

10 DOWNING STREET

From the Private Secretary

26 April 1982

*cc: Mr. Ingham
Mr. Verelst*

Harland and Wolff Limited

Thank you for your letter of 23 April, to which you attached a draft Written Answer on the future funding arrangements for Harland and Wolff Limited.

The Prime Minister is content for you to proceed as your Secretary of State proposes.

I am copying this letter to the Private Secretaries to the Members of E(NI) and to David Wright (Cabinet Office).

M. C. SCHOLAR

Stephen Boys Smith, Esq.,
Northern Ireland Office.

CONFIDENTIAL

ds



10 DOWNING STREET

cc	HMT	D/N	CDL
	DOE	D/M	CWO
	SO	FCO	CO
	DOT	NIO	
	D/Trans	MOD	B. Ingham
	CSO, HMT	LPO	

From the Private Secretary

26 April 1982

bc: Mr. Vereker

British Shipbuilders Pay Settlement

The Prime Minister was grateful for your Secretary of State's minute of 19 April.

The Prime Minister is now content, subject to the views of colleagues, for Industry Ministers to make a statement on the lines of that attached to John Alty's letter to Nick Huxtable of 23 April. As to the timing of the statement, I would be grateful if you would consult us here (and Nick Huxtable) later this week, when we are clearer about the timing of statements on the Falkland Islands which may prove necessary.

I am sending a copy of this letter to the Private Secretaries to the other Members of E(NI), Bernard Ingham, John Holmes (Foreign and Commonwealth Office), Stephen Boys Smith (Northern Ireland Office), David Omand (Ministry of Defence), Nick Huxtable (Lord President's Office), Keith Long (Office of the Chancellor of the Duchy of Lancaster & Paymaster General), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M. C. SCHOLAR

Jonathan Spencer, Esq.,
Department of Industry.

CONFIDENTIAL

285

jc JV



Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON
SW1

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

CE
→ CBT
please show to
John [unclear]
before PA-ing
Yes
no

Prime Minister (1)
Agree this written statement?
Mus 23/4

23 April 1982

Dear Michael,

HARLAND AND WOLFF LIMITED

You will recall that at their meeting on 8 March (E(NI)(82) 2nd meeting) Ministers agreed to continue support for Harland and Wolff Limited (H&W), the Government-owned shipbuilders in Belfast, in 1982-83 and to approve the terms of an order from the British Steel Corporation.

BSC have now ratified the terms of the order as described to Ministers and the order was announced by H&W on 8 April. My Secretary of State now wishes to announce 1982-83 funding levels for the company, by means of a written answer to an arranged Parliamentary Question. The intention would be for this answer to be given on the same day as a Parliamentary statement is made on British Shipbuilders' EFL and loss limits in 1982-83. We should be grateful for the Prime Minister's agreement to the terms and timing of the attached draft announcement.

My Secretary of State intends to visit the shipyard shortly after the announcement and this would provide the opportunity to issue a robust press release exhorting the company to greater efforts towards improved efficiency and reduction of dependence on public funds.

There remains the pressing question of the identification of a replacement for the present Managing Director who has just announced his resignation at the end of May. Given the problems of recruiting high calibre management in Northern Ireland, my Secretary of State has asked for official support for the company in its search for suitable candidates. In the meantime the company, aided by independent consultants, is continuing its study of ways of improving efficiency and cost effectiveness.

I am copying this letter to Private Secretaries to other members of E(NI) and to David Wright (Cabinet Office).

Mon.
Stephen

S W BOYS SMITH

LR.

DRAFT PARLIAMENTARY QUESTION

Q. Mr [redacted] to ask the Secretary of State for Northern Ireland if he will make a statement about the future funding arrangements for Harland and Wolff Limited.

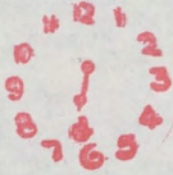
A. The Government has decided to make £47.6m available for the continued support of Harland and Wolff Limited in the financial year 1982/83.

The Government has also authorised the Company to take an order for a 170,000 dwt bulk carrier for the British Steel Corporation, announced by H&W on 8 April.

In return the Company will take all steps necessary to reduce its operating costs and improve efficiency. It must also demonstrate that this continued level of support is justified by increasing competitiveness so that the heavy burden on public funds can be progressively reduced.

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2 3 APR 1982



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

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Lamont MP

Nicholas Huxtable Esq
Private Secretary to
The Rt Hon John Biffen MP
Privy Council Office
Whitehall

23 April 1982

Dear Nicholas

SHIPBUILDING STATEMENT

Following the Prime Minister's intervention we postponed the shipbuilding statement from its planned date of 19 April.

Although we await the Prime Minister's response to my Secretary of State's minute of 19 April, I am circulating a shortened and somewhat revised version of the statement for provisional agreement. We are anxious to make a statement as early as possible, in particular because we are due to reply to the Trade and Industry Select Committee by May 4, one of whose complaints was the length of time the Department was taking to consider BS's Corporate Plan. It would be most undesirable not to have made a statement on the Corporate Plan before replying to the Committee's report.

I understand that next Thursday seems the most suitable day for a statement. Subject to the prior agreement of the Prime Minister that the statement can go ahead, I should be grateful for your and copy recipients' agreement to the attached draft by midday on Wednesday. In the absence of comment by then I shall assume agreement.

I am copying this letter and attachment to the private secretaries to members of E(NI), to Bernard Ingham, and the private secretaries to the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland, the Secretary of State for Defence, the Secretary of State for Foreign and Commonwealth Affairs, and the Paymaster General.

Yours,
John

JOHN ALTY
Private Secretary

CONFIDENTIAL



FUTURE FINANCIAL SUPPORT FOR BS

With permission Mr Speaker, I shall make a statement on future financial support for British Shipbuilders.

2 The House will be aware that the industry's financial performance has shown some striking gains after the painful adjustments of the last two years. Losses have declined from £110 million in 1979/80 to a target of £25 million *in 1981/2* ~~this year~~ after Intervention Fund assistance. BS's cash needs have declined from £236 million in 1979/80 to £150 million *in 1981/2* ~~this year~~. These gains are a tribute to the leadership of Mr Atkinson and the cooperative response of the ^{employees and} Trade Unions.

3 Under their Corporate Plan, BS aim to break even in 1983/84 and thereafter to move into profit without Intervention Fund assistance. But for BS to achieve their target will require continued substantial improvements in performance. Productivity still has to surpass prenationalisation levels.

4 Moreover, BS's plans assume a sustained increase in real prices for ships. However, in present market conditions it would be wrong to place any great reliance on this happening. This makes it all the more important for BS to control costs tightly and become more competitive.

5 While the volume of Ministry of Defence orders will remain substantial - last year orders were placed to the value of £460 million including associated weapons - BS seem likely to need to make adjustments and to regain export markets. BS have already made a start on the adjustment process by diversifying Cammell Laird and Scott Lithgow, and have had a welcome success in securing off-shore orders.



6 Against this background the Government has considered the question of financial support for ~~this year~~^{1982/3} only and will review the position again later. For 1982/83 an external financing limit has already been announced of £123 million which takes account of my Rt Hon and learned Friend the Chancellor's decision on the National Insurance Surcharge. For the same year we are setting a trading loss limit of £10 million after Intervention Fund assistance. The present tranche of the Intervention Fund expires in July this year and BS have sought further Intervention Fund support. The Commission are currently considering the general question of aids to shipbuilding and how best to ensure that where these are given they foster progress towards viability. I will report later to the House on the progress of consultation with them.

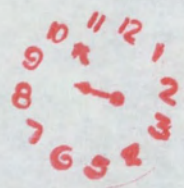
7 With the agreement of BS and Harland and Wolff we are going to ask consultants to look into the question of marine engine capacity at BS and Harland and Wolff to see whether the total capacity could be more effectively deployed. We have also been mindful that private sector engine manufacturers have over a long period complained about unfair competition from BS and Harland and Wolff in the land market. We have also put to Mr Atkinson the concern of the private sector shiprepairers on unfair competition from British Shipbuilders which was highlighted by the recent report on the Select Committee on Industry and Trade. I know that Mr Atkinson regards the performance of this sector as unsatisfactory and unless there are firm prospects of rapid improvement further remedial measures will be needed.

8 On the question of privatisation it remains the Government's firm intention - time permitting - to take powers to facilitate the introduction of private capital for British Shipbuilders. I recognise the impatience of Hon Friends for the Government to make progress in this area.



9 Very substantial support has been given by the Government to British Shipbuilders but BS still face a task of considerable magnitude in obtaining a firm prospect of viability. The Government is determined that aid to British Shipbuilders will be temporary and diminishing. Government support by itself cannot buy viability or security of employment. The need to improve performance remains urgent. The fuller order books this year represent an opportunity for the industry to prove itself.

26 APR 1982





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CF JV
①

Prime Minister

PRIME MINISTER

BRITISH SHIPBUILDERS PAY SETTLEMENT

You have asked for further explanation of the 1982/83 British Shipbuilders external financing limit in relation to BS's pay settlement.

I understand that the difference between 4.8% and 6 1/2% is £3-4 m on the EFL. One option would be positively to reduce the EFL by a further £3-4 m - which would mean that BS would probably postpone some capital expenditure on this scale - a second time,

2 In the Investment and Financial Review of March 1981, BS's bid for 1982/83 was £147m. The Chairman was told in August that we wanted if possible to see a reduction of around £25m. BS responded with a revised bid of £130m. This revised bid assumed a pay settlement of 7%. BS were informed that this was too high and the bid was cut to a level consistent with a 4.8% settlement. This produced a saving of £5m in 1982/83 and corresponding amounts in future years.

presumably. (since they have already had to find room for 6 1/2% within £125m).

3 Every pressure has therefore been put on BS through the EFL to strike a low settlement and we have made known our concern to Mr Atkinson at the level of the present settlement. BS assure us that savings will be found to keep within the EFL, and the wage agreement is conditional upon the agreement and implementation of measures for further improvements in productivity and the use of new technology. BS are also currently urgently examining remedial measures in their Ship-repair Division. While BS too would have liked to see a lower settlement, they took the view that the cost of a protracted struggle for a lower settlement would have been higher than the cost of the present settlement.

Do you wish this to happen? Or have they already been sufficiently pressed, so that the statement

Yes/No { (Stage A) should now go ahead?

MCS 20/4



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4 Copies of this minute go to the recipients of the Chancellor's minute of 26 March, to the Lord Chancellor, Secretaries of State for Education & Science, Defence, Scotland and Social Services, the Lord President, the Chancellor of the Duchy of Lancaster and to the Chief Whip.

