

PREM 19/1324

PART 4

Confidential File
NATIONALISED
INDUSTRIES

Shipbuilding Policy
Austin and Pickersill
Shipbuilding Pay

PART 1: May 1979

PART 4: July 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2.7.82		17.2.83					
7.7.82		21.2.83					
28.7.82		2.3.83					
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PREM 19/1324

PART ENDS

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PART 4 ends:-

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PART 5 begins:-

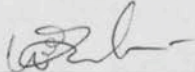
E(NI) (83) IS 7.7.83

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (NI) (83) 2	26/01/1983
L (82) 11 th Item 3	13/10/1982
L (82) 65	05/10/1982
E (NI) (82) 8 th Meeting	28/09/1982
E (NI) (82) 29	24/09/1982
E (NI) (82) 28	22/09/1982
CC (82) 40 th Item 4	29/07/1982
CC (82) 39 th Item 1	22/07/1982

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

Signed 

Date 30/09/2015

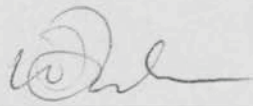
PREM Records Team

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.

Published by British Shipbuilders and obtainable from HMSO
ISBN 0-906543-03-7

Signed



Date

30/09/2015

PREM Records Team

Wh
28/6

DEPARTMENT OF TRADE AND INDUSTRY

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PS/Secretary of State for Trade and Industry

24 June 1983

Willie Rickett Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

ms

Dear Willie,

Robin Butler's letter of 23 June requested briefing for the Prime Minister's use, to mobilise public opinion in support of the Government's pressure on British Shipbuilders.

2 I attach a confidential background note on BS' as yet unpublished results for 1982/83, its request for crisis aid, and a line to take on BS' poor performance.

3 As the request arose partly in the context of my Secretary of State's informing the Prime Minister of delays on the ACL order at Swan Hunter, I have also included a confidential background note on this. However, I suggest that the Prime Minister should not explicitly refer to delays on this particular contract, which are not public knowledge, as this could damage BS's relations with the buyer.

4 My Secretary of State will be questioned orally about shipbuilding on 29 June. He will refer to the possibility of support for individual orders, on a case by case basis, along the lines agreed by Ministers collectively, and announced by Mr Jenkin on 12 May in answer to a written PQ. But, in advance of the E(NI) discussion of BS in mid-July, he will not be making any announcement about the fate of BS' request for crisis aid.

Yours ever,
 Caroline Varley

CAROLINE VARLEY
 Private Secretary



PRIME MINISTER'S QUESTIONS: 27 JUNE 1983

BRITISH SHIPBUILDERS

Line to Take

I know that British Shipbuilders is facing a very difficult market situation. And we are considering a request for special help for the industry, because of the difficulty of getting orders. But BS has got to put its own house in order. Performance in some parts of the business has been poor. BS has got to demonstrate that, recession or not, it is able to perform to time and to cost.

Department of Trade & Industry
27 June 1983



CONFIDENTIAL

Background

BS' REQUEST FOR CRISIS AID

The outgoing Chairman of BS, Sir Robert Atkinson, has asked for an emergency aid package totalling £150m over 2 years, to support merchant shipbuilding at almost its present capacity through the current recession.

BS has submitted a Corporate Plan setting out the case for assistance in more detail.

The Secretary of State for Trade & Industry regards this plan as unacceptable, and Sir Robert will be told of this on 29 June. Subject to colleagues' agreement at a forthcoming meeting of E(NI), he proposes to request the incoming Chairman, Mr Graham Day, to produce a plan for partial closure of BS' merchant shipbuilding activities, as a matter of extreme urgency.

However, some of BS' 'better' yards, that could be viable in the longer term, will start to run out of work very soon. Ministers agreed in May of this year that requests for assistance, on a case-by-case basis, to secure orders for such yards, could be considered.

The Secretary of State for Trade and Industry is prepared to use such assistance if necessary to prevent options being foreclosed, during the period before the partial closure plan is available to the Government.

The future of BS, and the fate of its request for crisis aid, is certain to be raised during oral questioning of the Secretary of State on Wednesday 29 June. The Secretary of State will not, in advance of discussion with his colleagues at E(NI), make any announcement on either crisis aid or the Corporate Plan. He will, however, refer to the possibility of case-by-case support, which his predecessor announced by written PQ on May 12.

Pay negotiations for the current year, due to be settled on 1 April, are hanging fire while BS waits for the Government's response to the crisis aid request. The management have said that no pay increase will be available at national level, although there may be some scope for self-financing local productivity deals. The unions have rejected this, and have also threatened industrial action against compulsory redundancies. BS have said 9000 jobs are at risk this year.



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Background

British Shipbuilders' (BS) 1982/3 Financial Results

BS 1982/3 Report and Accounts will be published in July. It is, however, already public knowledge that the Corporation has massively exceeded its loss target of £10m. Figures of around £100m appeared in the press some weeks ago. The final l o s s is likely to be about £115m.

This appallingly high figure is due only in part to the severe recession in both world merchant shipbuilding and offshore work which has cut the Corporation's current orderbooks. By far the greater part of it is due to the Corporation's dismal performance on existing contracts, in particular Scott Lithgow's performance on a BP tanker and offshore work; and Swan Hunter's (mainly on a BP tanker built there).

The Secretary of State for Trade and Industry intends to direct BS to publish its 1982/3 results on a basis which makes it quite clear where the losses arise. Hitherto, the fact that some shipyards that make big losses on merchant or offshore work also engage in profitable warshipbuilding has meant that the extent of merchant and offshore losses at particular yards has been masked.

Department of Trade & Industry
27 June 1983



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Background

ACL ORDER

This order, for one container ship, was placed by ACL Limited in July 1982 with Swan & Hunter on Tyneside at a price of £45m. The order was widely regarded as a replacement for the Atlantic Conveyor although the company had planned the purchase well before the Falklands operation.

The contract package involved a Government subsidy of £18m (40% of contract price) plus a contribution from the Department of Trade (acting as an agent for MOD) of £2.3m (5% of contract price) bringing the total Government contribution to about £20m (45% of contract price). The Department of Trade contribution was in part compensation for the loss of the Atlantic Conveyor.

There are heavy penalties for late delivery: £10,000 a day for the first 45 days and £15,000 a day thereafter, with an option for the buyer to cancel the contract for delays beyond 9 months.

British Shipbuilders are required to provide DTI with bi-monthly progress reports. The latest, covering the period February/March 1983, indicates that whereas 5% of the steel fabrication should have been completed, by end-March only about half that work had been done. The technical drawing programme was 10% behind schedule. BS have taken some steps to alleviate the drawing problem for which it appears the customer is at least partly responsible. But it is not clear that BS will succeed in absolving themselves from the blame for any resulting delivery delay. BS are being pressed for the next progress report.

British Shipbuilders' monitoring report for January - March 1983 indicates that they are providing for a £5.2m loss on this contract.

Department of Trade & Industry
27 June 1983

27 Nov 1983

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10 DOWNING STREET

From the Principal Private Secretary

23 June, 1983.

Your Secretary of State called on the Prime Minister this morning and reported to her the latest position on the attitude of the Post Office Engineering Union to the Telecommunications Bill, the progress of preparing the Bill itself for re-introduction, the meeting of the European Steel Council, the action in the Restrictive Practices Court over the Stock Exchange, the corporate plan of British Shipbuilders, and the public line on the trade figures to be published tomorrow.

He also told the Prime Minister that Swan Hunter were behind time and over cost on the contract for the replacement of the Atlantic Conveyor. Mr. Parkinson said that he was putting pressure on British Shipbuilders to try to remedy the situation, and the Prime Minister commented that it was essential to mobilise public opinion in support of the Government's pressure on British Shipbuilders. The Prime Minister asked if she could have some briefing on this, and a line which she could take if the subject came up during Parliamentary Questions on Tuesday. Could you please arrange to send a note on this point to Willie Rickett.

E. E. R. BUTLER

Jonathan Spencer, Esq.,
Department of Trade and Industry.

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Foreign and Commonwealth Office

London SW1A 2AH

1 June 1983

From The Minister of State

Rt Hon Douglas Hurd CBE

Dear Secretary of State,

HARLAND AND WOLFF: 1983/84 FUNDING AND THE BLUE STAR ORDER

I have seen a copy of your letter of 23 May to Leon Brittan.

I am very conscious of the importance of this order to Harland and Wolff. As far as the EC dimension is concerned, I know you have taken account of the discussion in E(NI) last September and I am pleased that it has been possible to restructure the assistance along the lines suggested at that meeting. I agree that we should authorise Harland and Wolff to accept this order on the terms set out in the annex to your letter without notification to the European Commission. As your letter points out, there are risks, but I agree that the balance of advantage continues to lie in not notifying the assistance.

I am copying this letter to the recipients of yours.

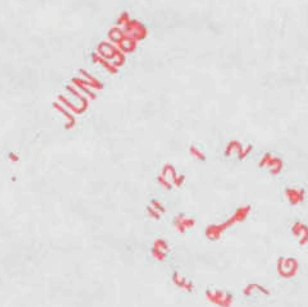
Yours sincerely

(Approved by Mr Hurd and signed in his absence by his Assistant Private Secretary)

The Rt Hon James Prior
 Northern Ireland Office
 Great George Street
 LONDON SW1P 3AJ

NAT-IND: Shipbuilding

Pt 4





Secretary of State for Industry

cc ~~AD~~
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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JU801

27 May 1983

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The Rt Hon Leon Brittan QC
Chief Secretary to the Treasury
Great George Street
London SW1

NBPM
FB

Dear Chief Secretary

HARLAND AND WOLFF: 1983/84 FUNDING FOR THE BLUE STAR ORDER

I refer to Jim Prior's letter to you of 23 May.

2 I am sure that it is right to postpone a decision on the funding of Harland and Wolff for the whole of 1983/84. It makes sense to take this decision in the context of the proposals for the future development of the yard which Jim Prior has undertaken to bring forward in July. Proposals on the funding of and future support for British Shipbuilders are to be considered at about the same time. Thus we shall have the opportunity to review our strategy for the UK shipbuilding industry as a whole. I agree therefore that Harland and Wolff should be given interim funding on a drip-feed basis until end-July.

3 I recognise that Harland and Wolff needs the Blue Star contract if the risk of an unacceptably sharp contraction of its workforce is to be averted. In view of the general economic situation in the Province I cannot but agree to Jim Prior's proposals on this deal.

4 I am concerned, however, about its effect on our handling of British Shipbuilders. The Corporation has in the past felt badly treated because we have allowed Harland and Wolff to take contracts on terms which BS has not been permitted to offer. Our position here becomes more embarrassing with every successive relaxation of the rules in Harland and Wolff's favour. If, as is likely, BS gets to know the terms of the Blue Star order it will certainly feel better placed to press us to allow equally generous terms for its contracts. I shall look for support from colleagues in coping with such pressure.

5 Following my letter of 15 March to Jim Prior concerning security for the initial repayments of the Section 10 loans, it has been agreed that the cost of any loss which may result from the absence of a bank guarantee will be borne by the Northern Ireland vote. I note that the terms of contract now envisaged



would involve no additional cost, or risk of additional expenditure, for my Department beyond that resulting from the normal application of the Home Credit Scheme formula to the increased prices of the vessels.

6 I am copying this letter to Jim Prior and to the other recipients of his letter.

Your sincerely
Stephen Wilber

PP

PATRICK JENKIN

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

7 MAY 1964



① - Brit.
Ship.MR SCHOLARMr Owen

Manny Manks.

26 May 1983

MS 26/5

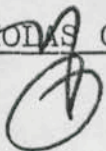
cc Mr Mount

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OBJECTIVES FOR THE NEW CHAIRMAN OF BRITISH SHIPBUILDERS

Mr Jenkin's reply of 18 May acknowledges the force of the points put to him by the Prime Minister and the Chancellor and as a result, the new Chairman will, I/sure, be left in no doubt about what is expected of him.

On the question of requiring BS to set up separate systems of financial control, Mr Jenkin is understandably keen that this should be discussed further by officials. He will be nervous about the implications that separation would have for his dealings with the Commission; fudging the losses on the merchant side of the business is an advantage to him. However, as I indicated in my earlier note, since the Government is determined to reduce these losses, this consideration will become less important. The approach to privatisation will also require separate systems of financial control. These points will not be lost sight of in the officials' discussion of the question. I understand that the Chancellor will not be writing further at this stage. There is no need for the Prime Minister to do so either.

NICHOLAS OWEN




~~cc cc~~
Prime Minister (A)

MS 26/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior
Secretary of State
Northern Ireland Office
Great George Street
London SW1P 3AJ

26 May 1983

Dear Secretary of State

HARLAND AND WOLFF

Thank you for your letter of 23 May.

The revised terms of the proposed Blue Star order are far worse than might be regarded as normal for shipbuilding contracts, and worse even than was assumed by E(NI) last September (although I accept that your paper then noted that some deterioration might occur). Moreover, the extent of the risk being borne by the Government is such that, particularly in the case of Hambros, the banks appear to be getting a considerable return without taking any risk at all. I understand that these are the best terms that can be obtained and that the full cost, including any contingent liability, will be borne within your block.

You point out that a decision on Blue Star cannot be postponed, and that to block the deal would have consequences that require more thorough discussion by Colleagues than is possible in the time available. In the circumstances and with great reluctance, I am with two provisos prepared to agree to the deal going ahead; and to agree that a further £6.7 million tranche of interim funding, bringing the total to £16.1 million, should be issued to the company to take it to the end of July.

The first proviso is to make it clear that Treasury agreement to such unattractive terms will not be granted for any future order at Harland and Wolff. The second proviso is that we should hold to the E(NI) timetable you offer - a full discussion by the Committee before the end of July of the 1983-84 funding proposals, accompanied by the officials' report on the future development of the business - even if the new Chairman's strategy for the longer-term future of the yard is not available by that date.

I am sending copies of this letter to the Prime Minister and to other recipients of yours.

Yours sincerely

J. G. G. (PS)

J. LEON BRITTAN

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CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

CONFIDENTIAL

Qa 06374

25 May 1983

The Rt Hon James Prior MP
Northern Ireland Office
Great George Street
SW 1

Dear Jim,

Harland and Wolff: 1983/84 Funding and
the Blue Star Order

Thank you for sending me a copy of your letter to Leon Brittan of 23 May.

I agree that we should provide interim funding of £16.1 million until the end of July. I hope that by then we will have been able to have a full discussion on future strategies for, and appropriate funding of, Harland and Wolff in the longer term, against the background of alternative economic strategies for Northern Ireland as a whole.

Meanwhile, I recognise the importance of the Blue Star order, and the delicacy of the situation. There is only one point therefore which I wish to raise. It appears that Hambros have negotiated a transaction which is totally risk-free for themselves and their syndicate. Risk-free transactions normally attract lower interest rates, or are done on a fee basis. Do the rewards that the Hambros syndicate are to get properly reflect the absence of risk? If not, might the Government attract criticism on this score at some future date?

Copies of this letter go to the recipients of yours.

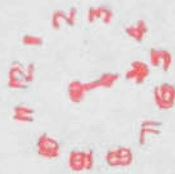
Yours sincerely,
John.

John Sparrow

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24 MAY 1983



BTC

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Mr. Hurd FCO
CPRS

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10 DOWNING STREET

From the Private Secretary

24 May 1983

The Prime Minister has seen your Secretary of State's letter to the Chief Secretary to the Treasury about Harland and Wolff. Subject to the views of colleagues, she is content with Mr. Prior's proposals for the funding of Harland and Wolff and for their acceptance of an order for four ships for Blue Star on the terms proposed.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI), Douglas Hurd, Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

(Tim Flesher)

Derek Hill, Esq.,
Northern Ireland Office
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CC NO



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC
Chief Secretary to the Treasury
Great George Street
LONDON
SW1

23 May 1983

Pine Martin:

Yes, not

*Content with
these arrangements?*

Dear Chief Secretary

HARLAND AND WOLFF : 1983/84 FUNDING AND THE BLUE STAR ORDER

J. 23/5

I am writing to seek your approval, and the consent of colleagues, to the proposals which you and I discussed on 12 May for the funding this year of Harland and Wolff and the terms of the Blue Star order.

We agreed that in present circumstances we should not seek to decide now on the funding for Harland and Wolff for the whole of 1983/84, and I am seeking agreement only to further interim funding to last until the end of July. The terms of the Blue Star order were considered by E(NI) last September (E(NI)82/8th meeting) when we decided to authorise the shipyard to take the order for four ships from the Blue Star line.

I am sorry to have to seek a further decision at this time but it is important that we consider now the revised terms for the order as Harland and Wolff will run out of money at the end of this month, and is fast running out of work. Further funding, even of the interim nature that we discussed, cannot be decided without reference to making a start on the only new work available. This means considering now the terms of the Blue Star line order. Moreover, the labour force have heard of the order, and expect it to be secured; delay, leading as it would to redundancies, will be read as Government preparing to close the Yard after the election, and unrest may result.

Blue Star Order

This order, for 4 refrigerated cargo vessels (10,000 dwt) for leasing by banking interests to the Blue Star line, is the only possibility for Harland and Wolff in the short term. Substantial progress has been made towards the stiff conditions which colleagues attached to

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their/....

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their approval last September. Employment fell by 425 (6%) between mid-1980 and March 1982, since when some 775 redundancies have taken place. A further 750, already announced, will occur by end-July 1983 - taken together a shrinkage of 22.5% in sixteen months. Both management and unions have agreed in writing that the 1983-84 pay claim should be "tough and low", although clearly the outcome at British Shipbuilders will have a major bearing on attitudes at Harland and Wolff. The company retained consultants to advise on cutting costs: as a result a net saving of over £6m should be possible in 1983-84. Harland and Wolff's performance on the BP tankers has been much superior to that of the 2 BS yards building the sister ships.

Finalisation of the terms of the Blue Star order has proved difficult, not on account of Harland and Wolff but because of Blue Star's problems in satisfying both the banks and the Ship Mortgage Finance Company as to its credit-worthiness. A basis has now been identified for the financing structure for all 4 ships.

Revised Terms of Blue Star Order

The terms of the order have been revised. As explained in the Note by Officials (Annex A), the changes in direct aid and credit subsidies reflect mainly the restructuring of the deal sought by colleagues to eliminate what would otherwise have been a loss and also the inclusion of an interest indemnity mechanism which colleagues agreed to in principle last September. However, it has also proved necessary for Harland and Wolff and the Government to assume certain contingent liabilities in order to meet the requirement of the lessors that their position be secured vis-a-vis Blue Star.

In the view of Hambros who are financing 2 of the vessels, the value of Blue Star and its parent company's assets does not adequately cover their exposure and they seek assurance that Harland and Wolff will cover part of their risk, to a maximum of £10.4m gross. (As this sum may be subject to Corporation Tax at 52%, £5.4m, would on this basis return to the Exchequer). Advice from my professional advisers, Slaughter and May, is that in view of the scarcity of investors willing to participate in transactions of this sort and the other, usually more attractive, leasing opportunities on offer, Hambros' request that Harland and Wolff carry this risk is unsurprising. The likelihood of this risk materialising appears minimal; as explained in Appendix C of Annex A, it would require an improbable coincidence of events to generate a call. Even if called, the sum involved would be offset by savings on the credit arrangements (see Annex A, Appendix D). I accept that this should be a contingent liability on the Northern Ireland Public Expenditure block.

A decision not to approve any order is tantamount to closure. An order for 2 ships only would entail diseconomies of scale of about £2.5m and trigger a further 850 unacceptable redundancies. Faced with these unpalatable alternatives, I regard acceptance of the revised terms for the 4 ships as the best way forward, and I so recommend.

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EC Dimensions

We decided last September that the aid, while legally notifiable, should not in practice be notified to the European Commission largely on the grounds that exposure of the use of soft credit on this and earlier orders for both Harland and Wolff and BS would be unwelcome. Despite the risks I see no reason why that decision should be changed now.

Funding 1983/84

In our discussion on 12 May we agreed that we should not at this stage authorise full external funding for Harland and Wolff in 1983/84 (estimated at £42.2m). Accordingly I propose to provide drip-feed funding from the Government to end of July amounting to £16.1m, including £9.4m which we had already agreed for 1 April - 31 May. I shall bring forward full 1983/84 funding proposals for discussion in the course of July, accompanied by the officials' report sought by colleagues last September on the appropriate future development of the business of Harland and Wolff.

The longer term outlook

Mr Parker, appointed in February as Chairman and Chief Executive, has made a vigorous start and I have asked him to bring forward, as soon as possible a strategy for the longer-term future of the Yard which I would hope to put before colleagues for consideration.

Conclusion

The immediate necessity is to secure the Blue Star order and, with it, an approval of total interim funding of £16.1m until 31 July. I have already emphasised to colleagues on other occasions the importance of Harland and Wolff to Belfast and to Northern Ireland. Its importance has in no way lessened. I have got to be able to keep the Yard going, albeit at a considerably reduced level, in order to give the new managing director a chance both to assess the future prospects of the Yard and to put the company on a more stable footing.

I would be grateful for agreement that we should:-

- (1) Authorise Harland and Wolff to accept an order for 4 ships for Blue Star on the terms set out in Annex, without notification to the European Commission;

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- (2) Provide total interim funding of £16.1m until
31 July 1983.

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

Yours sincerely

Deek Hill

JAMES PRIOR

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

CONFIDENTIAL

P.R.

NOTE BY OFFICIALSHARLAND AND WOLFF LIMITED ; BLUE STAR LINE ORDERIntroduction

1. The only possibility of an order for H&W in the short term is for 4 refrigerated cargo vessels (10,000 dwt) for leasing to the Blue Star Line. Ministers approved the terms originally proposed for these ships last September (E(NI) (82) 8th meeting) subject to restructuring of the deal to eliminate the forecast loss.

2. Finalisation of this order has proved difficult, largely on account of Blue Star's problems in satisfying both the banks (which will be funding the leasing arrangement) and the Ship Mortgage Finance Co (which advises the Department of Industry on ship financing terms) as to its credit-worthiness. Outline agreement has now been reached, however, on a financing structure for all 4 ships, embodying restructuring of the deal designed to eliminate its previous loss-making basis.

Revised terms

3. There follows a comparison of the terms now proposed for the 4 ships in total with those agreed last September:-

	<u>Terms originally submitted to Ministers</u>		<u>Revised Terms</u>	
	<u>£M</u>	<u>% of Price</u>	<u>£M</u>	<u>% of Price</u>
(a) Intervention Fund	10.70	17.2	11.43	17.2
(b) Shipbuilders' Relief	1.25	2.0	1.33	2.0
(c) Interest Subsidy on SIO loans (NPV)	5.86	9.4	6.26	9.4
(d) Soft credit (NPV)	3.29	5.3	3.40	5.1
(e) Interest Indemnity (NPV)	-	-	4.43	6.7
(f) Loss	4.45	7.2	-	-
(g) Interest free loans	-	-	3.68	5.6
	25.55	41.1	30.53	46.0

*The possibility of this indemnity which represents most of the increase in the terms, was referred to in last September's submission.

F.R.

4. The changes in the direct aid ((a)-(g)) proposed for the order arise for the following reasons:-

- (a) Intervention Fund payments are as before at the rate of 18% on ships 1-3 and 15% on ship 4, ie maximum rates available under the relevant tranches of the Fund. The increase in payments is attributable to contract price increases (from £62.13 million to £66.4 million) made possible by the provision of interest free loans to the leasing companies by H&W (see (g) below) in accordance with Ministers' instructions following their discussions last September;
- (b) Shipbuilders Relief (2%). The increase in payments is due to the increase in price referred to at (a);
- (c) Home Credit (under SIO of the Industry Act, 1972). The interest subsidy shown as being included in terms originally submitted to Ministers has been updated to take account of current interest rates. The increase in cost of the revised terms is due to the higher Section 10 finance associated with higher prices referred to at (a). The credit is based on loans to the lessors totalling £53.1 million;
- (d) Soft Credit. The original subsidy has increased to take account of higher prevailing interest rates and also other changes stemming largely from the increase in the contract price for all 4 ships. The credit is based on loans to the lessors totalling £11.3 million;
- (e) Interest Indemnity. The lessors of the ships have calculated the leasing charges needed to give them their required rates of return on the basis that any cash surpluses held by the lessors during the transaction will earn interest at the rate of 14% per annum. As foreshadowed in the papers discussed by Ministers last September H&W have agreed to guarantee the lessors that

D.R.

this rate will be earned and the cost shown at (e) is an estimate of the likely payment should deposit interest rates remain at their current levels. Should deposit interest rates rise above 14%, any excess interest will be paid by the lessors to H&W;

- (f) Loss. Because of the loans being provided by H&W it has been possible to increase prices and thus eliminate the loss;
- (g) Loans of £3.68m from H&W to the lessors which will be provided on an interest free, unsecured basis for the 15 year period of the charter. These loans are the main element of the restructuring proposed by Ministers and will correspondingly benefit H&W by an increase in the contract price for the vessels.

5. It should be emphasised that the eventual cost of aid under (c), (d) and (e) will depend upon the level of interest rates during the next 15 years. Any changes affecting (c) and (d) will have an opposite, and partly balancing, effect on (e).

6. In addition to alterations to direct aid, other changes are proposed to circumvent problems posed by the poor credit rating of Blue Star.

These are:-

- (a) The original SMFC recommendation was that the lessors should guarantee repayment of the first 4 instalments of the Section 10 loans even if the charter should collapse before the first instalment was repaid. The lessors refused to accept this condition and following further SMFC advice the risk has been accepted on Northern Ireland Votes with the approval of the Secretaries of State for Industry and Northern Ireland and the agreement of the Treasury. Maximum risk, immediately after delivery of ship 4 in May 1985, is £11.73 million which reduces to nil after 2 years;

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- (b) The syndicate led by Hambros, which is funding ships 3 and 4, is not satisfied by the security provided by the ships and by the assets of Blue Star (and its parent, Frederick Leyland). They have therefore sought from H&W a guarantee of last resort of up to £10.4 million (on the assumption that Corporation Tax would be payable at 52%) (see Appendix C). (On this basis £5.4 million of the gross sum would therefore return to the Exchequer). Circumstances which would lead to this risk crystallising would reduce the risk at (a) (see Appendix D) and calculations done by Hambros, using worst case assumptions, show that the gap in the lessors' security, and therefore the risk (in the form of cash shortfall) they wish to cover, peaks at £10.4 million (net £5 million) at only one point in time. If for example the charter were to collapse after 3 years the risk (and therefore cash shortfall) to be covered would be £5.8 million and £0.6 million after 10 years.

7. The risks described at para 6(a) and (b) above will crystallise only if certain events occur together and their potential maximum cost (shown above) is reduced by the improbability of concurrence. The events which need to occur for maximum exposure are:-

- (a) a collapse of the charter - within 2 years of the delivery of each ship in the case of (a) and within 11 years of the delivery of ships 3 and 4 in the case of (b);

AND (b) sale of the ships for less than the outstanding balance of the Section 10 loans (repayable over 8½ years);

AND (c) that the other assets of Blue Star (and its parent company) will be insufficient to cover the residual guarantee which it has provided;

AND (d) in the case of (b), that there is an actual cash shortfall to Hambros' syndicate (see Appendix C).

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8. It should be emphasised that as these risks will crystallise only in the event of collapse of the charter there will be compensating savings in the interest make up agreements, para 4(c), (d) and (e) above. At this stage the object of the assistance, ie the maintenance of employment, will, of course, have been achieved.

9. The funding of the ships and the order in which security is called is presented diagrammatically at Appendices A and B. Appendix D attempts to show on a worst case basis the net costs under the proposed arrangements of a collapse of the deal at certain points in the charter.

Assessment

10. While the revised terms represent a deterioration from those agreed last September, the aggregate additional public expenditure implied amounts to not more than £5 million (on a present value basis) over the four ships - and of this £4.4 million is attributable to the interest indemnity mechanism approved in principle by Ministers last September. There would in addition be further contingent liabilities as described at para 6 above which the Government would have to accept. The major part of the overall deterioration has arisen in respect of vessels 3 and 4 following prolonged and difficult negotiations during which Hambros was in a position to insist on the maximum degree of security (see Appendix C - para 3).

11. The consequences of confining the yard to an order for 2 ships only would be:-

- (1) construction costs would increase because of diseconomies of scale in building only 2 ships. The increase is estimated at £1.25 million per ship;
- (2) the immediate effects on H&W, on the most favourable assumptions about labour reaction, would involve some 850 redundancies over and above the 900 already planned by March 1984 at a cost of some £1.5 million

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to the company (plus £4.5 million to the Government under SRPS). However, especially in the light of present market conditions, it must be more likely that the workforce reaction would be adverse and this would create further costs, eg through resistance to the current cost-cutting programme.

12. This order represents the only prospect for new work in the short term and, in the considered view of the H&W Chairman and NI officials, is indispensable to H&W's survival. Ministers will therefore wish to consider carefully the economic, political and security consequences of not authorising the order.

EC Dimension

13. Ministers decided last September that the aid proposed, while legally notifiable, should not in practice be notified to the European Commission, largely on the grounds that notification could expose the use of soft credit in this and earlier orders. This might well cause the Commission to ban its future use and also to unpick previous cases for both H&W and BS. There can be little question that not only soft credit but also other elements in the revised terms are legally notifiable and the Commission could be expected to object to them (particularly H&W's assumption of certain liabilities, since these facilities can be offered only by reason of Government loss-financing support). Their discovery by the Commission would make future use of soft credit - on which both H&W and BS might rely more heavily in future - more difficult to propose. In weighing up this question, however, Ministers will wish to bear in mind that the same considerations which persuaded them against notification last September apply to the revised terms, and possibly with greater force.

14. Under the proposed terms H&W would assume certain liabilities towards the lessors. Both Lombard and Hambros are anxious to have confirmation that the Government continues to stand behind H&W for the discharge of these liabilities. Accordingly they have sought sight of a letter of assurance (Appendix E), which reiterates past

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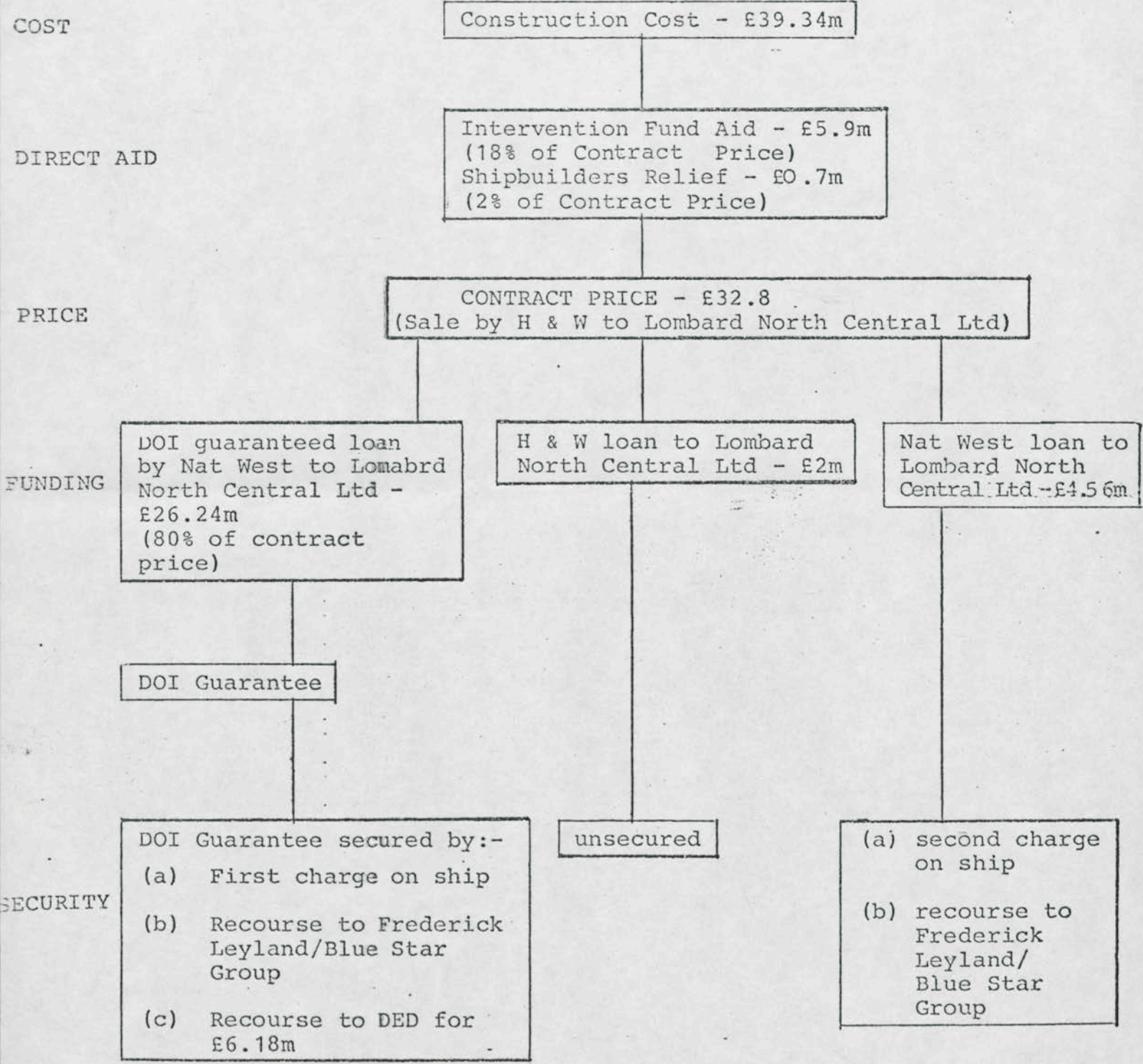
confirmation by the Government that it stands behind all of the company's liabilities. The intention is to provide Lombards and Hambros with a copy of this letter. The NIO's legal advisers have concluded that this draft does not constitute a contract of guarantee between the Government and the lessors, but represents merely the confirmation of an existing relationship between the Government and H&W. As such the issue of the letter does not appear to have any implications under Community competition law in relation to this order.

ssd

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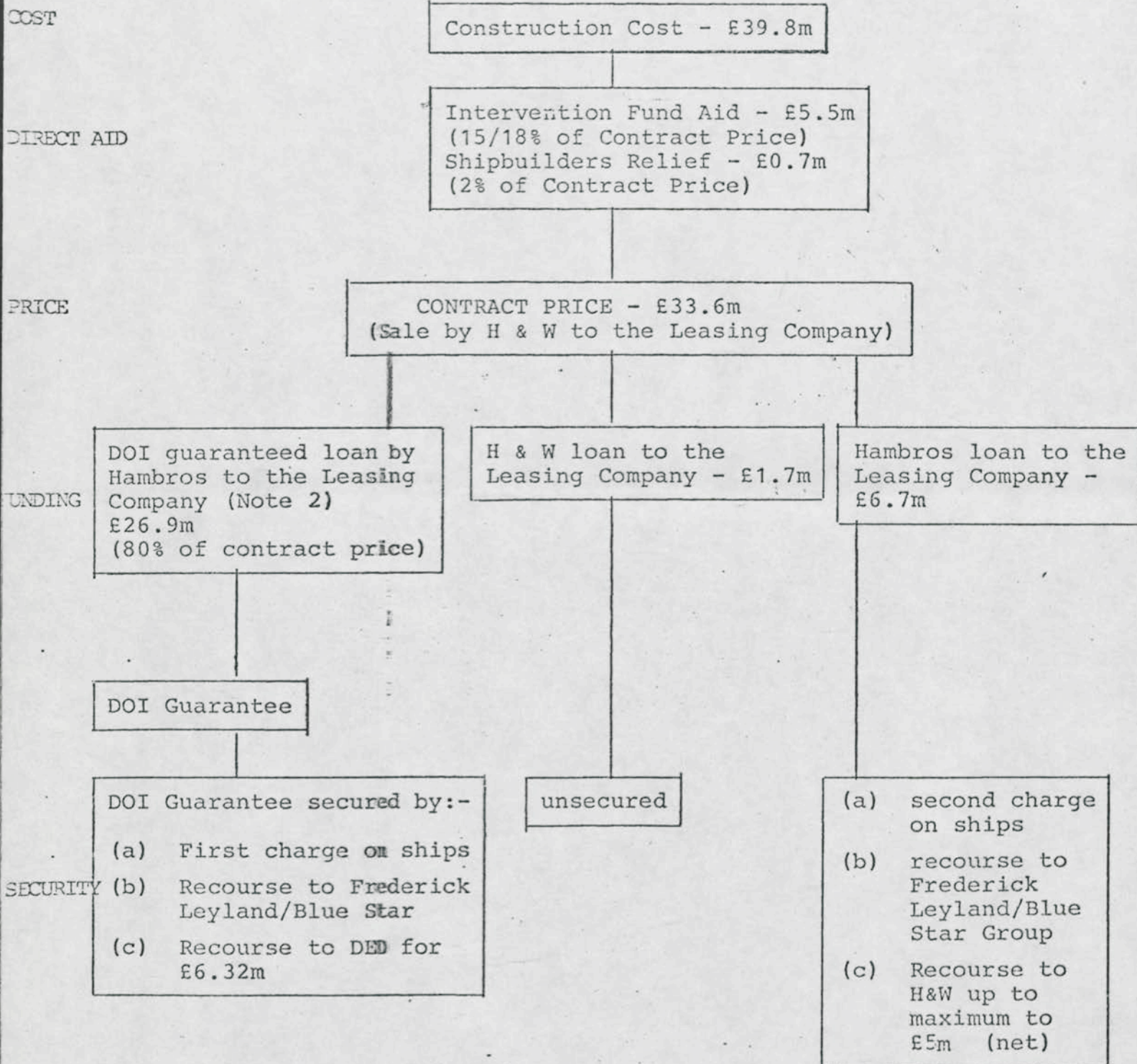
H & W - BLUE STAR ORDER

Funding and Security Arrangements for ships 1 & 2



H & W - BLUE STAR ORDER

Funding and Security Arrangements for ships 3 & 4 (Note 1)



Notes 1 - references to Hambros includes other members of the syndicate led by Hambros

2 - it has been assumed that a separate leasing company will be established for the transaction.