PJ

P J

19 April 1982

Department of Industry
Ashdown House
123 Victoria Street



19 APR 1982



COMMUNICATIONS



Handwritten initials

DS4

10 DOWNING STREET

From the Private Secretary

13 April 1982

Dear Jonathan

BRITISH SHIPBUILDERS PAY SETTLEMENT

The Prime Minister has seen your Secretary of State's minute of 7 April, in which he sets out further background on British Shipbuilders pay negotiations.

The Prime Minister remains unconvinced by the arguments set out in that minute. She has noted your Secretary of State's view that the higher wage settlement has no effect on British Shipbuilders EFL. This suggests that the EFL was set too high, and at a level which offered no incentive whatsoever to BS to reduce unit costs.

Against this background, the Prime Minister remains dissatisfied with the position, which she believes will not readily be defensible in a Parliamentary Statement. She will wish to see a further explanation of the 1982/83 British Shipbuilders EFL before she is ready to clear the draft of a Parliamentary Statement.

I am sending copies of this letter to the Private Secretaries to the Lord Chancellor, the Home Secretary, the Secretaries of State for Defence, Education and Science, Employment, Scotland, Health and Social Security, the Chancellor of the Duchy of Lancaster, the Lord President, the Chief Whip and Sir Robert Armstrong.

Yours ever

Mike Pattison

Jonathan Spencer, Esq.,
Department of Industry.

Handwritten mark



CONFIDENTIAL

cc J-V.
①

What is clearly saying is that the level of the EFL is too high. Therefore there is no incentive what to reduce it. Then in a month I will be able to say that. Shall I reply on these lines?

PRIME MINISTER

BRITISH SHIPBUILDERS' PAY SETTLEMENT

You have expressed concern about the level of British Shipbuilders' pay settlement, the lateness of consultation, and the possible impact on BS's Corporate Plan. I fully share your concern and we have made our views known to Mr Atkinson.

HLS 8/4

2 Perhaps I should set out the background to the settlement. Before negotiations started, Mr Atkinson was seen on a number of occasions by Norman Lamont who impressed on him the importance of a low settlement. Immediately before the settlement Mr Atkinson told him that he was going to go for 3.9%.

3 In arriving at the present settlement of 6.5% the crucial element was Mr Atkinson's view that a quick settlement would be cheaper than if negotiations had been protracted. In the event of protracted negotiations the CSEU would have come under pressure from militants in individual shipyards. If a short-lived overtime ban had been imposed during negotiations, as it was last year during negotiations over the closure of Robb Caledon, this would have cost at least £10m.

3 The level of settlement is 5.5% on earnings. This together with an improvement in minimum earnings levels which is necessary



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to minimise claims under the fair wages resolution (to which we are for the moment bound by international convention) amounts to an increase in wage costs of 6.5%. Presentation by the unions of a 7.5% increase is misleading since only a very few benefiting from the increase in minimum earnings levels will achieve such an increase. As for the reduction in the working week BS had little option except to follow the engineering settlement last year but in return for this concession they have eliminated all tea breaks on Friday afternoon and they have also entered into agreements with the trade unions on the better use of the working day and a further reduction in overtime. BS therefore do not think that the reduction will affect unit cost.

*But a lower pay settlement
would have allowed unit cost
reductions.*

4 In looking at the level of the settlement it should also be borne in mind that BS have achieved a series of below average settlements. In 1979/80 for example the average level of settlements in the public trading sector was 17.9% on average earnings in contrast to the 10.5% for BS. In 1980/81 the figures were 9.3% for the public trading sector compared to a staged increase for BS resulting in 8.6% on average earnings in the first year (10.9% in the full year). From 1976 to April 1981 platers/shipwrights have dropped from 4th to 16th in the pay league. Given the history of low settlements I very much doubt whether a lower settlement would have been achievable.

MUS



CONFIDENTIAL

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no settlement has
effect on BS
the muddles. How
come?

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not

5 All this said, we are still faced with an unsatisfactorily high settlement for a loss-making industry. But there is no realistic possibility now of unpicking the deal Mr Atkinson has struck; and there are no implications for the EFL of £123m we have set for 1982/3 (which BS assure us they can remain within). Nor is there any advantage in reviewing again at this point BS's Corporate Plan Strategy, since colleagues agreed (E(NI)82 First Meeting) not to endorse BS's plans for merchant shipbuilding beyond 1982/3, and we shall be receiving another Corporate Plan from BS towards the end of the summer. We shall then be in a better position to see whether BS are going to be able to build on the improvement in performance which they have now begun to make.

6 I would therefore propose that a Parliamentary Statement on future Government support for shipbuilding should be made shortly after the Easter recess. We shall be circulating a revised draft Statement in the next few days.

7 Copies of this minute go to the recipients of the Chancellor's minute of 26 March.

PJ

P J

4 April 1982



STONEMILLING



CONFIDENTIAL

MR. SCHOLAR

cc: Mr. Hoskyns

BRITISH SHIPBUILDERS

I doubt if the Department of Industry will readily succumb to the line in your letter of 5 April, and you may need to draw upon these details of British Shipbuilders' record on pay.

In the last pay round, B.S. made an opening offer of 5.25% on basic rates, increased it to 6% plus improvements in holidays and overtime rates, amounting to about 7.3% on earnings overall; and eventually settled for a package worth roughly 7.5% on earnings.

This pay round has been remarkably similar. The CSEU have provisionally accepted a package consisting of 5½% on basic earnings; an additional 1% from consolidation of bonuses and an increase in minimum earnings; and a one hour reduction in the working week (agreed last year). The unions are consulting their members, and are believed to be describing the offer as worth 7% on earnings - it certainly looks to be at least that.

B.S.'s record on pay is not, therefore, by any means the worst among the nationalised industries. But it has been clear for some time that an industry which has far more in common with the private sector manufacturing industry than with the public sector monopolies ought not to be making pay offers which are at least as much as the going rate in the pay round. It is certainly possible to argue that a 7% increase for B.S. employees this year is not consistent with the current level of Government support for B.S.



7 April 1982

CONFIDENTIAL

CONFIDENTIAL



cy as below
+ Mr Ingham
Mr Venetov

10 DOWNING STREET

From the Private Secretary

5 April 1982

Dear Caroline,

Draft Statement on the Future Support for British
Shipbuilders

The Prime Minister has seen a copy of John Alty's letter of 31 March to Nicholas Huxtable to which was attached a draft oral statement on the Government's future support for British Shipbuilders.

The Prime Minister does not agree that a statement on these lines should be made. She recognises that the statement follows closely the conclusions at E(NI). But she considers that British Shipbuilders are offering pay increases well beyond what they can afford on the basis of the figures set out in the draft statement; and that they can do this only because the Government is already giving them financial support at too generous a level.

I am sending copies of this letter, with attachment, to John Alty in Mr. Lamont's office; and to the Private Secretaries to members of E(NI), the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland and the Paymaster General.

Yours sincerely,

Michael Scholar

Ms Caroline Varley
Department of Industry.

CONFIDENTIAL

JV



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

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Lamont MP

*No - Brit
Shipbuilders are
offering pay increases
way beyond what they
can afford on these
figures. They can
only do it because we
are already paying them*

Prime Minister

①

Nicholas Huxtable Esq
Private Secretary to
The Rt Hon Francis Pym MC MP
Privy Council Office
Whitehall

The policy is in line
with the conclusions
of E. The
31 March 1982

Dan

Nicholas

statement is now scheduled
for Monday 19 April.
Agree to this? M/S 1/4

Following the decisions taken at E(NI) (82) 1st, I am attaching a draft oral statement on the Government's future support for shipbuilding, which we should like if possible to make before the Easter Recess. This will depend on approval from the European Commission for the proposals, which officials are currently seeking. We should be in a position on Friday to say whether the statement can go ahead.

You asked whether it was customary to make this type of statement orally. Previous oral statements on British Shipbuilders' (BS) Corporate Plans and finances were made in November 1980 and July 1979. No statement was made in 1981 because BS' present plan has been under consideration since May 1981 - that is why we are keen to make this statement as soon as possible.

I understand that no statement would be possible until Tuesday of next week at the earliest. I should be grateful for any comments you or copy recipients may have by mid-day on Monday 5 April. In the absence of comment by that time I shall assume agreement.

I am copying this letter and attachment to the private secretaries to members of E(NI), to Bernard Ingham, and the private secretaries to the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland and the Paymaster General.

*Yours,
John Alty*

JOHN ALTY
Private Secretary



FUTURE FINANCIAL SUPPORT FOR BS

With permission Mr Speaker, I shall make a statement on future financial support for British Shipbuilders.

2. The House will be aware that the performance of the industry in financial terms has shown some striking gains after the painful adjustments of the last two years. Losses have declined from £110m in 1979/80 to a target of £25m this year after Intervention Fund assistance. BS's cash needs have declined from £236m in 1979/80 to £150m this year. These gains are a tribute to the leadership of Mr Atkinson and the cooperative response of the Trade Unions.
3. BS's Corporate Plan sets out the conditions that have to be achieved to enable the Corporation to break even as a whole in 1983/84 and thereafter to move into profit without the aid of Intervention Fund assistance. This accords with our aim that BS should reduce its dependence upon the Exchequer and make progress towards viability.
4. However to secure their Corporate Plan objectives BS in the first place have to improve substantially on past performance. The elimination of the heavy losses in previous years owes much to the restructuring programme and improved order books, and further progress will now have to depend on real improvements in performance compared to pre-nationalisation levels and will be harder to achieve.
5. Secondly while the Ministry of Defence have placed orders this year with BS to the value of £460m, the volume of orders in future years is going to decline, and BS have to adjust for this reduced volume. Some 90% of warship capacity in recent years has been utilised for the Ministry of Defence and export markets now have to be regained. BS have already made a start/



on the adjustment by diversifying Cammell Laird and Scott Lithgow into offshore and have had a welcome success in securing orders, but substantial warship export orders are also essential.

6 Thirdly if BS are to move to a position where the Corporation cease to be dependent upon further Intervention Fund support, faster progress internationally is required on the reduction of crisis aids originally introduced to deal with the shipbuilding recession, and the EEC Commission and OECD will continue to have a valuable role; but in the meantime BS need further support through the Intervention Fund.

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7 For BS to secure their objectives there will also need to be a sustained increase in real prices but the prospects of this appear particularly unclear given the current depression in certain segments of the shipping market.