HARLAND AND WOLFF - BLUE STARHAMBROS COLLATERAL

1. The need for the additional recourse to H&W arises from the requirement of Hambros and the other members of its syndicate for adequate security for their investment in the leasing transaction. Initially 80% of their investment is to be secured by a guarantee given by DOI which in turn will take a first charge on the ships. The initial balance of 20% of the investment provided by Hambros is to be secured by a second charge on the ships and recourse to the assets of Blue Star/Frederick Leyland. This proportion is not fixed throughout the period of the transaction and the funding not covered by the DOI guarantee increases to 39% during the first 2 years of the charter. Hambros assessment is that the value of the Blue Star/Frederick Leyland assets does not cover their exposure by a sufficient margin and so an additional recourse to H&W is being sought. Hambros normally expects the net worth of any party providing assets as security to be 10 times the amount being secured.
2. The amount of the maximum risk has been assessed by Hambros as 15% of contract price, ie £5 million. This assessment is based on forecast cash flow statements of the leasing partnership which show the cash shortfalls which could arise if the charter were to collapse at any time within the first 11 years of the charter period. The methodology used by Hambros in drawing up the forecast cash flow statements has been examined by the Department and is considered reasonable. Because any payment to cover the risk would be taxable in the hands of the leasing company, a gross amount of £10.4 million would be required to produce after tax income of £5 million (assuming a 52% rate).
3. The additional recourse is needed because those investors whom Hambros is seeking to bring into the leasing company will, in Hambros' view, agree to participate only on a no risk basis. Advice received from our professional advisers, Slaughter and May, is

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that in view of the scarcity of investors willing to participate in transactions such as this and the other (usually more attractive) leasing opportunities being offered to them they would not disagree with Hambros' assessment.

4. The additional recourse will be called only if the charter collapses within the first 11 years of the charter; there is an actual cash shortfall suffered by the leasing company; and the value of the second charge on the ships and recourse to the Blue Star/Frederick Leyland Group is insufficient to cover that cash shortfall. Should the charter collapse within this period, H&W (and therefore DED) will achieve savings in 2 interest make-up agreements which it proposes to enter into with the leasing company; these savings will of course vary according to the date of the collapse. Hambros point out that it would be reasonable to set against any call under the additional recourse of up to £10.4 million (net £5 million) the fact that H&W would be released from the need to make interest make-up payments under the 2 interest make-up agreements.

HARLAND AND WOLFF - BLUE STARNPV OF COST TO GOVERNMENT ON COLLAPSE OF CHARTER AT TIMES INDICATED

	<u>Collapse</u> <u>within</u> <u>6 months</u>	<u>Collapse</u> <u>within</u> <u>3 years</u>	<u>Collapse</u> <u>within</u> <u>10 years</u>
	£M	£M	£M
<u>Direct Aid Payable During Construction Period</u>			
Intervention Fund	11.4	11.4	11.4
Shipbuilders Relief	1.3	1.3	1.3
	<u>12.7</u>	<u>12.7</u>	<u>12.7</u>
<u>Indirect Aid Almost Entirely Payable After Delivery</u>			
Interest Subsidy on SIO loans	1.2	4.5	6.3
Soft Credit	0.2	1.6	3.4
Interest Indemnity	-	2.2	4.3
Interest Free Loans	-	-	-
Security foregone on SIO Loans	11.7	-	-
Residual guarantee to H&W	-	5.8	0.6
	<u>13.1</u>	<u>14.1</u>	<u>14.6</u>

NOTES:

1. A discounting rate of 13.25% has been used.
2. It has been assumed that during the period of the interest make-up agreements commercial borrowings will be at a rate of 11.375% and that deposits will earn 10.375%.

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F.R.

APPENDIX E

Northern Ireland Office
Great George Street
LONDON SW1P 3AJ

Chairman
Harland and Wolff Ltd

Dear Sir

I understand you have been asked about the extent of Her Majesty's Government's commitment to meeting the liabilities of Harland and Wolff Limited. As you know, I do not consider it appropriate to add to or embellish the general assurance already given by Her Majesty's Government as far as individual creditors are concerned. This assurance, which is referred to in the Department of Commerce letter of 10th May 1982 to your Company, constitutes a commitment by Her Majesty's Government to the Company's ultimate credit worthiness but is not a guarantee for the benefit of individual creditors. The assurance provides, and I confirm, that in a winding-up situation, if the assets of the Company are insufficient to discharge the creditors in full, then creditors' claims will be fully met by Her Majesty's Government.

Yours faithfully

Secretary of State

CONFIDENTIAL

23 MAY 1966

BRINSON



Bf
Await comments
from NO.

RC NO

PRIME MINISTER

Your views on the confidential objectives for Graham Day in his new role as Chairman of British Shipbuilders were set out in your Private Secretary's letter of 25 April. Colleagues will also have seen Geoffrey Howe's letter of 31 March, George Younger's letter of 6 April, and Arthur Cockfield's of 18 April.

2 I share the Chancellor's concern, and yours, that the warshipbuilding side of BS should be separated from the rest. Organisationally, of course, there is already a fairly clear separation, as the main warshipbuilding companies - like all BS subsidiaries, separate Companies Act companies producing separate reporting figures - are grouped into the warshipbuilding division. But, because warshipbuilding is carried on also in the merchant and offshore division, the results of the divisions do not correspond with the real performance by activity. The present system of reporting by division means that a misleading public perception of BS' performance on merchant and offshore work is allowed to persist; and I agree that it would be helpful to correct this by presenting BS' results in a way that reflects performance on warshipbuilding as an activity distinct from BS' other activities.

3 This is particularly important at the present time, as a misleading impression is being created that British Shipbuilders' difficulties are not at all of its own making. It is certainly



true that the market is currently very depressed, but in fact BS has been making substantial losses on its merchant and offshore activities for some time. I am therefore considering requiring BS to report its 1982/83 losses (to be made public in July) on an 'activity basis'. (I have statutory powers to enforce this requirement if necessary).

4 I suggest that officials should discuss the pros and cons of reinforcing this separation by setting up separate systems of financial control.

5 I entirely take the Chancellor's point about the importance of the cost reduction programme, and am happy to give this higher priority in the list.

6 George Younger has suggested that the objectives should include a reference to the need to maintain a shipbuilding capability in the UK. You have commented, however, that the objectives for Mr Day should not include a reference to the national interest, and I agree. The important point is to give Graham Day a clear steer about the direction that we want to see the Corporation take - without anticipating a discussion of the Corporation's future that we have yet to have.

/7 Finally ...



7 Finally, you have proposed that the targets that we set in Mr Day's objectives should be more precisely specified in terms of timing. I am very ready to accept this; but as this is an aspect that we have not previously raised with him I think that we need first to discuss the more precise timing with Mr Day. He does not return to the UK until next month, and I would propose to meet him then for a discussion of this section of his objectives and to consult colleagues afresh when I have his views.

8 Copies go to other members of E(NI) and Sir Robert Armstrong.

PT

P J

18 May 1983

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

Nat Ind Snippbuilding
Pt 4



18 JUN 1961
11 12 1
6 7 8 9
10 11 12

COMMUNICATIONS SECTION

18 JUN 1961

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Prime Minister

(2)



DEPARTMENT OF INDUSTRY Mus 13/S
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 Margaret Thatcher MP
Prime Minister
10 Downing St
Whitehall
London SW1



13 May 1983

Dear Prime Minister

I now have British Shipbuilders' figures on shiprepairing performance for the period to 1 April and the provisional trading figures for the full financial year. The position is:

Trading Profit (Loss)	Provisional Loss for full year	Previous Forecast
Period 12 £456,000	£5.6 million	£5.8 million
Previous Period (£74,000)		

The provisional end-year figures indicate that Falmouth Shiprepair turned in the largest trading profit at £1.062 million whilst Tyne Shiprepair, although trading profitably for the last quarter, made an overall trading loss of £6.42 million. These figures are of course subject to audit and, therefore, to some revision. British Shipbuilders say that all yards in the division are expected to start the financial year with good workloads but the usual seasonable downturns may well follow in some cases.

British Shipbuilders will be reviewing the position of Tyne Shiprepair and Grangemouth at the end of June.

Yours faithfully
Norman

NORMAN LAMONT

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DEPARTMENT OF MINISTRY
ASHDOWN HOUSE
103 VICTORIA STREET
LONDON SW1E 5JW
TELEPHONE 01-222 2222

73 MAY 1983



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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

JU722

13 May 1983

Willie Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

pm.
WM 13/5
Dear Willie,

LETTER TO THE PRIME MINISTER FROM THE LEADER OF THE OPPOSITION
CONCERNING THE SHIPBUILDING INDUSTRY

...

You already have a rough copy of the attached draft reply. As I explained, the Secretary of State is particularly keen that the passage starting at the bottom of page three on the productivity comparison with NEI Parsons should be included.

2 I am copying this letter and attachment to the private secretaries to Francis Pym, Leon Brittan, Lord Cockfield, Ian Stewart (MOD) and to Sir Robert Armstrong's Office.

Yours ever

Caroline Varley

CAROLINE VARLEY
Private Secretary

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JF3492

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

The Rt Hon Michael Foot MP
House of Commons
LONDON
SW1A 0AA

Thank you for your letter of 5 May about the prospects for the UK shipbuilding industry.

I am, of course, well aware of the widespread concern both inside and outside the industry and the very difficult problems it is currently facing. But the fact is that the demand for new merchant ships has fallen dramatically during the world recession - and is unlikely to pick up markedly for some time to come. And as you know at the same time there has been a decline in order for oil rigs as a result of reduced demand following the second major oil price rise since of 1979. The deterioration in the market is posing severe problems for virtually the whole of the European industry and even for the Japanese.

It is quite wrong to imply that the Government have in any sense abandoned UK shipbuilding in the face of these problems. On the contrary, we have provided extensive support - £700 million for British Shipbuilders (BS) alone since 1979. In the forthcoming year we have made provision for £90 million of capital expenditure by BS - over four times the level we inherited from the previous administration.

Although BS' order book is short at some yards, BS has recently taken important orders for merchant ships from Ethiopia and Mexico which will provide 640 man years of work for Austin & Pickersgill and 2,400 man years for Sunderland, and more orders are in the pipeline. There have also been the recent announcements by Ian Stewart on 10 and 12 May about the procurement of further naval ships.

I should also remind you of the Government's record on orders for the Royal Navy. Since we came into office in May 1979, we have

ordered 23 warships from BS yards worth over £1,830m. We have also recently announced our intention to procure a further nuclear powered fleet submarine, two further frigates, and the first of a new class of patrol submarine; in addition we are now offering Clelands, a BS yard, the opportunity to build two Fleet minesweepers under the Development Area Preference Scheme. The total value of these further ships is nearly £600m. ^(NP) Despite the orders that BS have signed, or have in prospect, this is a difficult situation for them. You will know that the Chairman, Sir Robert Atkinson, has recently asked us to consider further support to tide BS over the shipbuilding recession and to help them obtain orders in the current climate of strong competition from the Far East. We are considering these proposals carefully.

But it is important that decisions on this should not be made on a short term basis but on the basis of a considered view of BS' overall business prospects, which BS is currently preparing.

We recognise, however, that in the intervening period there may be a need to help BS receive more orders. Patrick Jenkin made it clear in a written Parliamentary Answer on 12 May, that he has told Sir Robert that we are prepared to give careful consideration to specific requests for help to obtain orders on a case-by-case basis. This will have of course to be within the framework of our international obligations.

I think you will agree that the specific proposals you make will best be considered alongside our examination of Sir Robert Atkinson's. But I can make some initial comments:

- (i) an accelerated building programme would mean building ships before they are needed and this would be bound to involve a financial penalty and thus an addition to the sums Government already spends to support BS. It is far from clear that this would be cost effective;

(ii) the UK, like most shipbuilding nations, including Japan, is a party to the OECD Understanding on export credit for ships, which sets a framework for credit terms on export orders. A departure from these terms would encourage others to follow suit and risk starting a subsidy race. In any case where others offer better terms than the Understanding permits the Government is prepared to match these terms where this would be appropriate;

(iii) we are exploring with British shipowners the possibility of improving the terms of the Home Credit Scheme. Although Japan's Home Credit Scheme is more favourable than ours, Japanese shipbuilders, unlike those in the UK, do not receive production aids such as our Intervention Fund;

(iv) most public sector orders for ships are in fact already placed in UK yards. But it would be quite wrong for the Government to seek to compel public sector purchasers to order in the UK regardless of commercial realities.

(v) you refer to advance orders for oil rigs placed under a previous Labour Government. I would point out that market conditions have changed markedly over the years and that there are currently large surpluses in almost every type of oil rig. In these circumstances there would be a large risk that any rig ordered speculatively would not find a market for a considerable time to come. I am not prepared to risk the taxpayers' money in this way.

When Patrick Jenkin met the leaders of the "Save Our Shipyards" campaign in Newcastle last Friday, he discussed these issues with them and made one further point which I would like to put to you. It is that further support for BS has to be paid for by the rest of the country. In particular, the cost is in effect carried by firms who are competitive, such as NEI-Parsons Limited which has

recently won a major order in Singapore for power generating equipment in the teeth of international competition and against the background that Japan had gained virtually every order in Singapore for this type of equipment since 1963. If a firm like NEI-Parsons can compete with the Japanese and beat them, why cannot BS? The fact is that NEI-Parsons has raised its productivity sharply over the last few years while at BS productivity is still not back to the pre-nationalisation level and is estimated by BS to be $2\frac{1}{2}$ times worse than Japanese shipbuilding productivity. There must be some limit to the burden which it would be right for the Government to impose on successful competing firms in order to support those who over the years have shown themselves unable to compete.

I have every sympathy with the difficulties facing shipyard workers, but against the background of facts like these part of the solution at least rests in their own hands. The Government is perfectly prepared to play its part as we have done over the last four years. You invite me to make a commitment to the future of the industry. In fact this commitment is already manifest in our strong record of support. As I have made clear we have provided a very great deal of support since 1979. This must be matched by corresponding determination to be competitive on the part of management and workforce.

The Government's policies are designed to help BS achieve viability. This means, as I have said, that further support must and will be linked to the long-term business plans of the Corporation. But, equally important, it means that there must be a whole-hearted commitment to the future by the management and the workforce of BS. BS' losses for 1982/3 are likely to be considerably higher than last year, but this deterioration is not caused by a lack of orders but by losses they will have incurred on orders already obtained.

The current threat by the Unions to occupy the yards in protest against any further restructuring which may prove necessary is the worst possible way in which to help overcome these problems or to secure the future of the industry. The only effect of a sit-in would be to damage yards further. I very much hope you will use your efforts to persuade them against this.

cc IG
DOI

10 DOWNING STREET

THE PRIME MINISTER

13 May 1983

Alan Ford

Thank you for your letter of 5 May about the prospects for the UK shipbuilding industry.

I am, of course, well aware of the widespread concern both inside and outside the industry and the very difficult problems it is currently facing. But the fact is that the demand for new merchant ships has fallen dramatically during the world recession - and is unlikely to pick up markedly for some time to come. At the same time there has been a decline in orders for oil rigs as a result of the reduced demand that has followed the second major oil price rise of 1979. The deterioration in the market is posing severe problems for virtually the whole of the European industry and even for the Japanese.

It is quite wrong to imply that the Government have in any sense abandoned UK shipbuilding in the face of these problems. On the contrary, we have provided extensive support - £700 million for British Shipbuilders (BS) alone since 1979. In the forthcoming year we have made provision for £90 million of capital expenditure by BS - over four times the level we inherited from the previous administration.

Although BS' order book is short at some yards, they have recently taken important orders for merchant ships from Ethiopia and Mexico which will provide 640 man years of work for Austin and Pickersgill and 2,400 man years for Sunderland, and more orders are in the pipeline. There have also been the recent announcements by Ian Stewart on 10 and 12 May about the procurement of further naval ships.

I should also remind you of the Government's record on orders for the Royal Navy. Since we came into office in May 1979, we have ordered 23 warships from BS yards worth over £1,830m. We have also recently announced our intention to procure a further nuclear powered fleet submarine, two further frigates, and the first of a new class of patrol submarine; in addition we are now offering Clelands, a BS yard, the opportunity to build two Fleet minesweepers under the Development Area Preference Scheme. The total value of these further ships is nearly £600m.

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We recognise, however, that in the intervening period there may be a need to help BS receive more orders. Patrick Jenkin made it clear in a written Parliamentary Answer on 12 May, that he has told Sir Robert that we are prepared to give careful consideration to specific requests for help to obtain orders on a case-by-case basis. This will have of course to be within the framework of our international obligations.

I think you will agree that the specific proposals you make will best be considered alongside our examination of Sir Robert Atkinson's. But I can make some initial comments:-

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/(ii)

(ii) the UK, like most shipbuilding nations, including Japan, is a party to the OECD Understanding on export credit for ships, which sets a framework for credit terms on export orders. A departure from these terms would encourage others to follow suit and risk starting a subsidy race. In any case where others offer better terms than the Understanding permits the Government is prepared to match these terms where this would be appropriate.

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/which

which has recently won a major order in Singapore for power generating equipment in the teeth of international competition and against the background that Japan had gained virtually every order in Singapore for this type of equipment since 1963. If a firm like NEI-Parsons can compete with the Japanese and beat them, why cannot BS? The fact is that NEI-Parsons has raised its productivity sharply over the last few years while at BS productivity is still not back to the pre-nationalisation level and is estimated by BS to be 2½ times worse than Japanese shipbuilding productivity. There must be some limit to the burden which it would be right for the Government to impose on successful competing firms in order to support those who over the years have shown themselves unable to compete.

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The Government's policies are designed to help BS achieve viability. This means, as I have said, that further support must and will be linked to the long-term business plans of the Corporation. But, equally important, it means that there must be a whole-hearted commitment to the future by the management and the workforce of British Shipbuilders. Their losses for 1982/83 are likely to be considerably higher than last year, but this deterioration is not caused by a lack of orders but by losses they will have incurred on orders already obtained.

The current threat by the Unions to occupy the yards in protest against any further restructuring which may prove necessary is the worst possible way in which to help overcome these problems

or to secure the future of the industry. The only effect of a sit-in would be to damage yards further. I very much hope you will use your efforts to persuade them against this.

Yours sincerely
Margaret Thatcher

The Rt. Hon. Michael Foot, M.P.

CONFIDENTIAL

FILE

B/C Mr OWEN

RM

12 May, 1983

BRITISH SHIPBUILDERS

The Prime Minister has approved the draft statement attached to your Secretary of State's minute of 10 May.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI), Brian Fall (FCO), John Lyon (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

J. Spencer, Esq.,
Department of Industry

CONFIDENTIAL

(107)

CE / A/O.

2



Prime Minister

Now agreed.

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 11/5

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

11 May 1983

His Secretary of State,
BRITISH SHIPBUILDERS

will yes?

I would be content with the draft statement attached to your minute to the Prime Minister of 10 April, although the promise to "consider requests for help on a case by case basis within the framework of the international rules", goes a step further than our previously agreed policy of there being no question of any special assistance until there was a fully worked-up strategy for BS's merchant yards.

We do not yet have such a strategy but I believe that there is a reasonably clear understanding of which yards are prospectively least viable. I am prepared to go along with the statement provided we adhere to our policy of not entering commitments which would prejudice eventual decisions on the most questionable yards. It would of course be helpful if Sir Robert Atkinson could be persuaded to avoid confronting the Government with propositions of this kind during the interim period before there is a clear strategy.

I am sending a copy of this letter to the Prime Minister, other members of E(NI), the Foreign Secretary, the Secretary of State for Northern Ireland and Sir Robert Armstrong.

yours sincerely
NL

for LEON BRITTAN
(approved by the Chief
Secretary & signed in his
absence)

1 May 1

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 Victoria Street
London SW1E 6RB

Telephone Direct Line: 01-212 3301
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With the Compliments of the
Private Secretary to the
Secretary of State for
Industry

R. Lyne

JF3492

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

The Rt Hon Michael Foot MP
House of Commons
LONDON
SW1A 0AA

Thank you for your letter of 5 May about the prospects for the UK shipbuilding industry.

I am, of course, well aware of the widespread concern both inside and outside the industry and the very difficult problems it is currently facing. But the fact is that the demand for new merchant ships has fallen dramatically during the world recession - and is unlikely to pick up markedly for some time to come.

~~And as you know~~ At the same time there has been a decline in orders for oil rigs as a result of ^{the} reduced demand ^{that has} following ^{er} the second major oil price ^{rise} since of 1979. The deterioration in the market is posing severe problems for virtually the whole of the European industry and even for the Japanese.

It is quite wrong to imply that the Government have in any sense abandoned UK shipbuilding in the face of these problems. On the contrary, we have provided extensive support - £700 million for British Shipbuilders (BS) alone since 1979. ~~With a total of £1.4 billion~~ ~~the £400m a year spent by the Government on BS.~~ In the forthcoming year we have made provision for £90 million of capital expenditure by BS - over four times the level we inherited from the previous administration.

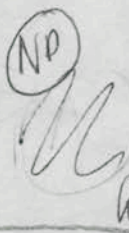
~~We shall continue to support BS' efforts to attain viability.~~

You will know that the Chairman, Sir Robert Atkinson, has recently asked us to consider further support to tide BS over the shipbuilding recession, and to help them obtain orders in the current climate of strong competition from the Far East.

~~Certainly this is a difficult situation and~~ We are ~~therefore~~ ^{however} considering these proposals carefully. ~~But~~ ^{It} is ^{however} important that decisions on this should not be made on ~~a~~ ^{short term} ~~basis~~ ^{considerations} but on ~~the~~ ^{the} basis of a considered view of BS' overall business prospects, which BS is currently preparing.

Although BS' order book is short at some yards, ^{they have} BS ~~has~~ recently taken important orders for merchant ships from Ethiopia and Mexico which will provide 640 man years of work for Austin & Pickersgill and 2,400 man years for Sunderland, and more ^{orders} are in the pipeline. There have also been the recent announcements by Ian Stewart on 10 and 12 May about the procurement of further naval ships.

I should also remind you of the Government's record on orders for the Royal Navy. Since we came into office in May 1979, we have ordered 23 warships from BS yards worth over £1,830m. We have also recently announced our intention to procure a further nuclear powered fleet submarine, two further frigates, and the first of a new class of patrol submarine; in addition we are now ^{has two} offering ~~Cleveland~~s, a BS yard, the opportunity to build ^{two} Fleet minesweepers under the Development Area Preference Scheme. The ^{total} value of these further ships is ^{nearly} ~~nearly~~ £600m.

(NP)  Despite the orders that BS have signed, or have in prospect, this is a difficult situation for them. →

We recognise, however, that in the intervening period there may be a need to help BS receive more orders. Patrick Jenkin made it clear in a written Parliamentary Answer on 12 May, that he has already told Sir Robert that we are prepared to give careful consideration to specific requests for help to obtain orders on a case-by-case basis and ~~this was made clear~~. This will have of course to be within the framework of our international obligations.

I think you will agree that the specific proposals you make will best be considered alongside our examination of Sir Robert Atkinson's. But I can make some initial comments:

- (i) an accelerated building programme would mean building ships before they are needed and this would be bound to involve a financial penalty and thus an addition to the sums Government already spends to support British Shipbuilders. It is far from clear that this would be cost effective;
- (ii) the UK, like most shipbuilding nations, including Japan, is a party to the OECD Understanding on export credit for ships, which sets a framework for credit terms on export orders. A departure from these terms would encourage others to follow suit and risk starting a subsidy race. In any case where others offer better terms than the Understanding permits the Government is prepared to match these terms where this would be appropriate;

- (iii) we are exploring with British shipowners the possibility of improving the terms of the Home Credit Scheme. Although Japan's Home Credit Scheme is more favourable than ours, Japanese shipbuilders, unlike those in the UK, do not receive production aids such as our Intervention Fund;
- (iv) most public sector orders for ships are in fact already placed in UK yards. But it would be quite wrong for the Government to seek to compel public sector purchasers ^{to} ~~in~~ order in the UK regardless of commercial realities.
- (v) you refer to advance orders for oil rigs placed under a previous Labour Government. I would point out that market conditions have changed markedly over the years and that there are currently large surpluses in almost every type of oil rig. In these circumstances there would be a large risk that any rig orders^{ed} speculatively would not find a market for a considerable time to come. I am not prepared to risk the taxpayers' money in this way.

When Patrick Jenkin met the leaders of the "Save Our Shipyards" campaign in Newcastle last Friday, he discussed these issues with them and made one further point which I would like to put to you. It is that further support for BS has to be paid for by the rest of the country. In particular, the cost is in effect carried by firms who are competitive, such as NEI-Parsons Limited which has

recently won a major order in Singapore for power generating equipment in the teeth of international competition and against the background that Japan had gained virtually every order in Singapore for this type of equipment since 1963. If a firm like NEI-Parsons can compete with the Japanese and beat them, why cannot BS? The fact is that NEI-Parsons has raised its productivity sharply over the last few years while at BS productivity is still not back to the pre-nationalisation level and is estimated by BS to be $2\frac{1}{2}$ times worse than Japanese shipbuilding productivity. There must be some limit to the burden which it would be right for the Government to impose on successful competing firms in order to support those who over the years have shown themselves unable to compete.

I have every sympathy with the difficulties facing shipyard workers, but against the background of facts like these part of the solution at least rests in their own hands. The Government is perfectly prepared to play its part as we have done over the last four years. You invite me to make a commitment to the future of the industry. In fact this commitment is already manifest in our strong record of support. As I have made clear we have provided a very great deal of ^{support} aid since 1979. This must be matched by corresponding determination to be competitive on the part of management and workforce.

The Government's policies are designed to help BS achieve viability. This means, as I have said, that further support must and will be linked to the long-term business plans of the Corporation. But, equally, important, it means that there must

be a whole-hearted commitment to the future by the management and the workforce of ~~British Shipbuilders~~. ~~British Shipbuilders~~ *their* losses for 1982/3 are likely to be considerably higher than last year, but this deterioration is not caused by a lack of orders but by losses they will have incurred on orders already obtained.

The current threat by the Unions to occupy the yards in protest against any further restructuring which may prove necessary is the worst possible way in which to help overcome these problems or to secure the future of the industry. The only effect of a sit-in would be to damage yards further. I very much hope you will use your efforts to persuade them against this.



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PRIME MINISTER

BRITISH SHIPBUILDERS

British Shipbuilders (BS) is facing serious difficulties. It is starting to run out of work; the Chairman, Sir Robert Atkinson, has warned the Unions that 9000 (out of a total of 65,000) jobs will be at risk if orders do not improve; and losses have begun to escalate again.

2 Sir Robert has asked for "special emergency help" for merchant shipbuilding - of the order of £150 million over the next two years - to enable BS to get more orders.

3 I originally intended that we would consider this request for help at E(NI) in July, with the Corporation's full Corporate Plan in front of us. I feel strongly that we should not be rushed into major decisions on this industry. Its track record is at best patchy; after a period when losses have been declining, it has now emerged that losses in 1982/3 for the Corporation as a whole may exceed £100 million. A large part of this is due to the mismanagement of a few large contracts. On top of this, there is now the dearth of orders, caused by the collapse of the market and fierce competition from the Far East. BS has got a lot to do to put its house in order - a point which Mr Graham Day, who takes over in September, fully recognises. We agreed at E(NI) in February (E(NI) 83 2nd Meeting) that BS should produce a realistic Corporate Plan along the lines that we laid down, and this they have been instructed to do.

4 The immediate orderbook situation is not quite as catastrophic as BS itself and the Labour Party are presenting it. BS have recently secured one major merchant ship order for Austin &

Prime Minister

Agree, subject to

colleagues, to the written answer at May A?

M/S 10/5

Yes
mb

cc No

(1)



Pickersgill and have two more in the pipeline. The frigate orders for which the Secretary of State for Defence intends to invite tenders very shortly will also help. (It would clearly be helpful if this invitation to tender could be issued before Parliament is dissolved).

5 But work is running out, particularly in some of the smaller yards. Clelands (Wallsend) and Henry Robb (Leith) are both very short of work. BS have also told us that they want to close Goole Shipbuilders (Goole) in July. However, I do not expect any closure announcement to be made in the very near future.

6 We are under intense pressure both in Parliament and the country at large, to respond publicly to Sir Robert Atkinson's request for help. The fact that he has made this request is widely known. And although Norman Lamont made our position clear to the House on 19 April, when he said that we would give Sir Robert Atkinson's ideas careful and sympathetic consideration, the impression is being fostered that the delay in responding to BS's plea for help means that we are unconcerned about the industry's problems (as Michael Foot's recent letter to you shows).

7 Of course, virtually any action that we decide to take must be preceded by consultation with the EC. In advance of our consideration of BS' future later in the year, I have asked officials to undertake the groundwork for a possible approach to Brussels.

8 In the meantime, we need to respond publicly to Sir Robert's request, making two points absolutely clear.

9 First is that we are indeed greatly concerned by British Shipbuilders' problems, but we can only consider the right course of action to take against the background of a full Corporate Plan, and in the context of our international obligations.



10 I should also like to make it clear that we are prepared to make assistance available, on a case by case basis, if it is needed to secure individual orders during the period before we can consider the Corporate Plan.

11 Accordingly, I propose to make an announcement later this week by Written PQ along the lines of the attached draft. This statement has been drafted so as to minimise the risk of criticism from the European Commission.

12 I would like to know by midday on Wednesday if any colleagues are not content with this draft statement.

13 Copies go to other members of E(NI), the Foreign Secretary, the Secretary of State for Northern Ireland and Sir Robert Armstrong.

PATRICK JENKIN

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

10 May 1983

Department of Industry



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684.2

WHAT PROVISION IS THE GOVERNMENT MAKING TO HELP BS OBTAIN ORDERS IN CURRENT MARKET CONDITIONS?

We already provide considerable assistance. Since early 1979 British Shipbuilders has received £700 million of taxpayers' money to help meet its losses, and to restructure. This includes support through the Intervention Fund, which enables BS to quote prices which do not cover their costs. Support is also given through the Home Shipbuilding Credit Scheme, which encourages UK owners to place their orders in UK yards.

2 The Government are currently considering detailed proposals from the Chairman of BS for extra help in the light of the deterioration of the market. These will need to be considered against the background of a full business plan for the future of the Corporation, which BS are now preparing, and in the light of our international obligations. I have told Sir Robert Atkinson that in the meantime the Government will give careful consideration to specific requests for help on a case by case basis within the framework of the international rules.

file Bre
Michael FOOT MP
12/5

5 May 1983

I enclose a copy of a letter to the Prime Minister from the Leader of the Opposition. He urges on her a six point programme to help the shipbuilding industry.

I should be grateful for a draft reply for the Prime Minister to send to Mr. Foot as soon as possible.

W. F. S. RICKETT

Jonathan Spencer, Esq.,
Department of Industry

8



10 DOWNING STREET

PRIME MINISTER

Michael Foot writes to urge
on you a six point programme to
help the shipbuilding and ship-
repairing industry.

I have asked Patrick Jenkin's
office for an urgent draft reply.

mf *ur*

5 May 1983

mf

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HOUSE OF COMMONS
LONDON SW1A 0AA

CS

From:
Michael Foot MP

5 May 1983

Dear Prime Minister,

Our Industry team and I have recently had the opportunity of visiting a number of shipyards and having intensive talks about the future of the shipbuilding industry with managements and workforces in the North of England and in Scotland.

I am deeply concerned about the present prospects for survival of the industry. Already we are moving dangerously close to a situation in which British shipyards will be unable to undertake major tasks as was evidenced by the Cunard Countess order going to Malta. The logic of leaving this essential industry to the vagaries of market forces and competition is that we could reach a situation before long in which this maritime country of ours will be totally dependent upon foreign yards for new ships and major shiprepairs. I do not believe that this is a position which should be allowed to develop and I am taking the exceptional step of writing to you to ask the Government to give further help to this essential industry before it is too late.

Further closures and redundancies are threatened in the immediate future. I believe that Government intervention is necessary to carry the industry over for the next 2 years when an upturn in orders can reasonably be expected. These next two years are crucial to the very survival of a shipbuilding capacity in the United Kingdom and we neglect them at our peril.

I believe that a programme along the following lines would go a long way to ensure that the industry survives its present crisis.

1. As a matter of urgency, Government aid should be increased in the short term.
2. An accelerated building programme for public sector vessels and defence vessels.
3. More flexible credit arrangements to enable British Shipbuilders to compete against Japanese and Korean shipyards.

4. Home owners credit facilities to be improved to maximise work for British Shipbuilders from British shipping lines. Japan gives its domestic owners credit on 90 per cent of a home built vessel's price spread over 12 years at low interest rates - and prices are up to 15 per cent below the actual costs of material and labour.
5. All British shipowners, Government Departments and nationalised industries must buy from British yards with financial incentives being made available to private companies.
6. Consideration should be given to placing an advance order for an oil rig as the Labour Government did on two occasions in similar circumstances. There was no difficulty in selling them on completion.

There may of course be alternative ways of keeping the shipbuilding and shiprepairing industry in being. The essential point at this stage is that there should be a Government commitment to do so and I urge you to take a very early opportunity to make this commitment known to the industry and to the country.

M. Thatcher

Rt. Hon. Margaret Thatcher MP
10 Downing Street
London



10 DOWNING STREET

From the Private Secretary

25 April, 1983 HMT
CO

FLVE
Sw.
cc: D/En. *Met End*
D/Emp.
C Sec's Office
D/Trans.
D/Trade
SO PoE
bce: Mr. Owen.

British Shipbuilders - Objectives

The Prime Minister was grateful for your Secretary of State's minute of 15 March. She has also seen subsequent correspondence from other members of E(NI).

The Prime Minister considers that there should be no reference in the objectives to the national interest; that there should be separate and explicit objectives for the warship and merchant sides of the business; and that these targets should be specified more precisely in regard to their timing.

I am sending a copy of this letter to the Private Secretaries to other members of E(NI) and to Sir Robert Armstrong.

M. C. SCHOLAR

Jonathan Spencer,
Department of Industry

CONFIDENTIAL

CONFIDENTIAL

CCNO



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 Margaret Thatcher MP
Prime Minister
10 Downing St
Whitehall
London SW1

Prime Minister

ms 21/4

21 April 1983

Dear Prime Minister

last figures 11/3/83

I now have British Shipbuilders' (BS) figures on shiprepairing performance for the period to 25 February. The position is:

Trading Profit/(Loss)	Loss for year to date	Forecast loss to end of year
Period 11 (£74,000)	£6.03 million	£5.8 million
Previous Period £170,000	-	£6.3 million

Following the overall trading profit for the previous period the shiprepairing division as a whole has slipped back into a small loss for this latest period. However, within this overall picture both Tyne Shiprepair Ltd (TSL) and Falmouth Shiprepair Ltd have remained profitable on a trading basis. Vosper Shiprepairers Ltd had a poor month with a low workload, but generally the division's workload remained strong. Vosper has recently won two important contracts which give it a strong workload and BS consider its performance also should improve markedly during the next few months.

Yours
Norman

NORMAN LAMONT

CONFIDENTIAL

NATIONALISED INDUSTRIES: Shipbuilding

P44

DEPARTMENT OF INDUSTRY
DOWN TOWER
111 VICTORIA STREET
LONDON SW1E 6RH
TELEPHONE: 01-275 3111



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CONTRACTOR

MR SCHOLAR

cc Mr Mount
Mr WaltersYes
m

Agree I write as at X overleaf,
in general terms
i.e. supporting the line in the
Chancellor's letter (Flag A) against
that in Mr Younger's (Flag B)?

MUS 20/4

BRITISH SHIPBUILDERS - OBJECTIVES

Mr Jenkin has circulated a list of objectives which he proposes to give to Mr Day, the incoming Chairman and Chief Executive of BS. The Chancellor and Mr Younger have commented on these. The Chancellor suggested that the objectives should be more explicit; Mr Younger is disturbed by the absence of any reference to what he describes as the "national interest" in retaining shipbuilding capacity.

We should firmly resist any reference to retaining a core of capacity in the "national interest". The phrase appeared in the preamble to the notorious Ryder Report on British Leyland and proved a recipe for continuous subsidy and fudging. In any case, the problem - if such it is - largely solves itself in this industry. The yards which could be strategically important find themselves in the profitable warship division. And it is difficult to envisage the scenario in which it would be strategically critical to retain merchant and off-shore capabilities. Any concession to the national interest argument would compromise Mr Day's difficult task of achieving viability.

There should, as the Chancellor suggests, be separate and explicit objectives for the warship and merchant sides of the business. The cross-subsidisation of the latter by the former will have to be phased out. The sooner this is recognised the better. The DoI would prefer not to follow this course, since the aggregation of the two activities' accounts helps the DoI in its dealings with the Commission. The losses on the merchant side are partially concealed by the present arrangements: this makes it easier to secure permission to support BS. But since it is the Government's objective to phase out this support, this consideration hardly seems an advantage, and in any case, what is put to Mr Day on a confidential basis need not be presented to the Commission.

The financial objectives need to be more precise. The first objective refers to "a state of enduring profitability, earning an appropriate real rate of return". This amounts to getting BS into a fit state for privatisation. This will take many years to achieve for the merchant side of the business. Therefore something more specific should be said about the financial targets in the intervening period.

✓
X
-
To sum up, my advice is that no reference to the "national interest" should be included; separate targets for the warship and merchant activities should be established; and these targets need to be specified more precisely in regard to their timing.

NICHOLAS OWEN
NO

20.4.83

old Nat Inst Ships
CONFIDENTIAL

Ref. No: IN (83) 5
15.4.83

OPPOSITION DAY DEBATE
ON
SHIPBUILDING

Tuesday 19th April 1983

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Conservative Research Department,
32 Smith Square,
London SW1
Tel. 222 9000

Enquiries on this brief to:
NIGEL HAWKINS
RICHARD EHRMAN

Background

British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act, 1977, after a prolonged Parliamentary struggle. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering.

Shipbuilding in Europe declined throughout the 1950's and 1960's. In the UK employment in this sector fell from 130,000 in 1955 to 69,000 in 1973. From 1974 the threat of nationalisation hung over the industry, world demand continued to decline and its financial problems continued to be acute.

Since nationalisation the industry has received over £700 million in grants and loans from the exchequer. If it had remained in the private sector it would have needed assistance, but it would also have faced up to the need for rationalisation much sooner and the cost to the exchequer might well have been less.

Prospects

Present prospects are gloomy. The world's shipyards have been badly hit by the recession (see below) because their customers the shipowners are facing a glut in capacity brought about by the drop in world trade. In December 1982 12 per cent of the world's total fleet, some 84 million tons of shipping, was lying idle. Competition from foreign, mainly Far Eastern, yards is intense. British Shipbuilders current order book at the end of March 1983 was estimated at £2705 million, which included £1908 million for warships and £553 million for merchant shipping. Sir Robert Atkinson, the retiring chairman of BS, has warned that the corporation is "fighting for its life" and cannot afford a wage rise this year. Great efforts are being made to improve productivity, which rose 15 per cent in 1980 - 1982, and modernise the yards. In 1983-4 capital expenditure will be £90 million.

Warship Yards: Vickers, Vosper Thornycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. In December 1982 the Government announced nearly £600 million of naval orders. BS is anxious to increase the export share of its warship order book from around 20 per cent to 30 per cent, but many current customers are rapidly becoming competitors.