8 Against this background the Government have considered the question of financial support in respect of this year only and will review the position again next year. We are proposing to the European Commission a new tranche of Intervention Fund assistance from July 1982 to July 1983 from BS and the private sector of £40 million representing a £5 million reduction on the current tranche which expires this July. For 1982/83 we shall be setting a loss limit of £10 million after Intervention Fund assistance and an External Financing limit of £123 million which takes account of the Chancellor's decision on the National Insurance Surcharge.

9 With the agreement of BS and Harland and Wolff we are going to ask consultants to look into the question of marine engine capacity at BS and Harland and Wolff to see whether the total capacity is excessive or could be more effectively deployed. We have also been mindful that private sector engine manufacturers have over a long period complained about unfair competition when

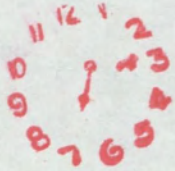


BS and Harland and Wolff have secured land market orders. We have also put to Mr Atkinson the concern of the private sector shiprepairers on unfair competition from British Shipbuilders which was highlighted by the recent report on the Industry and Trade Committee, and I know that Mr Atkinson regards the performance of this sector as unsatisfactory and unless there are firm prospects of rapid improvement further remedial measures may be needed.

10 On the question of privatisation it remains the Government's firm intention - time permitting - to take power of Parliament to facilitate the introduction of private capital for British Shipbuilders. I recognise the impatience of Hon Friends for the Government to make progress in this area.

11 There is little doubt that BS face a task of considerable magnitude in securing the further improvements which are required, and the Government has recognised this by providing the Corporation with substantial support, which is justified by the record so far. But Government support by itself cannot buy viability or security of employment, and it is for the industry to demonstrate by its performance in the coming year that the scale of this support can be regarded as temporary and diminishing.

31 MAR 1982





P.0668

PRIME MINISTERHarland and Wolff
(E(NI)(82)7 and 9)

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BACKGROUND

In E(NI)(82)7 the Secretary of State for Northern Ireland accepts that there are no economic or commercial reasons for giving Harland and Wolff the further Government support necessary to keep it open; and endorses the view of an Independent Review Team that H & W cannot successfully diversify away from the large ships (over 100,000 deadweight tons (dwt)) which they are equipped to build. He argues however that the high and increasing rate of unemployment in Northern Ireland and the shipyard's symbolic importance to the Protestant community justify further support.

2. The Secretary of State makes four proposals:

- a. Harland and Wolff should be permitted to take an order for a bulk carrier for the British Steel Corporation (BSC) on terms considerably more generous than those currently available for orders from British Shipbuilders.
- b. H & W should be told that for the next two years they may seek orders on 'enhanced terms', more generous than those available to British Shipbuilders.
- c. The Government should be prepared to consider providing even more generous support than the 'enhanced terms'; but H & W should not be told of this.
- d. H & W should be required to reduce costs. The Secretary of State suggests that better managers could be found, with assistance from Mr Ian MacGregor; plans himself to discuss with the unions the scope for higher productivity; and proposes to seek independent advice from consultants on ways of finding major cost reductions.



3. In E(NI)(82)9 the CPRS support the Secretary of State's proposals. In addition however they recommend a long term strategy for H & W of progressive withdrawal from the business, with the management set clear corresponding objectives and asked to draw up an appropriate corporate plan. They also propose that the Government should consider various proposals for strengthening H & W's management during the run down (special inducements) and for creating alternative employment in Northern Ireland (new incentives, reducing real wage levels, more expenditure on construction).

MAIN ISSUES

4. The main issues are:

- a. what should be the broad strategy for H & W;
- b. in the light of that:
 - i. what terms should be available for the BSC order;
 - ii. what terms should be available for future orders;
- c. what can be done in the longer term:
 - i. to improve H & W's efficiency;
 - ii. to create alternative employment in Northern Ireland.

The strategy

5. On strategy, the CPRS paper (paragraphs 7 and 8) considers 3 main options: indefinite continuation, progressive withdrawal, or closure now.

6. There are strong economic arguments for closing H & W now. It has made losses every year except one since 1966, it has a record of late deliveries, and it has not won a shipbuilding order since June 1980. As paragraph 18 and Annex E of the note by officials attached to E(NI)(82)7 explain, immediate closure is the least expensive option, in public expenditure terms, unless from 1983-84 H & W can win



about three large orders a year on terms which require a steady reduction in Government support - for which there is scant prospect. There are however some major political objections to closure now. There are 6,850 jobs at stake, in a mainly Protestant area. Closure would seriously alienate Protestant opinion, although the Government will have to be careful not to appear to be treating H & W's workers more generously than De Lorean's mainly Catholic workers.

7. If closure now is ruled out on political grounds and the Committee accepts that indefinite subsidisation of H & W cannot be justified on economic grounds, the third option is progressive withdrawal, which the CPRS favours. The Secretary of State for Northern Ireland may however question whether it is feasible either politically, or from the point of view of industrial relations, for the Government to adopt a deliberate and avowed strategy of running down H & W's business and to ask H & W to draw up a corporate plan on this basis. It would be difficult to adopt this course without it becoming known publicly.

8. If the Committee considers that there are objections to this option also, the only remaining option is to keep H & W going for the time being on the basis of minimum cost seeking only such orders as are necessary to keep the shipyard operational, improving efficiency and reducing manpower as far as possible, and looking forward to the day when the political and economic situation in Northern Ireland may permit H & W's closure. This would in practice be a strategy of progressive withdrawal but it would need to be presented more as a temporary holding strategy until the future became clearer.

9. In the light of their conclusions on the strategy the Committee will need to consider the terms for the BSC order which is crucial to H & W's business over the next year or two and then the terms for future orders.

BSC order

10. If H & W is not to close now, there seems no alternative to securing the BSC order on whatever terms are necessary. The support which Mr Prior proposes involves Intervention Fund assistance equal to 23 per cent of the contract price (normal maximum 18 per cent); and 'soft credit' to the purchaser (7½ per cent interest rate, 100 per cent of contract price, repayable over 10 years with two years' grace) instead of the 'home credit' normally available on ships built in British yards for



British owners ($7\frac{1}{2}$ per cent, 80 per cent of price, $8\frac{1}{2}$ years to repay, no grace period). Even then H & W are likely to make a loss on the order unless their productivity improves by an improbably large amount. On the other hand, both H & W and British Shipbuilders have taken a few previous orders on these terms and the BSC ship is the only reasonably firm order in prospect.

Notification to European Commission

11. The Secretary of State for Northern Ireland states in his memorandum that there is no need to notify the European Commission of the assistance he proposes for the BSC order. There is an argument for notification, on the grounds that the maximum rate of Intervention Fund assistance at present permitted by the European Commission is 18 per cent (Mr Prior proposes 23 per cent) and that 'soft credit' can be regarded as a distortion of competition within the Community. In a letter of 1 March to the Lord Privy Seal Mr Prior argues that notification is not necessary since the application for Intervention Fund assistance was lodged when the permitted rate was 23 per cent; and since there is no known or suspected Community competitor for the BSC order. The Minister of State at the FCO (Mr Hurd) will comment on this proposed line. He may say that, although there is an argument for notification, it is not essential to do so. If the Committee decides against notification, you may wish to ask how likely the Commission would be to find out about the terms of the package; and what the Secretary of State for Industry can do, through BSC, to prevent their becoming public. If the Commission did find out details and ruled the package illegal there could be adverse effects on past and possible future support operations in shipbuilding and other sectors.

Public expenditure in 1982-83

12. If H & W is to be kept in being during 1982-83 and allowed to secure the BSC order on the terms proposed, the public expenditure provision for 1982-83 will need to be £47.6 million, and probably more if no other orders are obtained and there are additional redundancy costs.

Enhanced terms for future orders

13. The Secretary of State for Northern Ireland has proposed that the Committee should approve 'enhanced terms' for future orders. This would involve Intervention



Fund assistance five percentage points higher than can be paid on BS orders; no decrease in the volume of Intervention Fund assistance (unlike for BS); 'soft credit'; deferment of the owner's payments; changes of timing of progress payments; denomination of home credit loans in dollars; and disregard of a conventional discount in the price (the 'address commission') in determining the amount of credit given to the purchaser. Ministers would need collectively to decide that support on enhanced terms should be given in any particular case.

14. Recent experience suggests that H & W may indeed be unable to obtain orders except with especially generous support. The Chief Secretary, Treasury may argue that it is not necessary to agree in advance a set of possible 'enhanced terms', rather than leaving each case to be made on its merits: there will not be many of them. The Secretary of State proposes that colleagues should anyway consider collectively each proposal for support on 'enhanced terms'; but if the principle is agreed in advance the pressure on the Northern Ireland Office to keep support to a minimum may be weakened. This may be particularly important if Ministers want to pursue a strategy of sustaining H & W only on a minimum cost basis. Mr Prior may argue on the other hand that H & W's management need to know that there is at least the possibility of 'enhanced terms' if they are to go out and secure new business.

15. If the Sub-Committee takes the view that it is worth agreeing now a set of 'enhanced terms', but some of its members are not content with the detail of Mr Prior's proposals, the Ministers concerned could be asked to try and reach agreement outside the Sub-Committee.

Support at a higher level than 'enhanced terms'

16. The Secretary of State for Northern Ireland considers that orders may have to be taken on terms which go beyond even the 'enhanced terms' to avoid closure, for example the provision of guarantees to purchasers. However, there seems little need for E(NI) to decide now whether, if necessary, Ministers should agree to consider still more generous support. Any proposal can be looked at on its merits.

Measures to improve H & W's efficiency

17. If H & W is to be kept in being for the next few years for political reasons,



it is vital to reduce the public expenditure cost of doing so. There is likely to be agreement on Mr Prior's proposals for improved efficiency and on his efforts to find a new managing director, and other new managers. The CPRS has proposed that special inducements may be required for this purpose and the Committee may wish to explore in more detail what might be involved.

Measures to provide alternative employment

18. There is also likely to be agreement on the need to provide alternative employment opportunities for H & W's work force. The Secretary of State for Northern Ireland may wish to comment on the CPRS suggestions (new tax incentives, reducing real wage levels, and more expenditure on construction) and to offer his own ideas.

HANDLING

19. The Secretary of State for Northern Ireland, Mr Ibbs, the Chief Secretary, Treasury and (because of his responsibility for British Shipbuilders) the Secretary of State for Industry are likely to be the chief contributors to the discussion. The Secretary of State for Trade may have comments about the market for shipping and the implications for H & W. The Minister of State, Foreign and Commonwealth Office (Mr Hurd), will be able to comment on the European Community aspects of the BSC order.