Merchant Yards: This market is very depressed and expected to remain so. The Merchant Yards are the division most affected by foreign competition. The situation is worst in the large yards, particularly Sunderland Shipbuilders, Austin and Pickersgill (Tyneside), Govan (Clyde) and Smiths Dock (Middlesbrough).

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. Camell Laird (Merseyside) and Scott Lithgow (Clyde) feature prominently in the BS recent announcement of jobs at risk (see below).

Ship Repairing: The slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year.

World Situation

The shipbuilding industry is in crisis everywhere. At the end of 1982 world forward orders for shipbuilding were down by 35 per cent on the end of 1981.

Japan: The Japanese industry accounts for more than half the world market but in 1982 its orders fell by 58 per cent.

Korea: The South Korean industry is now second only to Japan, in 1974 it ranked 70th in the world. It is often blamed by its western competitors for unfair competition. The Seoul government is accused of granting excessive subsidies and export credits to enable its yards to quote prices up to 35 per cent cheaper than European rivals. The Koreans however claim that their two largest yards, Daewoo and Hyundai, receive no direct government subsidy though they did benefit from an initial five year tax holiday. The Export Import Bank of Korea does grant export credit, but the terms are said to be less favourable than the Japanese offer. Korean yards say they are cheaper because their yards are more modern and efficient, because their local raw materials, particularly steel, are cheaper than in Europe, and because they have a cheap and disciplined workforce. The average working week in Korean shipyards is 60 hours and wages are about one-third of those paid in Japan. Despite all these advantages Korean yards experienced a 20 per cent drop in orders in 1982.

Europe: Most EEC shipowners place their orders for ships with their national yards. The figures are as follows, in percentage terms:-

	<u>1979.</u>	<u>1980</u>	<u>1981</u>
Germany	100	91.9	79.8
Belgium	91.4	100	94.6
Denmark	74.5	61.1	84.3
France	100	68.5	91.8
Greece	-	-	0.6
Ireland	52.6	5.7	80.9
Netherlands	77.1	60.2	60.6

(Source: European Parliament Written Answers)

Despite these figures the West European industry has been hit harder by the recession than its foreign rivals. West German shipbuilders lost about £220 million in 1982, Sweden and France are both trying to produce survival strategies for their yards, and in the Netherlands Rhine Schelde Verolme is in a perilous state and 30,000 jobs are at risk.

National aids to shipbuilding and shipowners are listed in Appendix A.

Manpower

BS workforce has been reduced from 87,500 at nationalisation in 1977 to around 63,000 today. In February and March this year 2,300 jobs were lost at BS; the breakdown was as follows:-

Merchant Shipbuilding

Austin and Pickersgill, Sunderland	200
Sunderland Shipbuilders, Sunderland	415
Clelands Shipbuilders, Wallsend	30
Swan Hunter Shipbuilders, Wallsend	500
Smith's Dock, Middlesbrough	32

Warship Building

Vickers Shipbuilding, Barrow	99
Vosper Thornycroft (UK), Portsmouth and Southampton	227

Engineering

Blackwall Engineering, Poplar, London	94
Wolsingham Steel, Wolsingham	229
Wallsend Slipway Engineers, Wallsend	11

Short-term workers (mainly Swan Hunter) 460

TOTAL 2,297

Threatened Redundancies: BS have warned that between 6-9,000 more redundancies are possible. 3,700 could be lost on the merchant side, 3,550 in offshore work, about 1,300 in warship yards and 300 in engineering. Scott Lithgow could lose 2,150 jobs, Govan 1,130 jobs and Cammell Laird 1,400. IT IS EMPHASISED THAT THESE FIGURES REPRESENT THE MAXIMUM NUMBER OF JOBS AT PRESENT AT RISK. BS HOPE THE ACTUAL NUMBER LOST WILL BE LESS.

Breakdown of BS employment by division and region:-

DIVISION

	July 1977	Nov 1978	Sept 1979	March 1981	March 1982	Feb 1983
Merchant	34,245	33,376	31,069	24,963	24,658	23,231
Warship	25,778	25,795	25,990	25,207	24,514	23,987
Shiprepair	9,017	8,933	6,333	4,323	3,854	2,667
Engineering	5,691	5,706	5,089	4,348	3,897	3,334
Offshore	12,703	12,600	11,215	8,974	8,918	9,099
Corporation	-	-	-	136	275	648
H.Q.	35	177	244	204	204	240
Total	87,469	86,587	79,940	67,975	66,320	63,206

REGION

	Dec 1978	Dec 1979	Dec 1980	Dec 1981	Feb 1983
Scotland	28	28	27	27	29
N.E. England	36	35	36	35	32
N.W. England	23	23	24	25	26
Rest of England	13	14	13	13	13
Total	100%	100%	100%	100%	100%

Shipbuilding Redundancy Payments Scheme: This was introduced in 1978, the present Government extended it in July 1982 so that it will run until 30th June 1985. It was also improved in order to give more help to those under 40. The savings in manpower were estimated at that stage to be £150 million. So far over 22,000 employees have benefitted from it to the tune of £62 million.

£m	1978	1979	1980	1981	1983 (Feb)
Feb. to April	-	4.7	15.5	20.1	7.3

BS Finances

- Under this Government BS had received, by September 1982:

- £600 million in loans and grants
- £418 million in public dividend capital
- £125 million from the intervention fund
- £51 million in special redundancy payments

- BS Financial Results:

	£m				
Year to April	1978	1979	1980	1981	1982
Turnover	497	842	813	899	1025
Trading Loss	104.5	49.4	109.9	41.4	19.8
Intervention Fund	19.3	10.6	31.2	38.9	46.1
Capital Expenditure	20.1	27.4	18.6	16.7	36.8
Public Dividend Capital -	-	-	236	110	107

- The Corporation's borrowing limit under the 1977 Act was £500 million. This was increased to £600 million in November 1981. Under the Shipbuilding Act 1982 the overall limit was increased to £700 million, with provision for the Secretary of State to extend it to £800 million.
- The results for the year to 31st March 1983 will not be available until the summer. BS's loss limit for 1982-3 was set at £10 million but half-year losses were £28 million and there has been much recent speculation that its losses for the whole year will be between £50-70 million. BS's EFL was set at £123 million for 1982-3 but was later increased to £160 million

- The Intervention Fund exists to help BS compete with cheap Far Eastern prices. The most notable recent example of its use was when the Government provided around £10 million in order to ensure that Cunard built the replacement for the Atlantic Conveyor, lost in the Falklands, at Swan Hunter instead of at Hyundai in Korea. The Koreans had quoted £30 million against BS's £40 million and the Korean price was estimated to be the same as BS's material costs alone. BS estimate that approximately 60 per cent of the cost of a ship is accounted for by outside contractors and suppliers, so the benefits of intervention fund spending are spread widely throughout the economy.

- In 1981-2, the results in the five main divisions were:

	Turnover £ 000	Trading profit (loss) £ 000
<u>Merchant Shipbuilding Division</u>		
Austin & Pickersgill Ltd	65,457	(8,949)
Govan Shipbuilders Ltd	52,630	(6,287)
Smith's Dock Ltd	30,688	(2,202)
Sunderland Shipbuilders Ltd	59,323	(5,605)
Appledore Shipbuilders Ltd	14,604	(356)
Ferguson-Ailsea Ltd	14,965	(6,276)
Goole Shipbuilders Ltd	15,810	(2,221)
Hall Russell Ltd	11,376	63
Henry Robb Ltd	10,032	(4,427)
Swan Hunter Shipbuilders Ltd	<u>120,874</u>	<u>83</u>
	<u>395,759</u>	<u>(36,177)</u>
<u>Warshipbuilding Division</u>		
Barclay Curle Ltd	5,306	624
Brooke Marine Ltd	17,124	479
Vickers Shipbuilding and Engineering Ltd	207,101	19,601
Vosper Thornycroft (UK) Ltd	124,066	9,302
Yarrow Shipbuilders Ltd	<u>74,790</u>	<u>8,576</u>
	<u>428,387</u>	<u>38,582</u>
<u>Engineering Division</u>		
Blackwall Engineering Ltd	1,829	17
BS (Engineering and Technical Services) Ltd	4,980	359
Britparts Ltd		
Clark Hawthorn Ltd	24,952	(236)
John G Kincaid Ltd	19,502	(1,897)
K & L Marine Equipment Ltd	1,227	22
Sunderland Forge Ltd	9,052	(233)
Wolsingham Steel Ltd	<u>7,337</u>	<u>(233)</u>
	<u>71,372</u>	<u>(2,191)</u>

Shiprepair Division

Brigham & Cowan (Hull) Ltd	-	-
Falmouth Shiprepair Ltd	6,318	1,023
Grangemouth Dockyard Ltd	1,669	(625)
Tyne Shiprepair Ltd	36,801	(7,989)
Vosper Shiprepairs Ltd	8,401	(1,902)
	<u>53,189</u>	<u>(9,493)</u>

Offshore Division

Cammell Laird Shipbuilders Ltd	52,722	242
Scott Lithgow Ltd	74,735	(14,949)
V O Offshore Ltd	<u>7,312</u>	<u>1,029</u>
	134,796	(13,678)

The 1977 Compensation Terms

In opposition, Conservatives were very much opposed to the terms of compensation for the owners of firms nationalised under the 1977 Act. As Secretary of State for Industry, Sir Keith Joseph reaffirmed the view that they were "grossly unfair" (Hansard, 7th August 1980, col. 290). Total compensation paid for the 24 private companies vested in BS was £755 million. Many of the companies involved have settled, but some have taken their ~~cases~~ before the European Commission of Human Rights.

The Government believes that, however unjust the original arrangements, it would be unjust to amend the terms now because people have sold shares on the terms of the 1977 Act.

Some of the previous owners bought seven cases against the Government concerning the compensation paid before The European Commission of Human Rights. In January the Commission declared four of the seven cases admissible and they are now waiting to be heard.

The British Shipbuilders Bill

This bill has received its third reading in the Commons and is now in the Lords.

The Bill

Clause I

The Functions of BS

Under the 1977 Act, BS has a legal duty to "promote the efficient and economic design, development, production, sale, repair and maintenance of ships and slow speed diesel marine engines, and research into matters relating thereto". Other legal duties are also imposed by the Act. For example, BS is required to carry out its activities with full regard to the requirements of national defence and the need to benefit from the knowledge and experience of its workforce; and to promote industrial democracy.

Such legal requirements would obviously be inconsistent with operation as a private sector company. Thus a first step in privatisation is to remove them. The Bill therefore seeks to repeal these sections of the 1977 Act, while ensuring that BS retains the legal capacity to carry on existing activities, and other activities approved by the Secretary of State.

Removal of the legal straightjacket will enable BS to organise its affairs in the light of its own commercial judgement. Responsibility for the implications for national defence is put where it properly should be - on Government.

The Powers of the Secretary of State

Under the 1977 Act, the Secretary of State was required to have regard to a number of specific factors before giving a general direction to BS. These were:

- the need to co-ordinate the operations of BS with those of the British shipping industry.
- the shipbuilding policies of any international organisations to which the UK belongs.
- the ability of BS to compete in world markets on equal terms with overseas competitors.
- the implications for regional employment.

The Bill seeks to replace these with the requirement that, ^{giving/a} before general direction to BS, the Secretary of State must be satisfied that it will further the national interest. The factors above will obviously be embraced by this requirement, and other factors might also be involved.

Clause II

The Organisation of BS

The Bill would give the Secretary of State power in the national interest, to direct BS, by order:-

- to discontinue or restrict any of its activities (or those of its wholly owned subsidiaries),
- to dispose of all or any of its property, rights or liabilities (or those of its wholly owned subsidiaries).

It is envisaged that this power will be used to deal with unfair competition with the private sector, and to direct the sale of some or all of the shares in the BS subsidiaries.

The Secretary of State would be given powers, when directing disposal, also to direct BS to form a company to which the property can be transferred. He would also be able to prohibit such a company from straying outside the activities specified in his

direction. Thus he would be able to maintain control over the nature and the use of the assets of the company. The company would initially be a wholly owned BS subsidiary and the restrictions above would end if and when it ceased to be wholly owned.

These provisions will enable activities to be concentrated in separate wholly owned subsidiaries, to ensure transparency. This might be necessary in its own right, or as a prelude to disposal. The Bill would enable the Secretary of State to direct that an employees' share scheme be established, to allow employees to benefit from disposal.

Safeguarding the National Interest after Disposal

When the Secretary of State directs or consents to a disposal, the Bill gives him powers:

- to require BS to amend the articles of association to include restrictions on things such as the size of foreign share holdings and the nationality of directors.
- to require the creation of special rights preference shares to be held by him or his nominee. Consent of these shareholders would be needed to any change in the relevant articles.

These powers would be used for reasons of national security, to ensure that assets important to our defence interests do not pass into foreign control. The Bill provides a simple, flexible and effective method of securing this.

Labour Policy

Labour say in their "New Hope for Britain" that they intend to ensure that British Shipbuilders remains a wholly nationalised concern, and intend to create a state owned shipping organisation to act as its customer. Labour will introduce protectionism in shipping "to protect our shipping and jobs from unfair competition" and will provide BS with "a new financial basis and adequate resources for investment". In short Labour propose to apply their usual remedy of state control, subsidy and protection with the sole aim of preserving jobs. Shipping and Shipbuilding are areas of intense international competition, and attempts by this country to opt out of that are likely to have particularly harmful effects on international trade and the viable jobs that depend on it. They say nothing about the fundamental problems that make our yards uncompetitive or how they would tackle them.

Appendix A

Direct Aid to Shipbuilding and Shipowners

<i>Direct Aid to Shipbuilding</i>	<i>Home Credit Scheme Aid to Shipowners</i>
<i>United Kingdom</i>	
Up to 17 per cent. of contract price (Includes 2 per cent Shipbuilders Relief)	Home Credit Scheme 80 per cent. over 8½ years at 7 per cent. (On orders placed in United Kingdom yards only)
<i>Belgium</i>	
Nil	Home Credit Scheme 70 per cent. over 15 years. Interest relief subsidy (maximum 3 percentage points)
<i>Denmark</i>	
Nil	Home Credit Scheme 80 per cent. over 12 years at 8 per cent. interest including 2 year grace period
<i>France</i>	
Up to 20 per cent. of contract price. (Excludes cost escalation insurance which benefit ranges from zero to 3 percentage points)	Home Credit Scheme 80 per cent. over 8½ years at 7½ per cent. interest.
<i>Germany</i>	
Nil	12½ per cent. investment grant. 4 per cent. interest subsidy. (The Investment Grant automatically reduces the amount of credit to which the Interest Subsidy applies.) Credit Guarantees at OECD terms.
<i>Ireland</i>	
Up to 30 per cent. of contract price. (Scheme expired 31 December 1980. No details of new scheme yet available.)	Home Credit Scheme 80 per cent. over 8½ years at 7½ interest.
<i>Italy</i>	
Up to 30 per cent. of contract price. (This relates to 1980 practices under an old scheme. A new scheme is believed to be under discussion with the EC Commission.)	Home Credit Scheme 70 per cent. over 15 years. Interest subsidy 50 per cent. of official rate.
<i>Netherlands</i>	
Up to 15 per cent. of contract price. (1980 scheme, no details of aid scheme for 1981-82 yet available.)	Home Credit Scheme 80 per cent. over 8½ years at minimum of 8 per cent. interest. Investment subsidy of 15 per cent. plus investment premium of 1.1 per cent. for 5 years.
<i>Finland</i>	
Nil	Home Credit Scheme 80 per cent. over period of construction (at least 2 years, normally not more than 8 years at 11 per cent. interest.
<i>Japan</i>	
Nil	Home Credit Scheme. * Government (Japanese Development Bank) loan of 60 or 70 per cent. over 13 years at 7½ per cent. interest including 3 year grace period. Further loan available from commercial banks, acting in conjunction with JDB, for 15 or 20 per cent. of contract over 8 years at 8½ per cent. interest. Supplementary provision in certain cases for interest subsidies of 2½ per cent. to 3½ per cent.
<i>Norway</i>	
Nil	80 per cent. of contract price over 8½ years plus interest subsidy of up to 5½ per cent.
<i>Spain</i>	
Up to 9½ per cent. of contract price	Home Credit Scheme. 85 per cent. over 12 years at 8 per cent. interest with up to 2 years grace period. (Smaller subsidy—70 per cent. of value at 8 per cent. for 5 years plus 1 year grace—available for conversions and major repair work.)
<i>Sweden</i>	
Nil	Credit guarantees of 90 per cent. of contract price for up to 15 years on commercial loans with 3 year grace period on capital repayments. Interest rate subsidy about 2½ per cent. available in certain cases.

Department of Industry, London,
July 1982

Note:

* The 70 per cent. and 20 per cent. loans are available only for LNG carriers. Other types of vessel attract the lower percentages.

Source: Hansard, Written Answers, 8th November 1982, Col. 71

RE/AM
15.4.83



VCC NO

From the Secretary of State

CONFIDENTIAL

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London
SW1E 6RB

18 April 1983

Dear Patrick,

1 I have seen the letters from the Chancellor of the Exchequer and the Secretary of State for Scotland about your draft objectives for the Chairman-designate of British Shipbuilders. I have a particular interest; the continuing distortion of ship prices by widespread subsidy of shipbuilding is a continuing strain on the world's shipping markets, most of which continue to be gravely oversupplied and depressed. And the burden of British Shipbuilders on the taxpayer is of general concern. I would therefore support the comments made by the Chancellor regarding the clearer distinction between naval and merchant shipbuilding, a break-even target and greater priority for radical improvements in productivity.

2 The amendment suggested by the Secretary of State for Scotland would however seem to prejudge the question posed by the Prime Minister in E(NI) and referred to by the Chancellor, viz whether and how the Corporation can develop into a viable shipbuilding industry and what difficult decisions about yard closures and redundancies need to be taken to achieve this.

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

[Handwritten signature]

LORD COCKFIELD

CONFIDENTIAL

Nat. Ind. British Shipbuilders A4

11 APR. 1985



1 NBPM 2 PL BF to MCS (or)

B

cc NO



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister²

CONFIDENTIAL

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

MCS 11/4

MF

6 April 1983

Dear Secretary of State,

BRITISH SHIPBUILDERS: OBJECTIVES

Thank you for sending me a copy of your minute of 15 March to the Prime Minister, with a draft statement of the objectives for the new chairman of British Shipbuilders.

One point not covered is the future of the shipbuilding industry as a whole. Do we want, need, and intend to retain a substantial shipbuilding capability in this country, or not? The logic of your draft objectives seems to be that the future of shipbuilding will be settled by market forces, without reference to any national interest or need, and this leaves open the possibility that we shall be left with no shipbuilding capacity at all. One exception might perhaps eventually turn out to be the warship yards, which no doubt we should regard as not expendable in the face of market forces; and the Falklands campaign demonstrates the strategic need for a merchant shipbuilding capability as well. I suggest that we need to think in similar strategic terms for offshore work - we could not allow ourselves to risk the prospect of becoming wholly dependent on overseas yards in this sector also.

I think therefore that the first sentence of the draft objectives could be amended on these lines "the primary aims of the Government are to retain a substantial shipbuilding capability in the UK, and to return British Shipbuilders to the private sector"

I am sending copies of this letter to the Prime Minister and members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

John Wilson

Approved by the Secretary of State
and signed in his absence

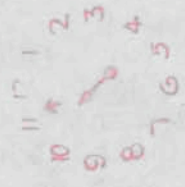
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Shipbuilding
Pt 4



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71 1003



CONFIDENTIAL



Prime Minister ²

A

I will submit, with

Mr Jenkin's

original

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

31 March 1983

minute,

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

when we have a

full collection of
views.