CONCLUSIONS

20. You will wish to reach conclusions on the following points:

- a. what should be the broad strategy for H & W: (closure now, indefinite continuation, progressive withdrawal, or a minimum cost holding strategy);
- b. whether, and if so on what terms, H & W should accept an order from BSC; and whether the arrangement needs to be notified to the European Commission;
- c. whether public expenditure on H & W in 1982-83 should be £47.6 million and, if necessary, more than this if there are additional redundancy costs;



- d. whether, subject to the approval of the European Commission, a further tranche of Intervention Fund aid should be available for future orders;
- e. whether support should be available for future orders on the proposed 'enhanced terms', or whether cases should be decided entirely on their merits;
- f. whether the possibility of support on terms even more generous should be contemplated now, or whether decisions on this should be deferred;
- g. whether the proposed measures to save costs and strengthen management at H & W are approved;
- h. whether it is agreed that major diversification at H & W is not feasible;
- i. whether there are any measures which can be identified now to provide alternative employment for H & W's work force.

PLG

P L GREGSON

3 March 1982

CONFIDENTIAL

cc. AD



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Prime Minister

(2)

The Rt Hon Humphrey Atkins MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

MCS 2/3

1 March 1982

Dear Lord Privy Seal,

HARLAND AND WOLFF: PROPOSED BRITISH STEEL CORPORATION (BSC) ORDER

I understand that your officials are concerned that the EC dimension to this order needs greater exposure than that contained in the memorandum I submitted to colleagues.

I fully recognise the importance of considering our international obligations in shipbuilding. One of the wider issues which I shall be putting to colleagues is a renewed tranche of Intervention Fund aid for H&W for the year beginning 16 July 1982. Clearly that proposal is subject to notification to the Commission and I understand that work is already under way on preparing with Department of Industry officials a joint notification covering both British Shipbuilders and H&W.

The difficulty arises specifically in relation to the BSC order. The terms proposed consist of three elements: Intervention Fund aid at 23% of contract price, Shipbuilders Relief at 2% and soft credit under the scheme approved by E(EA) in 1979.

You will recall that in correspondence between us in the autumn of 1981 in relation to the abortive Norwegian Bulk Carriers (UK) negotiations for an identical ship, we agreed that 23% could be offered from the H&W Intervention Fund without notification. This was mainly on the grounds first that under transitional arrangements between Fund tranches applied by both the Department of Industry and the Northern Ireland Department of Commerce, applications for Fund aid lodged before expiry of the previous tranche are honoured at the higher rate despite the fact that contracts were not finalised till after the date of change. The second reason was that the way in which transitional arrangements are handled is not the subject of Council Directives or of the Commission's approval to the use of the Intervention Fund and we agreed that such arrangements could be regarded as a matter for the discretion of the UK Government.

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H&W actually lodged a number of applications for aid at 23% prior to expiry of the last tranche. Adam Butler informed the company that we would permit only two - the abortive Norwegian Bulk Carriers order and the current BSC proposition. There is therefore no question of aid from the previous tranche of the Fund being offered on any further contracts. Your officials fully recognise that my proposals are in line with existing UK policy on transitional arrangements. They remain concerned however that this policy could be open to challenge if the Commission were to learn of the application of the higher rates several months after expiry of the last tranche. I agree that our policy on transitional arrangements is a grey area; while I still think we should not notify the Intervention Fund element of the BSC order terms, as a separate issue there may be a case for re-examination of the wider question of our general approach to transitional arrangements.

Shipbuilders Relief was authorised by the Commission's letter of 16 October 1979 approving the third tranche of the Fund, provided Shipbuilder's Relief plus Intervention Fund aid do not in aggregate exceed 25% of contract price. (Similarly the Commission raised no objection to Shipbuilders Relief at 2% under their approval to the fourth tranche). As my proposals meet the terms of this approval, there is no need for notification of the Shipbuilders Relief element.

I also wish to authorise the use of soft credit for the BSC order. The credit arrangements proposed depart in no way from the scheme E(EA) authorised in 1979 (E(EA)(79) 23rd meeting), and which has since been applied to contracts for both BS and H&W. In approving the scheme careful account was taken of its standing under Community law. It was concluded that soft credit was sensitive in the Community context and accordingly it was decided that the supplementation by the builder of normal officially-supported credit should be restricted to home-owners where there was no known or suspected Community competition and in even these cases not to notify. The soft credit proposals for the BSC order fully meet these criteria (in particular BSC have not sought competing tenders) and this is not in dispute between our officials. Your officials believe that the soft credit proposals are notifiable and they argue that the Commission could be expected to oppose them.

I do not wish to set aside the wider anxieties about the scheme and Patrick Jenkin may well wish to reconsider the question of its compatibility with our community obligations. Nevertheless I remain of the view that we should not notify in this instance because of the risk that notification of this case could expose the use of soft credit by both BS and H&W in the past, the critical importance of this order for H&W, as I have explained in my memorandum, and the limited risk of the terms of this order leaking to the Commission. In this connection I can assure you that there is little risk of the terms of this order being published. We have already taken steps to ensure that this is so on the H&W order, and I understand that BSC are also anxious for as little publicity as possible. The Commission is therefore unlikely to learn of the terms of the order.

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I hope that you will be able to agree that we can authorise the BSC order and aid levels without notification to the Commission. Perhaps I might repeat that I am fully conscious of the need to consider our international obligations in relation to each shipbuilding order and I shall be giving these full weight in all future cases.

I am copying this letter to the Prime Minister, other E(NI) colleagues, Sir Robert Armstrong and Mr Ibbs.

Yours sincerely
M. Shephard

Pp JAMES PRIOR
(Signed on behalf of the
Secretary of State
in his absence)

CONFIDENTIAL

1 MAR 1982

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5 6 7 8 9



P.0648

PRIME MINISTERBritish ShipbuildersE(NI)(82)2 and 5

BACKGROUND

This is the first corporate plan which E(NI) has considered. Sponsor Ministers may therefore take this discussion as an indication of how, and how critically, E(NI) is likely to examine 'their' corporate plans.

2. All of British Shipbuilders' (BS) activities except warship production and repair are unprofitable; and since its establishment in 1977 the corporation has reduced drastically the scale of its merchant shipbuilding, where most of the losses are made (capacity down 33 per cent, employment more than halved to 17,000). Last summer's defence review will also greatly reduce demand for BS's warships: up to 14,000 jobs will be affected by 1985.

3. British Shipbuilders' corporate plan envisages that the Corporation will so far as possible retain its present scale of operations. In particular:

- (i) Merchant shipbuilding capacity and employment will cease to contract and will increase from 1983-84, with employment rising to between 21,000 and 22,000 in 1984-85.
- (ii) Job losses on naval work will be reduced by expanding work on offshore installations at Cammell Laird and Scott Lithgow; by increasing merchant work at Swan Hunter; and by trying to increase warship exports. But there will still be several thousand redundancies.

British Shipbuilders expect that under this plan, their finances will improve so that in 1984-85 they will earn a profit in historic cost terms (over £20 million after assistance from the Intervention Fund).



4. The Secretary of State for Industry invites the Sub-Committee:

- (a) to agree in general to BS's proposals; except that
- (b) there should be no increase in merchant shipbuilding employment unless orders are available "on the right terms";
- (c) to agree to his specific proposals on the Shipbuilding Redundancy Payments Scheme, BS work on offshore installations, engines, finance and the Intervention Fund.

5. In E(NI)(82)5 the CPRS criticise BS's plans and forecasts on two counts.

1 First, they argue that BS have not given sufficient weight to financial factors,
 2 have failed to show in detail how their proposed strategy will make BS profitable
 3 and have not provided projections for individual yards.

6. Secondly, they point out that BS's profit forecasts appear to be too optimistic. They assume both an improvement of productivity of about 45 per cent between 1980-81 and 1984-85 and a continuing improvement in the world market for new ships over the next two years. The productivity target is high, although BS are starting from a low base (about the lowest in Europe). The demand forecasts are more open to question. They assume a sustained increase in real prices and in the profit margins which Japanese shipbuilders will build into their ship prices. But the Japanese are themselves under pressure from lower cost Korean shipbuilders; and it is likely that prices will turn out lower, and shipbuilding less profitable than BS assume. The note by Department of Industry officials attached to the Secretary of State's proposals echoes this criticism.

7. The CPRS suggest that Ministers should not endorse plans for merchant shipbuilding beyond 1982-83, and should press BS to produce better financial information in their next corporate plan, including an analysis of proposals for each major yard: meanwhile BS should be told that Ministers will only agree to expansion at the main merchant yards if they can obtain orders on which they can make profit without any assistance from the Government. The CPRS also emphasise the importance of establishing, soon, clear long term objectives for BS, which the Secretary of State for Industry's memorandum says he intends to do.

MAIN ISSUES

Merchant Shipbuilding

8. The question underlying decisions about British Shipbuilders, and especially its merchant shipbuilding, is how far the Government wishes or is obliged to resist the competitive pressures which would probably cause a further rapid and substantial reduction in BS's operations. Although the Corporation's financial position is improving, there must be considerable doubt about whether a number of its yards can ever hope to compete successfully, without subsidy, with efficient Japanese and Korean manufacturers. Some yards may be able to compete in producing fuel efficient, high technology ships; but the Corporation may be unable to make the best of such strengths as it has if it tries to keep inefficient yards running as well. In principle the Government could decide to withdraw Intervention Fund support before 1984-85; and set stiff profitability objectives for BS.

9. Such a course would lead to shipyard closures; and would be contentious. In particular:

- (a) Closing down a shipyard leads to substantial additional cash requirements; and writing off the yards concerned immediately worsens profits. Most of BS's shipyards are in areas of high unemployment; few of those who lost their jobs would find alternative employment; effectively the choice is therefore in many cases between paying unemployment benefit for some years and subsidising BS employees at least to produce something. But much the same is true of other closures both in the private sector and in the nationalised industries; and in a number of cases the Government has decided that there is no point in continuing to subsidise activities which have no realistic long term prospects of viability.
- (b) Shipyard closures in the next few years will be more clearly the result of Government policy, and perhaps be more strongly resisted, than have closures in recent years. It is less difficult to argue for closure when there is simply no work for a yard, as has been the case with some BS closures, than when a yard is closed because it is not



sufficiently profitable. Enough work can probably now be obtained to keep merchant shipbuilding at its present level; over the next three or four years BS itself wants to expand such work and will blame the Government if its plans are frustrated. If closures led to industrial action, BS would incur extra costs through being unable to complete its contracts on time.

- (c) The Chairman of British Shipbuilders, Mr Atkinson, might resign if the Government did not approve BS's proposed strategy.