Patrick

MW 31/3

Thank you for sending me a copy of your minute of 15 March to the Prime Minister enclosing draft objectives for the BS Chairman designate Mr Graham Day.

Day's appointment will extend to autumn 1986 so the action stemming from these objectives will take place for the most part in the early years of the next Government. We need to look somewhat ahead therefore in setting these objectives and I agree very much that they should be strictly confidential. We can, as you say, consider separately what might be published immediately.

Turning to the objectives themselves, I endorse the firm steer which they give to achieving the privatisation of the warshipbuilding division by 1985-86. I wonder whether this might not be made even more concrete by giving the Chairman the immediate aim of separating the warship side fully from the merchant side, so as to give a clean track record for the market and to put an end to the tendency for it to be constrained by the problems of merchant shipbuilding. We might buttress this by an appropriate separation of the main Government controls, through separate financial and performance targets and separate financing limits.

I agree also that it is unlikely that significant privatisation will be practicable on the merchant shipbuilding side in the timescale in question. But I would like to see the new Chairman's attention very firmly directed to the question raised by the Prime Minister in her summing up of the E(NI) discussion in February, ie. whether and how the Corporation can develop into a viable shipbuilding industry and what difficult decisions about yard closures and redundancies will need to be taken to achieve this.

I suggest that these two strands could be rather more clearly brought out in the objectives. For warshipbuilding the aim must clearly be privatisation. For merchant shipbuilding on the other hand, while the ultimate goal is privatisation, the first task for the new Chairman is to let the Government have a realistic and hard-headed view of what it would be right for BS to concentrate on doing in the longer-term and what, in consequence, will need to be the contraction plan.

/I suggest

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Shipbuilding
Pt 4

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I suggest too that it would be a good idea to give Day a clear objective in quantitative terms for the merchant shipbuilding side. This might be to break-even on merchant shipbuilding, (after the generally available Intervention Fund subsidy), by 1985-86 or at the latest 1986-87. If matters are too uncertain at this stage to specify such a timetable, then I believe that we should make it clear that the Government will wish to set a firm target for break-even once Day has completed the appraisal I have referred to above.

Lastly, I wonder whether it would not be right to put the requirement for a vigorous cost-reduction and efficiency programme rather higher in the list. I recognise that, as far as merchant shipbuilding is concerned, much will depend on the prospects for the world market. But of the factors which are in BS's own power to influence this must surely be the most important, and without a radical improvement in competitiveness it is difficult to see that there can be any significant long-term future for the industry outside its Defence contracts.

I agree therefore with the general lines of the confidential draft objectives but would like to see a rather clearer distinction in the remit between the Defence side of BS's work and the rest, especially merchant shipbuilding. I believe we ought to ask Day for a firm plan for establishing a viable level of merchant shipbuilding and should either set a break-even target now or inform him of our intention to set one in the light of his plan. I also suggest that productivity needs a higher priority.

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

GEOFFREY HOWE

31 MAR 1983



6/6
Nat. Ind) (2) CCNO

Prime Minister

To see.

I will resubmit
when others have let you have
their views.
MS 15/3



CONFIDENTIAL

JU234

PRIME MINISTER

ms

As you know, we have now announced the appointment of Graham Day as the next Chairman and Chief Executive of British Shipbuilders.

2 I attach great importance to our giving Mr Day a very clear indication of the direction that we want BS to take during his tenure of office. It is essential that we make it clear that we are looking for a return to the private sector for those parts of BS where this is practicable. Where it is not reasonable to expect progress in the timescale of Mr Day's contract, we need to make it clear that we are looking for reductions in underlying loss rates, and for BS to divest itself of its peripheral activities (which it will be able to do when the BS Bill, now in the Lords, is enacted).

3 I also believe that we need to give Mr Day a timetable for seeing results.

4 There are a number of other objectives that I should like to see BS pursuing, which would help to ensure that it was competing fairly with private sector companies; and that it was pursuing competitiveness as vigorously as possible. But these are subsidiary to the central objective.



... 5 I attach a draft of a set of confidential objectives for BS reflecting all these points. These are intended not only to determine the Corporation's direction over the next few years but also to provide benchmarks against which I can judge the "performance-related" element of Mr Day's remuneration package (his "performance-related" bonus, at my discretion, can be up to £15,000 pa).

6 I have shown these in draft to Mr Day, who not only accepted them but said that he welcomed the clear steer that they embody.

7 I would be glad to know if colleagues are content with these objectives. They are intended to remain confidential. Later in the year, when Mr Day is installed as Chairman of BS, I shall be seeking colleagues' agreement to a publishable version of these objectives, which will also be shown to other BS Board members.

8 My intention is, however, to restrict knowledge of these detailed objectives to Mr Day.

9 Copies of this minute go to members of E(NI) and Sir Robert Armstrong.

PJ

P J

15 March 1983

Department of Industry
Ashdown House
123 Victoria Street



CONFIDENTIAL

BRITISH SHIPBUILDERS - OBJECTIVES

The primary aim of the Government is to return British Shipbuilders to the private sector at the earliest opportunity. To this end, subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and subsequent legislation, and any direction given by the Secretary of State by virtue of his powers under such Acts, the Corporation shall aim to:

1. Reach a state of enduring profitability, earning an appropriate real rate of return on its assets and paying dividend on its capital by
 - a) progressively reducing the underlying rate of loss on merchant shipbuilding (after IF Assistance) on offshore work and on engines;
 - b) the sale or closure of the shiprepair division by the end of 1983/4 and peripheral engineering interests by the end of 1984-5;
2. Make demonstrable progress towards the privatisation of all or part of the warshipbuilding division and any other disposable parts of the Corporation by 1985/6.
3. Meet the financial targets which will be set by the Secretary of State after consideration of BS's annual Corporate Plan and which will reflect the Government's policy of reducing financial support for BS.
4. Take early firm corrective action including restructuring if at any time it appears that the above objectives will not be achieved.
5. Ensure that where the Corporation is in competition with UK private sector companies, such competition is at all times fair and seen to be fair.
6. Continue to pursue in consultation with the workforce a vigorous programme of cost reduction, including productivity, improvements, more efficient use of materials, and equipment with the aim of bringing BS costs for all its activities into line with that of the most efficient European producers and thereafter at least matching cost improvements elsewhere in Europe.

Department of Industry
11 March 1983

11- MAR 1963





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

Prime Minister 2

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing St
Whitehall
London SW1

11 March 1983

LM
w/3

mb

Saw Prime Minister

I now have British Shipbuilders' (BS) figures on shiprepairing performance for the period to 28 January. The position is:

Trading Profit/(Loss) for Period	Loss for Year to Date	Forecast Loss to end of Year
Period 10 - <u>£170,000</u>	<u>£6.0</u> million	<u>£6.3</u> million
Previous period - (£328,000)	-	£7.5 million
<i>Period before that - £212,000</i>		<i>£7.05 million</i>

There has been a significant improvement in the trading position during Period 10 and Tyne Shiprepair made a profit for the first time this year.

With the exception of Vosper Shiprepairers who still need to find work to supplement their traditional liner refit activities, the Shiprepair Division secured a good workload with some improvement in prices. This improvement looks as if it will continue at least to the end of this financial year and BS have lowered their trading loss forecast for the year as a whole from £7.5 million to £6.3 million.

BS are not sure whether this improvement marks a lasting change of trend but if so it could help our objective of privatising the Division in 1983/84. Graham Day, the Chairman Designate, has already been informed of this objective and accepts it.

*Yours as
Norman*

NORMAN LAMONT

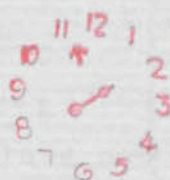
NAT IND : Shipbuilding Plan

Pt 4



DEPARTMENT OF TRADE
AND INDUSTRY
100 WHITEHALL STREET
LONDON SW1A 2BQ
TELEPHONE 071 255 3111
FACSIMILE 071 255 3111

1 MAR 1983



(CONFIDENTIAL)



PA MBDM

ms 21/3

nat. Ind.

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

21 February 1983

Dear Minister of State

BRITISH SHIPBUILDERS: LOSS TARGET

Thank you for your letter of 17 February.

In view of the difficulties lying ahead in negotiations with the European Commission on the intervention fund subsidy I agree to your formula for a generalised financial duty for BS in 1983-84. The important thing is that it should be made clear to the Chairman that the effective limit is a loss of £20 million as agreed at E(NI).

I am copying this reply to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

Yours sincerely

Jst. Gieve

Jst LEON BRITTAN

[Approved by the Chief Secretary]

(CONFIDENTIAL)



1983

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Matched
Stamp

Confidential

CSU



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

Prime Minister (2)

MUS 18/2

The Rt Hon Margeret Thatcher MP
Prime Minister
10 Downing Street
London SW1

18 February 1983

Dear Prime Minister

ms

I now have British Shipbuilders' figures on shiprepairing losses for the period to 31 December 1982. The position is:

Loss for Period	Year to Date	Forecast loss to end of year
Period 9 £328,000	<u>£6.1 million</u>	<u>£7.5 million</u>
Previous Period £212,000		<u>Previous Forecast</u> £7.05 million

There has been a slight worsening in Period 9 largely because Vosper did not have available passenger liner refit work.

Overall however the results now show a considerable reduction in the rate of loss which was running last year at over £500,000 a month. This is largely due to the contraction of Tyne Shiprepair. The overall trading climate though remains difficult. A further substantial reduction in the annual rate of loss seems unlikely without the closure of Tyne Shiprepair.

The negotiations with the consortium who were interested in taking over the whole of BS' shiprepair division have broken down because they did not wish to buy the loss-making yards, and BS are again considering whether to close Tyne Shiprepair. I have told them that their losses are unacceptable.

Yours ~

NORMAN LAMONT

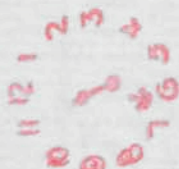
Norman

Next Ind.
Shipbuilding, Pt 4

DEPARTMENT OF INDUSTRY
LONDON & HOUSE
15, MARK LANE, LONDON
E.C. 3



18 FEB 1983





From the
Minister of State

Norman Lamont MP

The Rt Hon Leon Brittan MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament St
London SW1

NBPM
MS 18/2

Kat. Ind

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

17 February 1983

Dear Leon

At E(NI) on 9 January (E(NI))(82)1st) it was agreed that BS should be set a loss target or limit of £20 million for 1983/84.

In previous years it has been our practice to publish such a target in the form of a financial duty for the year laid upon the Corporation by the Secretary of State. However the European Commission have objected strongly to this practice on the grounds that it amounts to an overt admission of intent to finance losses. Douglas Hurd drew attention, in his letter of 9 February to Patrick Jenkin, to the pressure the Germans are currently putting on the Commission to take a tough line on loss financing, and to the difficulties this will give rise to in negotiations for the next tranche of IF.

Clearly we must try if possible to avoid an argument with the Commission at such a sensitive time. Officials here have therefore informally approached the Commission to explore possibilities. It is clear that the Commission feel they cannot accept any duty which explicitly or implicitly refers to loss financing. They will however accept a generalised duty of the form -

"The Corporation shall have a continuing duty to make substantial and early progress towards providing an adequate return on the capital employed by the Corporation and its subsidiaries."

Given the Commission's objections a formulation along these lines seems to me the only realistic alternative. We would of course separately and privately inform the Chairman of the £20 million loss target and our firm view that it should be effective. In principle we have the alternative of setting no financial duty



for 1983/84 but this would look very odd given the precedents. The generalised duty allows us to say something and can be defended as the sensible approach at a time of unpredictable trading conditions, to be seen as a longer term complement to the already tight short-term financial control asserted by the EFL.

I intend to announce the EFL and related matters during the Report Stage of the British Shipbuilders Bill early next week. I should therefore be grateful for any comments on this proposed course of action you or your colleagues might have by the end of this week.

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

NORMAN LAMONT

John
Norman

1177 FEB 1983

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

not Incl

PRIME MINISTER

Meeting with Sir Robert Atkinson : Monday 14 February at 1445 hours

I asked Mr. Jenkin's office whether there were any points on which they wanted to alert you before Sir Robert Atkinson came.

Mr. Jenkin's Secretary thinks that he may well want to raise with you the arrangements for his leaving British Shipbuilders. His contract ends in December. Mr. Jenkin would have liked him to go in July, but Sir Robert Atkinson would prefer to go in September and Mr. Jenkin is likely to accept this. Sir Robert Atkinson would like to remain nominally as Chairman until the end of his contract, but to take a world cruise from September onwards, leaving Mr. Graham Day to take over from September: Mr. Jenkin does not want to agree to this, because he thinks it important that Mr. Day should not only take over ^{in September} ~~as soon as possible~~ but have full authority ^{then.}

If Sir Robert Atkinson raises this subject, the advice is that you should be sympathetic but should not give any encouragement to the idea that he should stay nominally Chairman of British Shipbuilders after September.

They add that Sir Robert is inordinately pleased with his knighthood; if you congratulate him on that, it will get things off to a good start. He attended his Investiture on Thursday 10 February.

F.R.B

11 February 1983

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E(NI)(83) 2nd

9.2.83

Item 1.

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1. BRITISH SHIPBUILDERS

Previous Reference: E(NI)(82) 1st Meeting, Item 1

The Sub-Committee discussed a Memorandum by the Secretary of State for Industry on British Shipbuilders' strategy and finance (E(NI)(83) 2). They also had before them a letter of 9 February from the Minister for State, Foreign and Commonwealth Office (Mr Hurd) to the Secretary of State for Industry.

THE SECRETARY OF STATE FOR INDUSTRY said that British Shipbuilders' (BS) performance and prospects were profoundly unsatisfactory. The markets for merchant shipbuilding, offshore and shiprepair work had turned into severe recession. The Corporation now expected to lose £57 million (after crediting assistance from the Shipbuilding Intervention Fund) in 1982-83 against its target of £10 million; substantial losses were expected in all other operating divisions, except for warship building. Against this background, and in the light of BS's past losses and over optimistic planning, the strategy set out in the Corporation's corporate plan for 1982-83 to 1985-86 was unrealistic. The plan envisaged some reductions in employment throughout the Corporation but did not involve the closure of any of the yards engaged in the main loss making activity, merchant shipbuilding.

The Government could not accept BS's corporate plan. The question was therefore whether the Government should reject the plan outright and insist on the Corporation's producing a detailed plan now for the further rundown of merchant shipbuilding employment to perhaps 15,000 men, or further; or should put pressure on BS to include a properly worked out contraction programme, based on realistic assumptions about the prospects for the Corporation's yards, as part of its next corporate plan, which was due in May 1983. In his view the latter course would be better. BS's yards would not begin to run out of work until the middle of 1983. If preparations were set in hand now to close yards, they would become public knowledge and allow time for a protracted and damaging campaign of resistance to develop.

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The gravity of the Corporation's financial position and prospects was not widely appreciated. By May it would be much clearer that BS's plan had been produced on unrealistic assumptions, and much easier to justify a decision to close yards. The Minister of State, Department of Industry had already indicated to Sir Robert Atkinson, the Chairman of BS, that the Government would expect the May corporate plan to include options for reducing the underlying annual rate of loss on merchant shipbuilding (after crediting assistance from the Intervention Fund) to £55 million, £45 million or £40 million. He accordingly proposed that the Government should neither accept nor reject BS's plans for merchant shipbuilding but should tell the Corporation that in the next plan the Government would expect to see options for a faster rundown of merchant shipbuilding. The Chairman designate of British Shipbuilders, Mr Graham Day, who would effectively take control of the Corporation in September, could be expected to bring a new and more vigorous approach to BS's problems.

BS's corporate plan envisaged that both Cammell Laird and Scott Lithgow would remain engaged on offshore work. This was a risky strategy given the poor market prospects in this area. He proposed that it should be made clear to BS that their next corporate plan should include options for reducing losses in this division. The market situation was similarly bleak for shiprepair. The Government should aim to get BS to dispose of all its remaining shiprepair activities during 1983-84: the provisions of the Shipbuilding Bill at present before Parliament would assist in achieving this objective. There was excess engine building capacity both at BS and Harland and Wolff: he would be bringing forward proposals to his colleagues to deal with this, in the light of the report by consultants which the Sub-Committee had agreed should be commissioned when they had last discussed British Shipbuilders.

He proposed that in 1983-84 BS's external financing limit (EFL) should be £160 million and their loss target £20 million; that the Government should approve their capital expenditure budget of £90 million (subject to this being accommodated within the EFL) and that the Government should seek the approval of the European Commission for a further tranche of assistance from the Shipbuilding Intervention Fund of £37 million from July 1983, with the maximum rate of assistance reduced from 15 per cent to 13 per cent.

BS had begun to request topping up of normal credit terms for shipbuilding orders, on a case by case basis. He proposed not to make soft credit available before receipt of the next corporate plan; and thereafter to make it conditional on the Corporation's having put forward potential plans for recovering losses.

The following were the main points made in discussion -

a. The true cost of assistance to BS greatly exceeded payments from the Shipbuilding Intervention Fund and under the Shipbuilding Redundancy Payments Scheme. If unremunerated public dividend capital and subsidies paid to ship owners who placed orders with BS were taken into account, the total subsidy per BS employee probably worked out at around £7000 per annum. This was significantly more than the subsidy per employee in other loss making public sector enterprises, including Harland and Wolff.

b. It was argued, on the one hand, that there was a strong case for requiring BS now to prepare a detailed plan for a substantial reduction in manpower. There was a risk that BS would press successfully for new orders over the next few months. Any such orders, particularly if allocated to yards with the worst chances of viability, would add to the difficulty of rationalising BS and commit the Government to further support costs during the later years of the public expenditure planning period. If the Government was prepared to contemplate taking radical action to reduce losses at BS, it might as well do so now as in or soon after May.

c. On the other hand it was unlikely that, over the next few months, BS would be anything like as successful in attracting orders as their plan assumed. By May it would therefore be clear that the Corporation's planning assumptions had been too optimistic. It would be much easier to defend yard closures and redundancies in those circumstances, and against the background of the detailed, realistic

plan which the Secretary of State for Industry proposed to require from BS, than in present circumstances. By May BS would also have gone considerably further than at present towards completing ships at present in its yards, thus reducing the opportunities for the workforce to disrupt work in progress and frustrate closure plans. The pressure on BS to reduce losses should help to ensure that any new orders were placed in the most suitable yards.

d. BS's plan was widely optimistic about the prospects for offshore orders; the Corporation would be doing very well if it obtained as many orders as the "lower case" in its corporate plan assumed. In particular there seemed no chance that any oil company would place an order with Scott Lithgow, which had a poor reputation.

e. If a major yard was to be closed, it seemed clear that Scott Lithgow would be the most likely candidate. If two major yards were closed, Govan, also on the Clyde, might well be the other. Closure of one or both of these yards would add significantly to unemployment in West Central Scotland; but there was unlikely to be much sympathy for Scotland for workers in these yards, who, despite large scale Government support for a number of years, had not made the necessary efforts to improve the yards' performance.

f. BS probably had excess capacity for warship building. For example work on replacing frigates lost in the Falklands campaign was being spread among more yards than would have been desirable. Decisions about the placing of the orders would have to be consistent with the public statements which had been made.

g. In order to limit any further uneconomic expansion of BS's activities, it would be important to try and avoid giving soft credit terms for ship owners ordering from BS. The Secretary of State for Industry's intention not to consider any soft credit assistance before the receipt of BS's next corporate plan would assist in this respect.

h. BS's capital expenditure plans included about £20 million for merchant shipbuilding, of which perhaps £12 million involved improving facilities rather than investing in movable equipment. It would be unwise to undertake new investment, particularly in immovable facilities in yards whose future was in serious doubt. On the other hand it would be difficult to put a stop to all investment in a yard: the workforce could take such a decision as an indication that the yard was going to close.

i. It was likely to be difficult to negotiate the proposed 1983-84 tranche of Intervention Fund assistance with the European Commission. The Commission were under pressure from some Member States to ensure that any further loss financing was accompanied by measures to rationalise shipbuilding. The Commission were therefore likely to seek capacity reductions in return for agreeing to the Government's proposals for Intervention Fund assistance.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee agreed that steps must be taken to reduce losses by British Shipbuilders, especially on merchant shipbuilding. The Corporation needed to consider whether and how it could develop into a viable shipbuilding industry. In the short term there was unlikely to be any way of stemming losses other than yard closures and redundancies going beyond those in BS's corporate plan: the Sub-Committee hoped that BS's Chairman-designate, Mr Day, would be prepared to take difficult decisions of this kind.