10. There are two questions on which the sub-Committee should attempt to reach a view in the light of these considerations:

- (a) What criterion should be used to determine the future scale of BS's merchant shipbuilding activity?

The most stringent approach would be to require that, after some future date, no new orders should be taken on unless they are likely to pass some previously agreed profits test without Intervention Fund payments or other subsidy, that yards which did not get business on that basis would close down, and that employment in merchant shipbuilding would contract accordingly. The CPRS suggest that this criterion of profitability without subsidy should be applied somewhat less stringently/^{ie} to proposals to expand merchant shipbuilding from 1983-84 onwards. The Secretary of State proposes that such expansion should only be permitted if orders are available on the right terms, without saying what "the right terms" would be; and that BS's long term objective should be to attain viability by the end of 1984-85. But "viability" is an imprecise concept; and, however it is defined, BS as a whole might be able to continue in business while retaining loss making yards.

- (b) Should the Government approve BS's plans for the period to 1984-85 or, as the CPRS suggest, approve the plans only for the sectors other than merchant shipbuilding, where endorsement would be confined to 1982-83?



11. E(NI) will not be able at this meeting to reach agreement in detail on long term objectives for BS or criteria for new orders: there are technical decisions about for example the definition of profitability which the Secretary of State could be asked to sort out with the Treasury, the CPRS and other interested Departments, with a view to getting E(NI) approval in due course.

Offshore work

12. BS's construction of offshore rigs is subsidised, although at a lower rate than merchant shipbuilding; and the Corporation do not expect to break even on this work during the corporate plan period. It is however unlikely that any member of the sub-Committee will object to the Secretary of State's proposals that E(NI) should confirm the policy which E Committee approved in 1980 and under which Ministers have collectively to approve any proposal to take an order at a loss. (E(80)38th Meeting, Item 1).

Shipbuilding Redundancy Payments Scheme

13. This scheme provides benefits which are considerably more generous than those available to workers in most industries under the normal statutory redundancy arrangements, although broadly comparable with the redundancy schemes in steel and coal. The Secretary of State for Industry proposes that the terms should be improved. The best course would probably be for the Secretary of State for Industry to seek agreement to this proposal outside the meeting: Treasury Ministers may well suggest that in the first instance officials should be asked to evaluate the Secretary of State's proposals.

Engines

14. The Secretary of State for Industry proposes that consultants should investigate whether there is over-capacity in slow speed marine engines in the British shipbuilding industry, taking into account not just BS's own facilities but also those at Harland and Wolff. No member of the sub-Committee is likely to object.

Intervention Fund and Other Financial Support

15. The amount and terms of the Shipbuilding Intervention Fund are settled annually and have to be negotiated with the European Commission. The Secretary of State proposes



that for the twelve months beginning in July £40 million should be available (£5 million less than this year) and that the maximum level of assistance should be reduced by up to 5 percentage points below the present rate of 18 per cent of the contract price.

16. The Chief Secretary may argue for a figure below £40 million and a reduction in the maximum rate of assistance by the full 5 percentage points to 13 per cent.

17. The Secretary of State proposes that BS's External Financing Limit (EFL) should be set at £125 million in 1982-83 and that for that year BS should also be set a loss limit of £10 million after assistance from the Intervention Fund. I understand that the Chief Secretary has already provisionally agreed to the EFL figure and is likely to be content with the £10 million loss limit.

18. The Secretary of State also proposes increases in the PES provision for British Shipbuilders in 1983-84 and 1984-85 above the totals previously agreed on a provisional basis. The Secretary of State's proposals may be overtaken if the sub-Committee is unwilling to endorse BS's corporate plan; but in any case the Chief Secretary is unlikely to agree to increase the Corporation's PES provision at this meeting, partly because the figures are affected by capital expenditure on the Trident project, whose implications are still being discussed at official level.

19. The Secretary of State may well want to register the point at some stage that closing shipyards or other BS establishments would increase the public expenditure totals.

HANDLING

20. The best course would probably be for the sub-Committee first to discuss merchant shipbuilding; and then to turn separately and probably much more briefly to the other topics listed in paragraphs 12 to 19 above.

21. It will be for the Secretary of State for Industry to take the lead on merchant shipbuilding and the general question of the Government's attitude to BS's proposed strategy. Mr Ibbs will wish to present the CPRS paper; and the Chief Secretary will want to comment generally. The Secretary of State for Trade will probably wish to comment on the outlook for the shipping industry both in the United Kingdom and elsewhere in the world and its implications for British Shipbuilders; the Secretary of State for Defence, British Shipbuilders' largest customer, may also have some insights into the way the Corporation does and could run its affairs. Other members



of the sub-Committee may want to comment generally.

22. So far as the Secretary of State's other proposals are concerned, you could merely ask whether any colleague objects to any of them. The Chief Secretary is likely to be the main or perhaps only critic, although any member of the sub-Committee may have general comments to make. The Secretary of State for Northern Ireland has an interest in, but probably no objection to, the proposed study of engine building capacity in the United Kingdom through his responsibility for Harland and Wolff.

CONCLUSIONS

23. You will want to reach conclusions on the following matters:

- i. in relation to BS's strategy:
 - a. whether this should be endorsed, as the Secretary of State for Industry has proposed, as a whole, including the strategy for merchant shipbuilding subject only to the reservation that expansion in 1983-84 and later could take place if orders were available on the right terms;
 - or b. whether, as the CPRS has proposed, the plans for merchant shipbuilding should not be endorsed beyond 1982-83, with expansion only if orders could be taken on terms which would enable the yards to trade profitably without Government financial support;
 - or c. some other variant.
- ii. whether the Secretary of State for Industry should be invited to do further detailed work on framing long-term objectives for BS, in consultation with the Treasury and CPRS, with a view to approval by E(NI) in due course;
- iii. whether, as the CPRS has proposed, BS should be pressed to produce better financial information in their next Corporate Plan, including an analysis of proposals for each major yard;



- iv. whether the Secretary of State for Industry's proposals should be accepted on:
- a. the Redundancy Payments Scheme (para 10 of E(NI)(82)2);
 - b. Offshore (para 11);
 - c. Engines (para 12);
 - d. Finance for 1982-83 ie an EFL of £125 million and a loss limit of £10 million after Intervention Fund assistance (para 13);
 - e. Intervention Fund ie a further tranche of £40 million and a reduction in the percentage by up to 5 points (para 14).

Pg
LONDON
P L GREGSON

9 February 1982



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

17 November 1981

NSPM

✓M/R

How Sam,

BRITISH SHIPBUILDERS: PRIVATISATION

Thank you for your letter of 16 November, which I have shown to the Lord President. Mr Pym is happy with a reference on the lines that you suggest, but is concerned not to pre-empt future QL decisions, or to seem to give a commitment. He therefore suggests that the form of words should be amended to read as follows:

"It is the Government's aim to take powers this Parliament, if time permits, to facilitate private investment in British Shipbuilders."

You agreed to let me know, when we discussed this on the telephone, if these amendments caused you any difficulty.

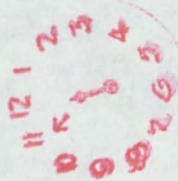
I am copying this letter to the recipients of yours and also to John Halliday, Home Office.

*Yours ever,
David.*

D C R HEYHOE
Private Secretary

I K C Ellison Esq
Private Secretary to the
Secretary of State for Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

17 NOV 1981





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

16 November 1981

David Heyhoe Esq
Private Secretary to the
Lord President
Cabinet Office
London SW1

NBPM

Dear David

BRITISH SHIPBUILDERS: PRIVATISATION

You will remember that E(DL) decided on 23 July (E(DL)(81)3rd, item 1) that the Government should make changes in the statutory framework under which British Shipbuilders operated partly so as to facilitate the disposal of parts of the Corporation to the private sector. It was subsequently decided by Cabinet (CC(81)32nd) that the Shipbuilding Industry Bill should not include provisions on privatisation because of pressure on the Parliamentary timetable.

2 On this basis the Shipbuilding Bill, which is due to receive its Second Reading tomorrow, Tuesday, 17 November, contains provisions which merely increase British Shipbuilders' borrowing limit and prolong the Shipbuilding Redundancy Payments Scheme. However, my Secretary of State and Mr Lamont, the Minister of State, who will be making the Second Reading speech, have decided that the speech should say that:.

"It is the Government's intention to take powers this Parliament to facilitate private investment in British Shipbuilders".

3 In view of the earlier discussion and since the proposed statement does not amount to a firm commitment to introduce legislation my Secretary of State thinks there is no objection to Mr Lamont speaking on the lines proposed. My Secretary of State thought, however, that the Lord President would wish to know the line being taken.

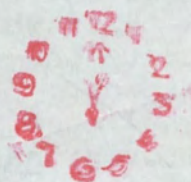
4 I am copying this letter to Michael Scholar (No 10), Peter Jenkins (Treasury), Murdo McLean (Chief Whip) and David Wright (Cabinet Office).

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

16 NOV 1981



CONFIDENTIAL

GC A. Duguid
A. Waller



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

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State

Norman Tebbit MP

MB

Ann Thorne

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1

21st July 1981

12
24/7

D Leon.

I am writing to let you know where we have reached in our consideration of the Corporate Plan for British Shipbuilders (BS) and our timetable for completing the work.

BS's Corporate Plan, submitted at the end of May, proposed no further contraction in merchant shipbuilding. Merchant shipbuilding employment since vesting day 1977 has contracted from 39,000 to 18,000 and BS now feel that the market and prices are going to improve further. They also have to take into account stiffening union resistance to further contraction, as the closure of Robb Caledon (Dundee) due to be completed in September has amply demonstrated.

Officials from all the Departments concerned have been engaged in discussing with BS their detailed plan for merchant shipbuilding, shiprepair, marine engines and offshore. As a result of these meetings, BS have been asked to examine certain alternative assumptions. We have asked them to assess the effect upon their merchant shipbuilding plan of a further tranche of Intervention Fund of no more than £35 million when the tranche of £45 million runs out in mid-1982; they have also been asked for an assessment of the effect of a £25 million tranche, or alternately zero, and the effect of a real price increase in ships being 4 percentage points less than the level they are assuming. Their response to these questions will help us to examine options on various levels of support and, in particular, whether we should be content with the prospect of somewhere near breakeven next year after crediting Intervention Fund assistance, or whether we should use financial pressure to force further contraction in 1982/83 and 1983/84. In the latter event this could mean temporarily higher expenditure due to closure cost. Shipyards can be closed only on completion of existing contracts and further contraction would also give rise to severe difficulties on the timing and presentation of closure decisions.