As had been pointed out in discussion, there was a case for requiring BS now to prepare a detailed plan for a further rundown of merchant shipbuilding. On balance, however, the Sub-Committee concluded that, for the reasons advanced by the Secretary of State for Industry and in discussion, the Government should proceed broadly on the lines proposed in E(NI)(83) 2, neither accepting nor rejecting BS's corporate plan, but indicating that the next plan needed to take a much more realistic approach to the Corporation's problems and prospects. The Secretary of State for Industry should make clear to BS that the plan must contain options, based on realistic assumptions about levels of orders, for reducing the underlying annual rate of loss on merchant shipbuilding to £55, £45 and £40 million (after crediting Intervention

Fund assistance); it would need to include plans for the rundown of employment and the closure of yards. Meanwhile, the Government should do its best to ensure that any new orders were not placed in yards which would probably have to be closed in the near future.

The Sub-Committee approved the Secretary of State for Industry's proposals on BS's offshore work, shiprepair and engineering; and his proposals for BS's 1983-84 EFL and loss limit. They agreed that capital expenditure of up to £90 million in 1983-84 could be authorised; but the Secretary of State for Industry should consider with especial care any proposal for substantial investment in a yard whose future was in doubt: the Government should not permit wasteful capital expenditure.

It would be necessary to give careful thought to the handling of the Government's approach to the European Commission about the proposed tranche of Intervention Fund assistance, as the Minister of State, Foreign and Commonwealth Office, had argued in his letter of 9 February; but it was important that Commission approval of a further tranche of Intervention Fund assistance, on the lines proposed by the Secretary of State for Industry, should be obtained.

The Sub-Committee -

1. Invited the Secretary of State for Industry to indicate to British Shipbuilders, taking account of the points made in discussion and in the Prime Minister's summing up, that the Corporation's next corporate plan must take a realistic approach to its problems and prospects, and in particular contain options, based on realistic assumptions about levels of orders, for reducing the annual rate of loss on merchant shipbuilding, and on offshore work.
2. Agreed that the Government should aim to get BS to dispose of all its remaining shiprepair activities in 1983-84.
3. Noted that the Secretary of State for Industry would bring forward proposals to deal with the problem of over capacity in engine building at both British Shipbuilders and Harland and Wolff.
4. Agreed that in 1983-84 British Shipbuilding's external financing limit should respectively be £160 million and £20 million.

5. Subject to the points made by the Prime Minister in her summing up of their discussion, agreed that the Secretary of State for Industry should authorise BS to undertake investment of up to £90 million in 1983-84.

6. Agreed that the Government should seek the agreement of the European Commission to a further tranche of assistance from the Shipbuilding Intervention Fund for the year from July 1983 totalling £37 million for the shipbuilding industry as a whole, with the maximum rate of assistance reduced from 15 per cent to 13 per cent of the price of ships; and invited the Secretary of State for Industry to arrange for his officials to consider, in consultation with those of the Foreign and Commonwealth Office and other interested Departments, the timing and handling of the Government's approach to the European Commission.

2. INTERNATIONAL AERADIO LIMITED

Previous Reference: E(NI)(82) 6th Meeting, Item 1

The Sub-Committee discussed a Note by the Secretary of State for Industry on the possible involvement of British Telecommunications (BT) in the purchase of International Aeradio Limited (IAL) (E(NI)(83) 4).

THE SECRETARY OF STATE FOR INDUSTRY said that in July 1982 the Sub-Committee had agreed that there must be a strong presumption against the Government's allowing BT to take over IAL, a British Airways (BA) subsidiary which the airline intended to dispose of before 31 March. BT had now sought the Government's authority to make a bid to purchase IAL jointly with Racal Limited. The intention was that BT and Racal would have joint and equal ownership of IAL and that the company would be left to get on with its activities without interference by either BT or Racal.

He supported BT's proposal. The proposed takeover made good industrial sense. IAL needed to extend its activities into telecommunications and related markets if it was to grow and remain profitable. Association with BT's skill in telecommunications technology and with Racal's management and financial skills and entrepreneurial drive would greatly help IAL. In particular BT's and Racal's combined abilities could give IAL and the United Kingdom the chance to become a world force in the development of cellular radio. Now that BT was to be privatised the arguments which had led the Sub-Committee to look unfavourably upon a takeover of IAL by BT in 1982 had much less force. Within 18 months, BT might be a public limited company; its Board took the view that, if they were to operate in the competitive telecommunications market which the Government envisaged it was only reasonable that they should be allowed to make a sensible commercial decision such as the takeover of IAL.

In recent correspondence, attached to his memorandum, the Secretary of State for Trade, the Chief Secretary, Treasury and Mr Sparrow, the Head of the Central Policy Review Staff (CPRS), had commented on the proposed joint bid for IAL. The Chief Secretary had suggested three conditions on which the takeover bid should be approved: first, that control would be genuinely shared between the two companies; secondly

*Not End
CGTV*

Foreign and Commonwealth Office

London SW1A 2AH

9 February 1983

From The Minister of State

Rt Hon Douglas Hurd CBE MP

Dear Patrick,

BRITISH SHIPBUILDERS STRATEGY AND FINANCE

I have seen a copy of your Memorandum E(NI)(83)2 about British Shipbuilders' strategy and finance. As I shall not be attending Wednesday's meeting I am setting out my views in this letter.

Your Memorandum already draws attention to the difficulties we shall face in securing Commission approval of these proposals but I should like to underline this point. In particular, the extent to which British Shipbuilders' actual losses have exceeded the £10 million loss target is likely to cause major problems and will need very careful handling. As you know, the Commission are under pressure from the Germans to take a tough line on loss financing and will want to be able to show that they are making progress towards its elimination. They will therefore find the inflated losses for 1982/83 and the higher loss target for 1983/84 most unwelcome. This is bound to affect their attitude towards our application for the next tranche of IF aid for 1983/84.

Against this background I think we must accept that the Commission will almost certainly hold out for capacity reductions in return for clearance of our aid proposals. I therefore agree with you that we should be pressing BS now to come up with specific restructuring proposals, for Community as well as public expenditure reasons. In the meantime I suggest that officials from the departments concerned, including the FCO and UKRep Brussels, should be asked to consider the timing and handling of our next approach to the Commission about the IF aid tranche for 1983/84.

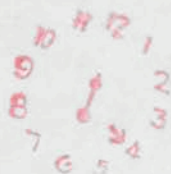
I am copying this letter to E(NI) colleagues and to Sir Robert Armstrong.

*Yours,
Douglas*

Rt Hon Patrick Jenkin MP
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

West Ind
Shipbuilding
Pt 4

9 FEB 1983





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Prime Minister

P.0957

Mr Lamont sent a message to say that he had deliberately pulled his punches in this E(VI) paper for fear of leaks. Their approach on closures would be much tougher

PRIME MINISTER

British Shipbuilders' Strategy and Finance
(E(NI)(83)2)

at the meeting
Ms 8/2

BACKGROUND

FLAG A

In E(NI)(83)2 the Secretary of State for Industry comments on the Corporate Plan of British Shipbuilders (BS) for 1982/83 to 1985/86, which is based on a strategy of reducing employment by around 7,000 from the present total of 65,000; of this reduction 1,200 would be in merchant shipbuilding, 2,000 in warshipbuilding and 1,100 in offshore work. He regards the Corporate Plan as over optimistic and unrealistic, particularly in respect of merchant shipbuilding, where he says that the long term prospects for reaching viability look doubtful. He proposes that the Government should neither accept nor reject BS's plan for merchant shipbuilding and that BS should be told that when the Government receives the next Corporate Plan (in May of this year, because of a change in the planning cycle), the Government will "expect to see options for a faster rundown of merchant shipbuilding".

2. The Secretary of State for Industry also proposes:

- that the Commission's approval should be sought to a further tranche of Intervention Fund assistance of £37 million for the year from July 1983 to July 1984, with the maximum rate of assistance reduced from 15 to 13 per cent of the price of ships;
- that it may be necessary to consider soft credit terms on a case by case basis but that after the receipt of the May 1983 Plan this should be made conditional on BS having put forward plans for recovering losses;

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- that the next Corporate Plan should contain options for reducing losses in the offshore division;
- that BS should in 1983/84 sell all their ship repair activities and accept that if Tyne Ship Repair Limited cannot be sold or its performance substantially improved it should be closed;
- that in 1983/84 BS should be set an EFL of £160 million and a loss target of £20 million; and should be told that their capital expenditure budget of £90 million is approved subject to being accommodated within their EFL.

MAIN ISSUES

3. There is unlikely to be any dissent from the view that the past performance of BS has been appalling and that its future prospects are dismal. As the conclusions of the Performance Review attached to E(NI)(83)2 state:

← "In the face of a renewed recession in the world shipbuilding market there is little in BS's past performance to give grounds for optimism for the future."

FLAG B

In his minute to you of 2 February Mr Sparrow has drawn attention to the industrial objective of shifting resources towards areas of the economy capable of long term viability. In terms of this objective the case for running down as quiddly as possible the activities of BS, and particularly its merchant shipbuilding activities, is growing steadily stronger. There are however some difficult social and political implications to be faced.

4. The main issues for the Sub-Committee are therefore:
- i. whether the Secretary of State for Industry's proposed tactics for handling the merchant shipbuilding problem are acceptable;
 - ii. whether it is feasible and desirable to approach the European Commission on the lines proposed;

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iii. whether the proposed responses to BS on offshore and ship repair activities are acceptable;

iv. whether the proposals in respect of BS's EFL, loss target and capital expenditure are approved.

Tactics on merchant shipbuilding

5. It is convenient that, as it happens, BS will have to submit a new Corporate Plan as early as next May. The Secretary of State for Industry is taking advantage of this to place on BS the onus of producing a more realistic plan for the rundown of merchant shipbuilding. He thinks that it is neither necessary nor desirable to press for such a plan now rather than in a few months' time, and that it would also be difficult for the Government to set arbitrary parameters for the extent of the rundown. The Sub-Committee will want to satisfy itself that this is indeed the best way to proceed and that it is not merely an attempt to put off difficult but inevitable decisions.

Soft credit terms for new orders

6. If the Sub-Committee agrees that decisions about the rundown of merchant shipbuilding can be deferred until after submission of the new Corporate Plan in May, they may nevertheless want to limit the further uneconomic expansion of the activities. In paragraph 19 of his paper the Secretary of State for Industry is prepared to contemplate special soft credit terms pending receipt of the May 1983 Plan. Although any such proposals would have to be considered individually by Ministers, the Sub-Committee may feel that the general policy should be to rule out these special arrangements. It is clear enough, without waiting for the next Corporate Plan, that any orders taken on these terms are likely to inhibit the future rundown of merchant shipbuilding activities.

Intervention Fund assistance

7. The Secretary of State for Industry's proposal for a further tranche of £37 million for 1983-84 may be difficult to get past the Commission. Under the fifth Shipbuilding Directive, production assistance such as the Intervention Fund must be "degressive", temporary and linked to restructuring. Although both the total sum (£37 million) and the proposed new maximum 13 per cent rate of assistance per ship are degressive, the reduction is so slight that the



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Commission are likely to look especially hard at other aspects and will doubtless press for details of expected current and future losses. They are unlikely to approve more than a small proportion of new funds until the 1982-83 loss is known, and if it is as expected much higher than originally anticipated, this also will serve to encourage them in a restrictive attitude towards further Intervention Fund aid. In particular, they will probably try to insist on real cuts in capacity and not just employment. Careful thought will therefore need to be given to how and when the Commission should be approached: this is something which officials could be instructed to pursue further.

Offshore and ship repair activities

8. The Sub-Committee will probably wish to endorse the Secretary of State for Industry's proposed responses to BS about their offshore and ship repair activities. You may want to take this opportunity to reaffirm the existing policy that E(NI) must collectively approve any decision to take an offshore order at less than breakeven.

Financial proposals

9. We understand that the Chief Secretary, Treasury is being briefed to agree to the Secretary of State for Industry's financial proposals. In agreeing to the proposed EFL of £160 million and loss limit of £20 million, the Sub-Committee will want to stress again the need for a low wage settlement; the Chairman of BS has assured Ministers that he is aiming for less than 4 per cent, and this has been taken into account in the proposed EFL.

10. The Sub-Committee will want to examine carefully whether, bearing in mind the radical reappraisal which may follow the next Corporate Plan in May, the proposed capital expenditure programme of £90 million should be approved. A large part of the capital expenditure is for the Trident project and for other warship work. £20 million is however for the merchant shipbuilding division and of this perhaps £12 million is tied to improving facilities rather than investment in movable equipment, and might thus be wasted if the yards concerned were eventually to be closed. There might be a case for withholding approval for capital expenditure by BS in the merchant shipbuilding division of a non-movable nature, pending consideration of the next Corporate Plan in May.

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There is however the risk that this may precipitate rumours of yard closures; it may be argued/ ^{that} the sums involved (perhaps £1-2 million at any individual yard) are not sufficient to justify taking this risk.

HANDLING

11. The Secretary of State for Industry will want to introduce his memorandum. You will probably wish to give the Chief Secretary, Treasury the first opportunity to comment. Several other Ministers have an interest in BS's plans: the Secretary of State for Scotland is concerned with the fortunes of BS's Scottish yards; the Secretary of State for Northern Ireland with Harland and Wolff. The Secretary of State for Defence or his representative may wish to comment on BS's warshipbuilding activities.

CONCLUSIONS

12. You will want to reach conclusions on the following proposals in E(NI)(83)2:

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i. whether BS should be told that the next Corporate Plan in May should include options for a faster rundown of merchant shipbuilding (para 17 of the paper);

20.

ii. whether Ministers should be prepared for the time being to consider, on a case by case basis, special soft credit terms but that after the May 1983 Corporate Plan soft credit should be made conditional on BS having put forward potential plans for recovering losses (para 19 of the paper);

iii. whether the Commission should be asked to agree to a further tranche of Intervention Fund assistance of £37 million for the year from July 1983, with the maximum rate of assistance reduced from 15 to 13 per cent of the price of the ships (para 18 of the paper), subject perhaps to further advice from officials on the method and timing of the approach;

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May



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iv. whether the proposals in respect of offshore and ship repair activities in paragraphs 20 and 21 of the paper are approved;

v. whether the financial proposals for 1983-84 are approved, ie:

- an EFL of £160 million
- a loss target of £20 million
- capital expenditure of £90 million (including about £20 million for the merchant shipbuilding division).

CONQUEROR

PL

P L GREGSON

8 February 1983

CONFIDENTIAL

BREAKDOWN OF TENDERS

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Lh
7/2

Korea (New ship)	£9.3 million
Harland+Wolff	Estimate 50 per cent above Korea's and no guaranteed delivery date
Japan (New ship)	£15 million
BS Sunderland (New ship)	£18 million £16 million
Netherlands	£19.5 million

4 February 1983

CEGG CABLE LAYING BARGE

British Shipbuilders (BS) tendered to two contractors: Fed Nav and London Marine. BS have told us that their price was £3 million although the CEGB have said that the contractor quoted to them a price of £16 million from BS. The precise reasons for this discrepancy are being explored.

The work would have been done at Sunderland Shipbuilders (the Deptford Yard) which employs about 1,000 men. This Yard runs out of steel work in May, and of outfitting work by the end of this year. If Sunderland had secured this offer, they would have kept the steel fabricators (600 men) fully employed until October. A further 600 outfitters would then be employed until March 1984. There is a gap of several millions between BS price and the Korean price. If Ministers wished to try to bridge this gap there could be three possible ways:

- a. increased intervention fund support - BS assumed only 10 per cent when making their bid, IF support at the maximum of 15 per cent would reduce the BS price by between £500,000 and £750,000;
- b. progress payments from the purchaser could be re
- c. BS could go beyond the credit normally available to UK buyers.

The second and third of these would have an adverse financial impact on BS which will in any event be under extreme financial pressure in the coming year.

Notes

1. Because the exact level of the BS bid is still under dispute, we cannot precisely quantify the gap between the Korean price and BSs.
2. If Department of Energy advice that this contract is firm, there is no scope for exploring the point made about how to bridge the gap.

4 February 1983

for E(NI) folder

CONFIDENTIAL

B

Prime Minister

West. Ind

Mr Sparrow will

Qa 06242

To: PRIME MINISTER

From: JOHN SPARROW

perhaps prefer Mr Jenkin's

words at E(NI) to
2 February 1983

what he has put in

his paper (see my note on
the latter).

British Shipbuilders

1. I had intended to circulate a collective brief to members of E(NI) on the subject of British Shipbuilders, but in view of the sensitivities, I decided instead to write to you to let you know the line I propose to take at the meeting.

MS 4/2

2. Patrick Jenkin's memorandum (E(NI)(83)2) exposes frankly the failure of BS's Corporate Plan - especially for merchant shipbuilding - to measure up to BS's appalling commercial situation and to recommend steps appropriate to it, and states that 'on any long term look the prospects for BS's merchant shipbuilding activities reaching viability look doubtful'. For the last two years BS's plans have looked inadequate even on optimistic assumptions, and they have allowed the BS Board (and the Government) to put off the evil day when it must face up to difficult and politically controversial closures. Now that the market in merchant shipbuilding has collapsed the latent crisis in BS is exposed and the need for an urgent and radical reappraisal to stem losses and cash outflow is even more glaring.

3. In this context, Patrick Jenkin's recommendation that 'we neither accept nor reject BS's plan for merchant shipbuilding', and that this reappraisal be incorporated in BS's 'next Corporate Plan in the Spring of this year' does not square with his own analysis which strongly suggests rejection of the plan as unacceptable and the urgent submission of new proposals. Nor is it consistent with the industrial objective of shifting resources towards areas of the economy capable of long term viability.

4. When the MMC reports on the efficiency of BS's merchant shipbuilding activities during 1983/84 it would be surprising if its Report does not have the effect of highlighting the long drawn out procrasti-

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nation of the present BS Board (and implicitly the Government) in agreeing adequate action - the contrast with the actions undertaken by BL and BSC under this Government is stark.

5. All BS's facilities are in politically sensitive areas, and this may influence the timing of any reappraisal. Certainly, the BS Board have gone for the less controversial course of spreading redundancies over several yards rather than outright closures. There may be within BS a configuration of merchant shipbuilding yards which, with the proper concentration of orders and capital expenditure, could be cost-competitive and viable in the very tough shipbuilding environment of the 1980s. But as long as action is delayed, orders and capital expenditure will be spread thinly throughout the operation, and the danger grows that the whole of BS declines into permanent pensioner status on the Harland and Wolff model.