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CONFIDENTIAL



However, I do not expect to be able to put proposals to colleagues on shipbuilding strategy until towards the end of September. BS need to take on board for their Corporate Strategy the Defence Programme changes announced by John Nott on June 25, and discussions between BS and MOD on the implications of the changes have now been initiated. The discussions will have to be set in the context of MOD's short and longer term budgetary constraints and these will involve some continuing uncertainty, but I would hope that by September all possible clarification of the short-term position will have been achieved.

The reductions in future surface warship orders has, of course, not only implications for specialist naval shipbuilding capacity but also for merchant shipbuilding capacity in places like Swan Hunter which build both naval and merchant ships, and we shall need to consider the contraction on the naval side in the context of policy towards the industry as a whole.

In the meantime, as you know, I have put forward proposals to colleagues which will be considered shortly to facilitate the introduction of private capital into BS at the appropriate time so that we can take maximum advantage of the need to raise BS's borrowing limits next session.

Copies of this letter go to the Prime Minister and Members of E(EA).

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

CONFIDENTIAL



22 JUL 1984

Nat. Ind :

June 1979

Shipbuilding Policy -

010

CONFIDENTIAL
From: THE PRIVATE SECRETARY

*cc. A. Duguid
A. Walker*



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Not Incl.

cc. Mrs. Atkin

Mika MA

1 su no

Tim Lankester Esq
10 Downing Street
LONDON
SW1

*Attended in
his. App?
1 July 1981*

Dear Tim,

R.

HARLAND AND WOLFF: PUBLICATION OF ACCOUNTS

27

You will wish to be aware that the Harland and Wolff (H&W) Report and Accounts for the calendar year 1980 are to be published later this week and that they expose an overall loss for the year of £32m (compared with £43m in 1979), trading losses of £26.2m (from £24m in 1979) and a reduction in the value of work done from £67m in 1979 to £57m in 1980.

These losses are bound to attract adverse comment from the media and in Parliament, particularly in the light of last week's announcement of continued Government support for H&W in 1981/82 up to a limit of £56.9m (£46m from PES). These losses are very much what we were expecting and there has been no breach of the financing limits which the Government set for 1979/80 and 1980/81. However, they give added point to our current fundamental reconsideration of the Company's future strategy.

*some
how!*

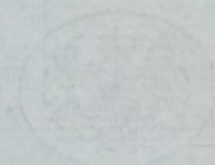
My Secretary of State proposes to advise H&W to publish their Report and Accounts on Friday 3 July, to place copies in the Library of the House (as is customary) and to authorise Mr Butler to issue the attached draft press release. I should be grateful to know whether you see any difficulties about this.

I am sending copies of this letter to Ian Ellison (Department of Industry), to the Private Secretaries to the other members of E(EA) and to David Wright (Cabinet Office).

*Yours sincerely,
Noel Cornick*

NOEL CORNICK

CONFIDENTIAL



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Faint text block in the upper right quadrant.

INLAND AND OCEAN: SUBSTITUTION OF... (mirrored text)

For will also be aware that the... (mirrored text)

These factors are... (mirrored text)

iv Secretary of State... (mirrored text)

6 JUL 1981 (red stamp)

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DRAFT MINISTERIAL STATEMENT

The Minister responsible for the Department of Commerce, Mr Butler, said that the Harland and Wolff results for 1950 were undoubtedly disappointing. While he recognized the tough conditions prevailing in the shipbuilding industry worldwide, Mr Butler said that losses on such a scale should make both workforce and management more determined to improve efficiency and working practices, and to cut all costs within their control, in the realisation that the taxpayer will become increasingly reluctant to foot such large bills in the future.



Northern Ireland Office

Great George Street, London., SW1P 3AJ
Telephone: Direct Dialling 01-233.....**4378**
Exchange 01-233 3000

Please attach to Noel Conide letter
to Tim Lankester dated 1 Jul 51
re Harland & Wolff: Publication
of Accounts.

With Compliments

and

Apologies for omission

016

Nat hd 2.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State
PS/Norman Tebbit MP

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
Whitehall

Prime Minister
You asked about the
level of subsidy
involved here.
4 June 1981

MS

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2. Pa

MAP 4/v1

Den Mith

CAMELL LAIRD: DOME PETROLEUM

I attach as requested a copy of the letter circulated to E(EA) setting out the background to this order. Treasury agreement was given on 12 May. I should add that due to subsequent movements in the exchange rate it now looks as if the loss incurred by British Shipbuilders could be as low as \$3-4 million compared with the maximum of \$8 million approved by the Treasury. This represents the extent of the Government subsidy to this order and will be contained within the loss limits of British Shipbuilders.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

MAP 7/v1

DEPARTMENT OF INDUSTRY
ASHBORN HOUSE
113 VICTORIA STREET
LONDON E1W 8BB
TELEPHONE 2341 1000
FACSIMILE 2341 1000



POST OFFICE
LONDON E1W 8BB

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Shipbuilders
Orders

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691

From the
Minister of State
Norman Tebbit M

Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Whitehall

8 May 1981

Dear Chief Secretary.

CAMMELL LAIRD: DOME PETROLEUM

I am writing to seek your agreement that British Shipbuilders should offer limited financial concessions outside the normal financial arrangements (involving BS in some loss) in order that Cammell Laird may secure an order from Dome Petroleum of Canada for a semi-submersible drilling rig. I should normally expect to bring these proposals to E(EA) but, because Dome are anxious to reach a very early agreement with BS, it is necessary that I should seek your agreement in correspondence.

During detailed negotiations with Dome the competition for this order has been reduced to a straight battle between Cammell Laird and an experienced Swedish yard, Gotaverken. Dome have expressed themselves totally satisfied with the facilities at Cammell Laird and the ability of the yard to complete the contract. My officials have examined the basis of the cost estimates prepared by the yard and believe that they are realistic, not least because they have been compiled on the basis of detailed advice from Highland Fabricators, an experienced private sector offshore yard. There nevertheless remains a price disadvantage to Dome from a UK build. The total cost to Dome of the Cammell Laird is \$145.3 million (at £1 = \$2.27) whereas the Swedish offer on a comparable basis is \$128.4 million. Dome have stated that they are prepared to meet \$5 million of the gap of \$16.9 million in order to build in the UK.

The rig does not qualify for Intervention Fund support. However, the rig will be owned by a UK registered company and will therefore qualify for normal Home Credit Scheme support for rigs (~~85% of contract price at 8 1/2% over 8 1/2 years from delivery~~). Some reduction of the gap can be achieved by detailed adjustments to the credit arrangements within the overall terms, which do not conflict with our international obligations or our agreed procedures for operating the Scheme. These save about \$2 million. The residual gap, after allowing for Dome's contribution, therefore reduces to \$8.9 million.



Dome have suggested that all but \$2 million of this gap can be eliminated if the contract is struck in dollars at a fixed rate of £1 = \$2.135. (The original comparison being based on £1 = \$2.27.) This would be accompanied by a dollar loan under the Home Credit Scheme. British Shipbuilders frequently enter into dollar contracts for the sale of ships and seek to protect themselves by forward sales of the dollar receipts. However, in the current state of the currency markets, BS could not achieve forward sales at a level which would avoid all currency losses on the transaction. On the basis of current forward rates extending up to delivery in June 1983, BS would suffer a currency loss of up to \$6 million.

BS propose to meet the remaining \$2 million by offering to pay some or all of the building supervision costs which will be incurred by Dome. These are estimated to total some \$3 million so there is some scope for offering Dome a trade-off between these and the actual exchange rate at which the contract is struck. For example, meeting all of the \$3 million supervision costs could enable the contract to be struck at £1 = \$2.155.

In any event, the potential loss to BS on this contract is \$8 million, equivalent to £3½ million. BS have confirmed that this sum can be met within their existing loss limit.

When we considered the KCA case in E(EA), I emphasised the critical importance of an early offshore order for Cammell Laird, particularly in the context of the cutback in Naval ordering. Whilst BS are still negotiating with KCA, it is still likely to be some while before a contract can be placed and meanwhile Cammell Laird are approaching the point in time when there will be severe underutilization at the yard. The yard is currently forecasting a profit of about £2½ million on naval work in the current year if an early offshore order is secured, but this prospect will otherwise be rapidly eroded due to underutilization. Dome are anxious to place their order very quickly. Their President, Bill Richards, will be in the UK at the end of next week and hopes that a final decision can be reached by then. (He is due to meet Hamish Gray on Thursday.)

You will be anxious to know how this order fits in to the future of Cammell Laird and Scott Lithgow given the likely reduction in MOD work. Until BS have produced their Corporate Plan and it has been modified in the light of the defence review and agreed with Government, it is impossible to predict the prospects for these yards nor, indeed, those of many other yards in BS. No guarantee can, therefore, be given that either Scott Lithgow or Cammell Laird can survive but at this stage it seems to be reasonable to assume that it may well be possible for one or the other of them to do so primarily on oil related work. Unless, however, we wish to precipitate an early crisis by default at Cammell Laird, it would be desirable to



authorise BS to take this order which would also give Cammell Laird experience of rig work and aid their prospects of competing in offshore. Moreover, Keith Speed has already made the point in relation to the KCA case that taking an offshore order would help ease any problems involved in completing existing defence contracts at Cammell Laird which I fear would otherwise go sadly awry. I should also add that should KCA place an order for a rig, Cammell Laird could build it as well as the Dome order, though some of the work would have to be sub-contracted, probably to Scott Lithgow who also need a rig order soon to avoid underutilization in the autumn.

I believe that Cammell Laird have done extremely well to come so close to matching the competition on normal commercial terms. By way of comparison, the direct subsidy level being sought to close the remaining gap is less than 6% compared with the 23% normally necessary to secure merchant ship-building orders. The winning of a major offshore order from a foreign oil company would be a real boost to the yard's prospects of establishing itself as a credible force in the offshore market.

I should therefore welcome your urgent agreement that BS should offer: ..

i a fixed dollar contract at a rate of not less than \$2.135 = £1; and

ii to meet that proportion of Dome's supervision costs necessary to bridge the remaining gap.

I should require BS to limit their foreseen loss to \$8 million (subject to the actual forward rates at the time of agreement) and to negotiate a deal which served their best commercial interests. I am sorry to press for such a speedy response, but we only received Dome's proposals this week and they are anxious to reach agreement before Mr Richard's visit next week.

I am copying this to colleagues in E(EA).

Yours sincerely
PE Munn

pp NORMAN TEBBIT

FILE

VLB

North Ind

cc D/I

CF Waste

1 June 1981

The Prime Minister has asked me to thank you for your letter of 18 May and for keeping her informed of the progress of your negotiations for a drilling rig.

Mrs. Thatcher has noted that you are having further talks with Mr. Atkinson, and she very much hopes that these will prove fruitful.

T P LANKESTER

P. L. H. Bristol, Esq.

25

CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Tebbit MP

T Lankester Esq
10 Downing Street
London SW1

28th May 1981

SM-
M. H. M.

Dear Tim

Thank you for your letter of 21 May enclosing a letter to the Prime Minister from Mr Paul Bristol of KCA International.

You will recall that on 9 April E(EA) agreed that British Shipbuilders should be authorised to offer a guarantee of the residual value of the lease of a rig to be purchased by a leasing consortium on behalf of KCA. The guarantee was to be limited to £12 million and would come into effect at the end of a four or five year primary charter period.

Negotiations have been proceeding between BS, KCA and the leasing consortium but there does not appear any immediate prospect of an order by KCA. Mr Bristol alleges that this is because the degree of "underwriting offered by the Department" (in fact offered by BS) is insufficient. This is not our understanding of the position. A prime requirement for the deal to go ahead is for KCA to secure a primary charter from a major oil company for the first four or five years operation of the rig. This he has failed to do. In the absence of a satisfactory factory primary charter, the leasing consortium are not prepared to finance the project even with the benefit of a BS guarantee to cover the secondary rental period. On the other hand, if KCA were to secure a charter, the consortium believe that they could put together a deal on the basis of the level of underwriting already offered. The ball is therefore squarely in Mr Bristol's court.

In the circumstances, it would be best for only a short reply to be sent to Mr Bristol, merely thanking him for keeping the Prime Minister in the picture and noting that negotiations are for British Shipbuilders.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

Enc

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29/5

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LETTER FOR PS/PRIME MINISTER TO SEND TO:

P L H Bristol Esq
Chairman
KCA International Ltd
9th Floor
Berkeley Square House
Berkeley Square
London
W1X 6BY

The Prime Minister has asked me to thank you for your letter of 18 May and for keeping her informed of the progress of your negotiations for a drilling rig. ~~The negotiations are a matter~~ // ~~for British Shipbuilders and~~ the Prime Minister has noted that you are having further talks with Mr Atkinson, *and she* *very much hopes that these will ~~be~~ prove* *fruitful.*

CONFIDENTIAL

4/6

21 May 1981

I enclose the letter from the
Chairman of KCA International which we
discussed this morning. I would be
grateful if you could let me have
a draft Private Secretary reply, by
Thursday 4 June.

L. E. LANKESTER
MAP

P.E. Mason Esq
Department of Industry

VLS

MFJ

21 May 1981

I am writing on behalf of the Prime Minister to thank you for your letter of 18 May.

I will place your letter before the Prime Minister and a reply will be sent to you as soon as possible.

TPL

Paul Bristol Esq

VCS



10 DOWNING STREET

PRIME MINISTER

We have already made a substantial concession to persuade KCA to build a semi-submersible rig at Cammell Laird. The KCA Chairman now says that it is not sufficient.

I do not think you can get involved in this further. If you agree, I will just acknowledge.

S.J. Piche

pp TPL

20 May 1981

Before we
acknowledge - we ought to
be in touch with K.C.A.
A short forward acknowledgment
nothing else could look
completely disinterested.
ms.

P. L. H. Bristol
Chairman and Chief Executive

KCA International Limited

9th Floor, Berkeley Square House
Berkeley Square
London W1X 6BY

May 18, 1981

The Rt Hon Mrs Margaret Thatcher, MP
10 Downing Street
London SW1

Tel 01-491 3958
Cable KAYGRUP London
Telex 28924

1915

Dear Prime Minister *h*

It was most kind of you to reply to my letter of 24th March concerning the possible order of a semi-submersible rig from Cammell Laird. I have hesitated in coming back to you as I had hoped that the matter could have been finally concluded in talks with the Department of Industry during the last few weeks. However, although we still wish to build in a British Shipyard, we are having problems in that the amount of underwriting offered by the Department is sadly not sufficient in that it does not commercially make it sensible for us to proceed at the present moment.

I am however meeting Robert Atkinson on Wednesday of this week and I will be fully explaining to him the situation. I realise that you cannot get involved in detail in this matter, however, I did feel that I should let you know where we stand on this matter.

Yours sincerely

Paul Bristol

Registered in England No. 178880
Registered Office: Kingsnorth-on-the-Medway
Hoo, Rochester, Kent ME3 9NO
Secretary: A. W. Banyard



From the
Minister of State

Norman Tebbit MP

Rt Hon Leon Brittan Esq QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
Whitehall
SW1P 3AG

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

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

cc Vereska

30 March 1981

D Leon.

You will have seen from Press Reports that British Shipbuilders (BS) negotiations on pay and restructuring are reaching a crisis point. The Chairman of BS discussed this with me this morning and the position is that the unions are looking for an increase in basic rate of at least 8.5% which could be expected to increase earnings by 9.4% and are also refusing to accept compulsory redundancies. BS have a need at present to declare about 600 compulsory redundancies.

So far BS have offered 6.8% in basic rates which with other changes in Minimum Earnings Levels and overtime rates would be likely to bring the increases in manual earnings to 7.7%. The offer is conditional on agreement at National Level on guidelines on measures such as overtime limitation and working practices agreement to reduce costs and to increase productivity.

The consequences of a failure to such agreement would be unlikely to take the form of a strike. More likely would be an overtime ban, non co-operation, and a sharp fall in productivity. This would damage BS's commercial standing (which under Mr Atkinson's chairmanship has been improving) and, since it would cause delivery delays bringing penalty clause payments, it would be particularly expensive.

In the Chairman's view, provided the Unions accept compulsory redundancies (which would be an important precedent for the future and would save £4m-£5m) he would be willing to increase the offer in basic rates to a maximum of 7.5%, but the other allowances would be scaled down so that the increase in earnings did not exceed 8.2%. This change in relationship between the basic rate and earnings would be arranged to improve the look of the package to save the negotiators' face. Staff salaries would go up by the basic rate so that the total increase in earnings would be within the 8% increase assumed

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in the EFL. I have made clear to Mr Atkinson that he can expect no new money. He will endeavour to stretch the period of the pay offer to say 15 months but is not sanguine of success in this. BS would present the deal as 7.5% on basic rate.

The Chairman has also assured me that there is no question of the Corporation offering any form of job security. As reported in the Press some of his staff expressed willingness to discuss the idea with the Unions, but he overruled them.

Given this commercial judgement by the Chairman where to make a stand, the small additional flexibility which he sought tied to acceptance of compulsory redundancies appears reasonable. If however he fails to reach agreement on this basis, he will need our full support since any later backing down would damage his credibility. No major long term damage would be done to the economy by a long strike but obviously it would mean a substantial breach of the BS EFL.

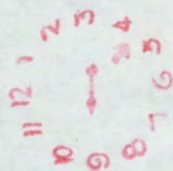
Copies of this letter go to the Prime Minister, Jim Prior, John Nott, John Biffen and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman', with a stylized flourish above it.

NORMAN TEBBIT

CONFIDENTIAL

30 MAR 1981



File

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Next
Ind

MR VEREKER

cc:- Mr Duguid

The Prime Minister read your note of 19 March about British Shipbuilders' pay, and agreed that we should not intervene in the correspondence.

23 March, 1981



2

10 DOWNING STREET

PRIME MINISTER

The Treasury also agree that we should not intervene to stop British shipbuilders trying to settle at 7%.

P. LANKESTER

20 March, 1981

A handwritten signature in dark ink, appearing to be 'MB' or similar initials, written in a cursive style.

CONFIDENTIAL

MR. LANKESTER

c.c. Mr. Duguid

British Shipbuilders' Pay

attached

You asked for my comments on the letter of 18 March from Norman Tebbit to the Chief Secretary which suggests that the Government decide not to intervene in the proposal by British Shipbuilders to increase their pay offer from 5.25% to around 7%.

I am sure this advice is right. The monitoring group looked at this briefly recently, and saw no reason to intervene; although the financial situation of British Shipbuilders had led us to hope that a very low settlement might be possible, 7% would still be well below the average for the public trading sector, and indeed 2 points below the pay assumption in the EFL which was about 9%.

I doubt if the Prime Minister need intervene in this correspondence.

J.

19 March, 1981.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

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

19 March 1981

R. K. J.

BS PAY

Thank you for your letter of 18 March in which you seek my comments on a proposal by BS to increase their pay offer by 1.25 per cent to 7 per cent.

I agree with your judgement that the small increase proposed does not warrant Government intervention. You should, however, make it clear to BS that the settlement should not exceed 7 per cent, and that no more money above that which has already been committed will be forthcoming.

I am sending a copy of this letter to the Prime Minister and the Secretary of State for Employment.

Leon
Leon

LEON BRITTAN

19 MAR 1981



010

CONFIDENTIAL

Mr. Vereker

Any comments by tomorrow.
TL 18/3



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

TELEPHONE DIRECT LINE 01-212 7691
SWITCHBOARD 01-212 7676

From the
Minister of State

Norman Tebbit MP

The Rt Hon Leon Brittan QC MP
Chief Secretary
H M Treasury
Parliament Street
London SW1

18 March 1981

o/mc.
TEL
ann 591
726 pm
mull

Dear Chief Secretary,

BS PAY

British Shipbuilders' initial offer of an increase of 5.25% in average earnings has been rejected by the Unions; the two sides are to meet again on 23 March. BS have recently advised my Department that they hope to be able to settle at not more than 7% increase in average earnings and to recoup much of this by way of increases in productivity. They do not consider that an all out strike is likely if they fail to settle; they think it more probable that the Unions will pursue disruptive tactics (such as a ban on overtime) which could be costly, and cease to co-operate in the rundown in manpower which has so far proceeded largely on a voluntary basis.

Past attempts by BS to recoup wage increases by higher productivity have only been partially successful. On this occasion, however, BS propose that higher wages would be paid from 1 April 1981 only at those yards which enter into working practices agreements by 1 May 1981; at those yards which fail to meet this deadline higher wages would be paid only from the date of the agreement. The agreements would provide for flexible manning throughout the industry (at present it applies only at Govan and Falmouth) as well as reductions in overtime and other matters.

While, therefore, I am disappointed that BS cannot achieve a really low settlement, I do not think that the proposed increase of 1.75% over BS's original offer warrant the risks of intervention in which BS would hold us responsible for the consequences of industrial action. I would, however, propose to impress upon Mr Atkinson the importance of not exceeding 7% and to underline that more money will not be available.

CONFIDENTIAL

CONFIDENTIAL



Since the meeting between the two sides is scheduled for 23 March may I please have any comments by close of play on 20 March?

I am copying this letter to the Prime Minister and the Secretary of State for Employment.

Yours sincerely,

Heather Archer

PP NORMAN TEBBIT
(Approved by the Minister and
signed in his absence)

CONFIDENTIAL

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18 MAR 1981

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L50 HMT
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10 DOWNING STREET

From the Private Secretary

9 February 1981

The Prime Minister was grateful for your Secretary of State's minute of 4 February reporting on the state of play in respect of British shipbuilders' disposal of their ship repair business. You should, however, be aware of her general comment: "We are always buying something from the private sector on the grounds that it can be resold in due course. But we are slow to sell off anything of any size."

I am sending copies of this letter to Robin Birch (Chancellor of the Duchy of Lancaster's Office), to the Private Secretaries to members of E(DL) and to David Wright (Cabinet Office).

Th

Ian Ellison, Esq.
Department of Industry

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Jur

Mr. Duguid

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We are always buying something from the private sector or the public sector. It can be resolved in due course. But we are slow to sell off anything. Any rise in price.

PRIME MINISTER

BRITISH SHIPBUILDERS

At your meeting on 22 December 1980 on the Nationalised Industries you expressed disappointment that British Shipbuilders (BS) had not made progress in selling off their shiprepair companies.

... 2 I enclose details of the shiprepair companies owned by BS and the main private sector shiprepair companies. You will see that only two BL shiprepair companies appear to be saleable at the present time: Falmouth and Grangemouth. None of the private sector companies, which are in general going through a thin time, could take on the loss-making BS companies.

Shiprepair continues to be a declining industry and employment has been falling both in the public and private sectors.

It will fall further in the private sector if the

subsidised public sector takes the business.

3 Norman Tebbit has discussed shiprepair and general disposals policy with BS's Chairman. Mr Atkinson wishes to dispose of all his shiprepair specialist centres where this is practical and can be undertaken within the constraints of BS's statutory duty to promote and secure the promotion of the efficient and economical repair and maintenance of ships.

4 Mr Atkinson intends to sell Falmouth and to this end he will prepare and issue a prospectus for sale. He hopes the sale will be completed by the summer but it may well provoke



a strong union reaction. At the appropriate moment I intend to press him on the disposal of Grangemouth. As regards Vosper Shiprepairers, which is threatened by closure if BS do not buy (at a cost of £500,000) the dry docks it leases from the British Transport Docks Board at Southampton, Mr Atkinson has decided that there is a reasonable prospect of viability if the workforce is substantially reduced and of sale thereafter as a profitable entity. On balance he thinks that acquisition of the drydocks coupled with reduction of the workforce is preferable to immediate closure and offers a better chance of securing CSEU agreement to a reduction of some 2,500 jobs in BS's merchant shipbuilding yards and other shiprepair establishments. BS hope that the cost of acquisition of the drydocks would be more than offset by sale of property surplus to a restructured Vosper Shiprepairers. If Vosper Shiprepairers can be sold in due course as a going concern, apart from the proceeds of disposal, closure costs would also be avoided.

5 Mr Atkinson is also pressing ahead with the disposal of companies and surplus assets which are not essential to BS's mainline shipbuilding activities. Annex 'B' lists the disposals BS have in hand or under discussion. BS's External Financial Limit of £150 million for 1981/82 assumes that the Corporation will be able to raise £8.5 million from disposals in the next financial year and Mr Atkinson understands that he needs to make substantial progress now to achieve this target.

6 BS's statutory duty on shiprepair is not a constraint to the sale of Falmouth but a concerted policy of disposal of

/shiprepair ...



shiprepair activities would be inconsistent with its duty. I have carefully considered whether we should legislate this session to amend BS's statutory duties at the same time as we modify the British Steel Corporation's statutory duty. Regrettably, this does not seem to be practicable. The Iron & Steel Bill needs to be taken to Second Reading urgently and timetable considerations rule out the introduction of controversial clauses on BS which would widen the entire scope of the Bill. Norman Tebbit and I will, however, be giving further thought to the need to amend BS's statutory duties as part of the review of the scope for privatisation of BS which will be set in hand in the early summer following receipt of BS's Corporate Plan. We hope that we will be able to introduce legislation next autumn.

7 I am copying this minute to Francis Pym and Members of E(DL).

KJ

K J

4 February 1981.

Department of Industry
Ashdown House
123 Victoria Street
London SW1

SITUATION REPORT ON DISPOSALS IN BS

1. Those where negotiations are completed or well advanced

Watergate Building - (Newcastle)	£45,000 (contracts exchanged)
Burntisland Facilities	£750,000 (offer made and accepted subject to satisfaction of Forth Ports Authority)
R. Harris (Builders)	£1.4 million (tenders due in by end February 1981)
243 Knightsbridge	£100,000 (contracts exchanged)
Robb Caledon/Kincaid Investments	£100,000 (mainly sold)
Tyne Shiprepair (Land and Buildings)	£96,500 (agreed by Local Authority)
Henry Robb (LPG)	£140,000 (offer made, Secretary of State's approval sought)
Falmouth Sports Ground	£250,000 (close to exchange of contracts)
Swan Hunter Car Park	£10,500 (agreed with Local Authority)
Scott Lithgow - Land in Pottery Street	£90,000 (agreement with Local Authority)

2. Those where negotiations started or on market

Falmouth Shiprepair	£2.5 million (verbal offer made at this level, but price should be higher) Prospectus being prepared
HS 125 Jet	£700,000 (on market)
Scotts of Bowling	£80,000 (negotiations taking place with interested parties)
21 Trevor Place, SW7	£85,000 (on market)
Linthouse Site (Govan)	£400,000/£500,000 (on market)
Cowal Engineering	£300,000 (negotiations in hand)

3. Those where formal negotiations not commenced but under active discussion

Engineering Companies:

Sunderland Forge)	Disposal/Valuation under examination by Rothschilds. Discussions commenced with NEI
Wolsingham Steel)	
K & L Marine)	
Barclay Curle Sports Ground	£350,000 (on market but subject to civil engineering review)
J. Kirkcaldy	£100,000) To be placed on market) following restructuring
Northam Yard, Southampton	£750,000) of Vosper Shiprepairers

In addition, there are a number of items of land, property, plant and machinery throughout the Corporation whose sale is still to be examined in detail (e.g. Scotstoun North Sands, etc.)

RG 2.6.1.

PUBLIC SECTOR

	Employment	Profit/Loss 1979/80	Forecast This Year	Comment
Tyne Shiprepair Group	2,528	£m (4.8)	£m (4.4)	BS are reducing employment by 440
Vosper Shiprepairers (Southampton)	1,080	(4.4)	(2.4)	Jobs to be reduced by 500
Falmouth	300	(0.2)	0.6	To be sold
Bringham & Cowan, Hull	160	Loss making figures not available	figures not available	To be shut
Grangemouth	300	(0.2)	0.04	-

Notes: BS also employ about 1,900 in merchant shipbuilding yards on shiprepair

PRIVATE SECTOR MAIN COMPANIES

	Employment	Profitability
Smith Shiprepairers, North Shields	700-1,000	Just profitable
Jeffreys, Avonmouth	300	Breakeven
Humber Graving Dock	400	Loss making
Clyde Dock Engineering	300	0.13 - 1979/80
Bristol Channel	300	0.3 - 1979/80

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Not Incl

Extract from TL to HMT (Meeting record PM/CI of Ex) of 22/12/80.
- 3 - Subject in Nat Ind: Pt 3 Policy

Other points.

The following further points were raised:

(i) Sir Keith Joseph said that BSC's Corporate Plan was optimistic about the Corporation's market prospects. It did not include the "lower case" option, which would involve closing Llanwern and Port Talbot. Although more expensive in the short term, it was possible that the "lower case" would be more likely to make BSC competitive again; and his Department would be looking at this closely.

(ii) The Prime Minister questioned the need for the NCB to use Hobart House as their headquarters: wasn't there a strong case on employment and other grounds for having their headquarters outside London? Mr. Howell said that their present lease was on favourable terms, but he would look into the matter and let the Prime Minister have a report.

(iii) The Prime Minister said that she was concerned that more progress had not been made by British Shipbuilders in selling off the ship repair companies. She had been impressed by the arguments put forward by Mr. Christopher Bailey on this matter; she would like a report from Sir Keith Joseph as soon as possible.

I am sending copies of this letter to Ian Ellison (Department of Industry), Julian West (Department of Energy), Sir Robert Armstrong and Robin Ibbs.

u u
Tim Lamm

A.J. Wiggins, Esq.,
HM Treasury.

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PRIME MINISTER

1 I think I should warn you now of a potentially difficult issue which may arise during the early part of next year. E(EA) at its meeting on 9 December considered a proposal by Adam Butler for assistance totalling £4 million from the Aid and Trade Provision (ATP) for the construction by Austin and Pickersgill of three ships for an Egyptian shipping company. I need not trouble you at this stage with the details, except to say that E(EA) did not feel that sufficient information was available on a number of points for a final decision to be reached and we shall therefore be considering the issue again in January.

2 The point of which I think you will wish to be aware, however, is the presentational difficulties which are likely to arise should we finally decide that assistance should be made available from ATP for the construction of these ships. As you know when we were in Opposition we were extremely critical of the substantial subsidies made available by the previous Administration for the construction of ships for the Polish Government. If we were now to decide to make available a subsidy from ATP for these ships on top of support from the Intervention Fund - and there is an industrial case for doing this - we should risk laying ourselves open both to criticism from our own supporters and to a charge of inconsistency from the Opposition. It may be, of course, that E(EA) will finally decide in the light of further work now in hand that no ATP assistance should be made available in this case. But none the less I thought you would welcome advance warning of a potentially difficult problem.

✓ Mr. Aquino

P. M. Smith

You have already seen
the minutes of E(EA)
on this tricky issue.

T.L.

14/12

E (EA) 50
23/12/19
1/Jan 2
attached

MS

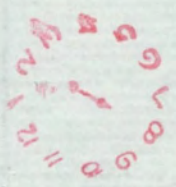


4 I am sending copies of this minute to colleagues on E(EA),
to Angus Maude, Adam Butler, Cecil Parkinson and Neil Marten
and to Sir Robert Armstrong.

KJ

K J
11 December 1980

Department of Industry
Ashdown House
123 Victoria Street



11 DEC 1980

COMMUNICATIONS

PART 2 ends:-

Ch~~A~~ Statement —

PART 3 begins:-

E(EA)80/62 3.12.80