6. Whether the present Chairman of BS (whose term of office expires in December 1983) is capable of the necessary reappraisal, we have yet to see. And implementation of a radically new plan may require a Chairman of an altogether different character.

7. Copies go only to Patrick Jenkin and Sir Robert Armstrong.

JB.

NAT. IND. Shipbuilding Patin e Pt 4



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10 DOWNING STREET

Prime Minister

British Shipbuilders: E(N1) paper

Mr Lamont's office ~~was~~ telephoned
to explain that their E(N1)
paper pulled its punches on
closures - because of worries about
leaks; they will be producing a
much tougher approach orally
at E(N1)

MLS 2/2

nat Ind.
This
note to go
in E(N1) folder
for 9/2/83

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Nat Ind *of JV* 2



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

Prime Minister

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SW1A 2AA

MA

wh
7 January 1983 *12/1*

Dear Prime Minister

I have now seen British Shipbuilders' figures on shiprepairing losses for the period from 23 October to 19 November. The position is:

<u>Loss for Period</u>	<u>Year to Date</u>	<u>Forecast Loss to end of year</u>
<u>Period 8</u>		
£212,000	£5.8 million	£7.05 million
<u>Previous Period</u>		
£789,000		

The improvement in period 8 largely reflects a better month at Tyne Shiprepair Ltd following the reduction of overheads secured by the restructuring. However the shiprepair market remains very depressed and BS have advised the CSEU at national level that closure of Tyne Shiprepairers and Grangemouth Dockyard is a possibility unless there is a substantial improvement in performance and prospects. There is nothing to add to my letter of 24 December in private sector interest in BS shiprepair facilities. Discussions are still going on between the consortium and BS.

*Yours
Norman*

NORMAN LAMONT

CONFIDENTIAL



Prime Minister

MUS 10/12

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 Margaret Thatcher MP
Prime Minister
10 Downing St
Whitehall
London SW1

9 December 1982

Dear Prime Minister

I have now seen British Shipbuilders figures on shiprepairing losses for the period from 24 September to 22 October. The position is:

Loss for Period 7	Year to Date	Forecast loss to end of year
£789,000	<u>£5.6 million</u>	£7.050 million
(Period 6 £549,000)		(Previous forecast £6.2 million)

The deterioration in performance on the trading loss is due to the severity of the present recession in shiprepair. I referred to some of the worldwide consequences of this in my last report; even the Far East is now affected. British Shipbuilders' problems are however to a large extent concentrated at Tyne Shiprepair Company which is still seriously short of work though its restructuring programme is now virtually complete. Only 159 of the 1,400 redundancies have still to be secured.

I have arranged to meet the Chairman of BS tomorrow to discuss the situation and the interest being shown by a number of enquirers in purchasing some BS shiprepair yards which have closed on the Tyne. This interest could lead to some more employment in the area. BS may argue that added competition could mean that their losses might increase. But we shall be maintaining a tight EFL and this extra competition would, in my view, increase the pressure on them either to improve efficiency or to contract further.

NORMAN LAMONT

Yours
Norman

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Prime Minister

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

TELEPHONE DIRECT LINE 01-212 5902
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MUS 24/12

From the
Minister of State
Norman Lamont MP

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

24 December 1982

Dear Prime Minister

When I wrote to you about British Shipbuilders' shiprepair losses on 9 December I said I would be meeting Mr Atkinson soon to discuss the situation and the interest being shown by a number of inquirers about purchasing some BS shiprepair yards which have closed on the Tyne.

There are four potential buyers of the closed yards. One of these is a workers cooperative but it has no money or managerial expertise behind it. In addition there is also a consortium who have expressed interest in buying the whole of BS' shiprepair division. The consortium is thought to comprise of Jefferies and Smiths Shiprepairers for whom the consultants A & P Appledore are acting. These developments are helpful for our policy objective of getting BS to dispose of their specialist shiprepair establishments during the course of 1983/84.

The consortium's interest is however thought to be one of shutting down BS' unprofitable capacity on the Tyne while running the profitable capacity at Vospers and Falmouth. In Mr Atkinson's view sale of the closed yards could put the consortium off because it would be contrary to the consortium's objective of shutting down competing capacity in the industry.

BS think that the next two months should show the weight to be attached to the consortium's interest. Mr Atkinson has agreed that he should also negotiate simultaneously with those interested in buying the closed yards so that if in the end the consortium's interest comes to nothing some progress will have been made.

Norman Lamont

NORMAN LAMONT

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cc: D. Tad.
Norman Lamont.

CF

10 DOWNING STREET

THE PRIME MINISTER

25 November, 1982

Dear Mr. Atkinson,

Thank you for your letter of 28 October about depreciation allowances.

I have carefully considered your arguments for linking allowances to orders placed in UK or Community shipyards but regret to say that there would be serious drawbacks in subjecting depreciation allowances to the kind of restrictions you have proposed.

The primary aim of accelerated depreciation allowances in whatever industry they apply is to encourage investment by that industry for its own benefit. To this end firms need the freedom to buy their capital equipment on the best terms available wherever such terms are on offer. This freedom is all the more important in industries such as shipping where the market is truly international. The restrictions you suggest would diminish the benefit of the allowance to the shipping industry. The Chancellor recently made it clear that he would not consider introducing a system of differential capital allowances favouring British manufacturers because of the need to have regard to the purpose of capital allowances and to our international agreements. At the same time British shipowners are, as you know, fully conscious of the advantage of building in British yards if the terms are competitive and I understand that over the last three years some 60% of British Shipbuilders' orders were from UK owners.

/ I am sorry

SD

I am sorry I cannot hold out the prospect of changing the rules on depreciation allowances in the way you suggest. I know however that Norman Lamont is constantly looking for possible ways of increasing the effectiveness of Government support for ship-building and that this topic is frequently discussed between you.

Y
ours sincerely

Robert Atkinson

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Not Done
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From the
Minister of State

Norman Lamont MP

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

23 November 1982

Dear Michael

Thank you for your letter of 2 November.

Mr Atkinson's proposals on depreciation allowances, in his letter to the Prime Minister, were discussed between Mr Lamont and Mr Sproat on 16 November in the context of a joint examination we have in hand of possible ways of improving the effectiveness of shipbuilding aids. They concluded that the case against Mr Atkinson's ideas was decisive for the reasons set out in the enclosed draft letter for No.10 to send to Mr Atkinson.

Mr Atkinson's suggestion that British Shipbuilders' difficulties stem largely from unfair competition is misleading. He has himself said privately that the quality of British Shipbuilders' product is not wholly satisfactory. Much of the gap between BS and Far Eastern prices could be made up if BS were able to match the Japanese and Koreans on construction times. Moreover BS enjoys a high level of government support; while in public statements we suggest that BS lies somewhere in the middle of the league as aid recipients they would be much nearer the top if all forms of Government support for the industry were taken into account.

I am sending a copy of these papers to Ruth Thompson.

Yours,
John

JOHN ALFY
Private Secretary



PM type for PM

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

R Atkinson Esq
Chairman
British Shipbuilders
Benton House
136 Sandyford road
Newcastle Upon Tyne
NE2 1QE

[(If from Private Secretary) -

~~Further to my letter of 2 November the Prime Minister has now seen and asked me to reply to your letter of 28 October about depreciation allowances.]~~

[(If from the Prime Minister) -

Thank you for your letter of 28 October about depreciation allowances.]

I have carefully considered your arguments for linking allowances to orders placed in UK or Community shipyards but regret to say that there would be serious drawbacks in subjecting depreciation allowances to the kind of restrictions you have proposed.

The primary aim of accelerated depreciation allowances in whatever industry they apply is to encourage investment by that industry for its own benefit. To this end firms need the freedom to buy their capital equipment on the best terms available wherever such terms are on offer. This freedom is all the more important in industries such as shipping where the market is truly international. The restrictions you suggest would diminish



the benefit of the allowance to the shipping industry, and I am sure they would be firmly opposed to them. The Chancellor recently made it clear that he would not consider introducing a system of differential capital allowances favouring British manufacturers because of the need to have regard to the purpose of capital allowances and to our international agreements. At the same time British shipowners are, as you know, fully conscious of the advantage of building in British yards if the terms are competitive and I understand that over the last three years some 60% of British Shipbuilders' orders were from UK owners.

I am sorry I cannot hold out the prospect of changing the rules on depreciation allowances in the way you suggest. I know however that Norman Lamont is constantly looking for possible ways of increasing the effectiveness of Government support for shipbuilding and that this topic is frequently discussed between you.

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COMMUNICATIONS

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BRITISH SHIPBUILDERS
BILL
2nd Reading
Wednesday 17th November 1982

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Purpose of the Bill

The Government is committed to promote private ownership of shipbuilding. This Bill will remove the present statutory obstacles to the introduction of private capital, and provide enabling powers for the Secretary of State for Industry to direct British Shipbuilders (BS) to dispose of particular assets or subsidiaries.

Background

After a prolonged Parliamentary struggle, British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act 1977 (the 1977 Act) on 1st July 1977. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering.

Shipbuilding in Europe suffered a continuous decline in the 1950s and 1960s. Employment in the industry in the UK fell from 130,000 in 1955 to 69,000 in 1973. From 1974, the threat of nationalisation hung over the industry. In addition, it had to operate in the 1974-7 period in the dreadful economic climate which Labour had created. World demand continued to decline, and, not surprisingly, the industry faced serious financial problems.

Since nationalisation, the industry has received over £700 million. Had it remained in the private sector, assistance would have been needed. But, the industry would have faced up to the need for rationalisation much sooner, and the cost to the Exchequer might well have been less.

BS Financial Results

	£ million				
Year to April:	1978*	1979	1980	1981	1982
Turnover	497.0	842.0	813.0	899.3	1025.6
Trading loss	104.5	49.4	109.9	41.4	19.8
IF credited**	46.6	15.6	64.3	44.1	46.9
PDC introduced		-	236	110	107

* Nine months to April 1978

** Intervention Fund. Under the Industry Act 1972, this Fund was set up to assist the industry compete with overseas yards.

The Corporation's borrowing limit under the 1977 Act was £500 million. This was increased to £600 million in November 1981. Under the Shipbuilding Act 1982, the overall limit was increased to £700 million, with provision for the Secretary of State to extend it to £800 million.

The Corporation's EFL is £123 million in 1982-3, compared to £150 million in the previous year.

In 1981-2, the results in the five main divisions were:

	Turnover	Trading profit (loss)
	£ 000	£ 000
<u>Merchant Shipbuilding Division</u>		
Austin & Pickersgill Ltd	65,457	(8,949)
Govan Shipbuilders Ltd	52,630	(6,287)
Smith's Dock Ltd	30,688	(2,202)
Sunderland Shipbuilders Ltd	59,323	(5,605)
Appledore Shipbuilders Ltd	14,604	(356)
Ferguson-Ailsea Ltd	14,965	(6,276)
Goole Shipbuilders Ltd	15,810	(2,221)
Hall Russell Ltd	11,376	63
Henry Robb Ltd	10,032	(4,427)
Swan Hunter Shipbuilders Ltd	<u>120,874</u>	<u>83</u>
	395,759	(36,177)
<u>Warshipbuilding Division</u>		
Barclay Curle Ltd	5,306	624
Brooke Marine Ltd	17,124	479
Vickers Shipbuilding and Engineering Ltd	207,101	19,601
Vosper Thornycroft (UK) Ltd	124,066	9,302
Yarrow Shipbuilders Ltd	<u>74,790</u>	<u>8,576</u>
	428,387	38,582
<u>Engineering Division</u>		
Blackwall Engineering Ltd	1,829	17
BS (Engineering and Technical Services) Ltd	4,980	359
Britparts Ltd	2,493	-
Clark Hawthorn Ltd	24,952	(236)
John G Kincaid Ltd	19,502	(1,897)
K & L Marine Equipment Ltd	1,227	22
Sunderland Forge Ltd	9,052	(233)
Wolsingham Steel Ltd	<u>7,337</u>	<u>(223)</u>
	71,372	(2,191)
<u>Shiprepair Division</u>		
Brigham & Cowan (Hull) Ltd	-	-
Falmouth Shiprepair Ltd	6,318	1,023
Grangemouth Dockyard Ltd	1,669	(625)
Tyne Shiprepair Ltd	36,801	(7,989)
Vosper Shiprepairs Ltd	<u>8,401</u>	<u>(1,902)</u>
	53,189	(9,493)

	Turnover	Trading Profit (loss)
	£ 000	£ 000
<u>Offshore Division</u>		
Cammell Laird Shipbuilders Ltd	52,722	242
Scott Lithgow Ltd	74,735	(14,949)
V O Offshore Ltd	<u>7,312</u>	<u>1,029</u>
	134,796	(13,678)

Manpower

Division	July 1977	Nov 1978	Sept 1979	March 1981	March 1982
Merchant	34,245	33,376	31,069	24,963	24,658
Warship	25,778	25,795	25,990	25,207	24,514
Shiprepair	9,017	8,933	6,333	4,323	3,854
Engineering	5,691	5,706	5,089	4,348	3,897
Offshore Corporation	12,703	12,600	11,215	8,794	8,918
	-	-	-	136	275
H.Q.	35	177	244	204	204
Total	87,469	86,587	79,940	67,975	66,320

Note: Divisions were not formed until 1980 and statistics have been projected back to Vesting Day.

The Shipbuilding Redundancy Payments Scheme was introduced in 1978, retrospective to vesting day. This scheme was extended by the Government in July 1982, so that it will now run until 30th June 1985. It was also improved, primarily to give a better deal to those under 40.

At that stage, 20,000 employees had been helped by the scheme, at a cost of £55 million. The savings in manpower costs were estimated to be £150 million. Payments made under the scheme to date have been:

£ m	1978	1979	1980	1981	1982
Year to April:	-	4.7	15.5	20.1	14.4

The Bill

Clause I

The Functions of BS

Under the 1977 Act, BS has a legal duty to "promote the efficient and economic design, development, production, sale, repair and maintenance of ships and slow speed diesel marine engines, and research into matters relating thereto". Other legal duties are also imposed by the Act. For example, BS is required to carry out its activities with full regard to the requirements of national defence and the need to benefit from the knowledge and experience of its workforce; and to promote industrial democracy.

Such legal requirements would obviously be inconsistent with operation as a private sector company. Thus a first step in privatisation is to remove them. The Bill therefore seeks to repeal these sections of the 1977 Act, while ensuring that BS retains the legal capacity to carry on existing activities, and other activities approved by the Secretary of State.

Removal of the legal straightjacket will enable BS to organise its affairs in the light of its own commercial judgement. Responsibility for the implications for national defence is put where it properly should be - on Government.

The Powers of the Secretary of State

Under the 1977 Act, the Secretary of State was required to have regard to a number of specific factors before giving a general direction to BS. These were:

- the need to co-ordinate the operations of BS with those of the British shipping industry.
- the shipbuilding policies of any international organisations to which the UK belongs.
- the ability of BS to compete in world markets on equal terms with overseas competitors.
- the implications for regional employment.

The Bill seeks to replace these with the requirement that, before giving a general direction to BS, the Secretary of State must be satisfied that it will further the national interest. The factors above will obviously be embraced by this requirement, and other factors might also be involved.

Clause II

The Organisation of BS

The Bill would give the Secretary of State power in the national interest, to direct BS, by order:-

- to discontinue or restrict any of its activities (or those of its wholly owned subsidiaries),
- to dispose of all or any of its property, rights or liabilities (or those of its wholly owned subsidiaries).

It is envisaged that this power will be used to deal with unfair competition with the private sector, and to direct the sale of some or all of the shares in BS subsidiaries.

The Secretary of State would be given powers, when directing disposal, also to direct BS to form a company to which the property can be transferred. He would also be able to prohibit such a company from straying outside the activities specified in his

direction. Thus he would be able to maintain control over the nature and the use of the assets of the company. The company would initially be a wholly owned BS subsidiary and the restrictions above would end if and when it ceased to be wholly owned.

These provisions will enable activities to be concentrated in separate wholly owned subsidiaries, to ensure transparency. This might be necessary in its own right, or as a prelude to disposal. The Bill would enable the Secretary of State to direct that an employees' share scheme be established, to allow employees to benefit from disposal.

Safeguarding the National Interest after Disposal

When the Secretary of State directs or consents to a disposal, the Bill gives him powers:

- to require BS to amend the articles of association to include restrictions on things such as the size of foreign share holdings and the nationality of directors.
- to require the creation of special rights preference shares to be held by him or his nominee. Consent of these shareholders would be needed to any change in the relevant articles.

These powers would be used for reasons of national security, to ensure that assets important to our defence interests do not pass into foreign control. The Bill provides a simple, flexible and effective method of securing this.

The Warship Yards

Vickers, Vosper Thornycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. However, this does not preclude other possibilities, and all options are open.

The previous owners of the specialist warship yards have been informed of the Government's intention to legislate. The over-riding concern in any option taken by the Government will be to enhance the strength of the industry and maximise return to the taxpayer.

The 1977 Compensation Terms

In Opposition, Conservatives were very much opposed to the terms of compensation for the owners of firms nationalised under the 1977 Act. As Secretary of State for Industry, Sir Keith Joseph reaffirmed the view that they were "grossly unfair" (Hansard, 7th August 1980, col. 290). Total compensation paid for the 24 private companies vested in BS was £755 million. Many of the companies involved have settled, but nine separate applications are before the European Commission of Human Rights.

The Government believes that, however unjust the original arrangements, it would be unjust to amend the terms now because people have sold shares on the terms of the 1977 Act.

The Benefits of Privatisation

Mr Lamont has said of BS: "we believe that jobs are going to be best preserved and orders most easily won under private ownership", (BBC Radio 4, 27th April 1982).

The benefits which privatisation brings are many:

- * Companies or operations are removed from artificial guarantees provided by the State, where there are few commercial disciplines, and no need to persuade investors to invest in the business.
- * Managers - the people who know most about the business - are freed from Treasury control and able to raise money in fair competition with other borrowers.
- * Greater efficiency comes with investment projects competing for capital.
- * Employees can identify more closely with their companies. They can take a stake in them: thanks to this Government around 90,000 of them already have. And the National Freight Company+ is now owned by a consortium of its managers and workforce.
- * When linked with liberalisation, consumers benefit from the effect which competition has on efficiency and prices.
- * Individuals are able to buy shares - in particular, small investors are often given preferential access.

The real rate of return on the £90 billion employed in the nationalised industries in 1980 was minus 1%, and this poor performance was not untypical of recent years. This burden on the nation must be reduced.

Progress on privatisation/liberalisation

The Government has made substantial progress in reversing the "Socialist ratchet". For the first time since the war, the size of the publicly owned sector of industry is being significantly reduced.

Communications Industry

British Telecom has operated separately from the Post Office since October 1982.

Nearly half the Government's shares in Cable and Wireless were sold in Autumn 1981, to form a private sector company.

+ Formerly the National Freight Corporation.

Mercury was given a 25 year licence in February 1982 to run an independent telecommunication network in competition with BT. The first service is expected in early 1983.

Value added services, offered by private firms using BT's network, are now being licensed.

The supply and maintenance of telecommunications apparatus has been opened up to competition. One result is that private subscribers will no longer have to rent telephones other than the first from BT.

Legislation in place contains powers to require BT to form wholly owned subsidiaries and dispose of them.

Legislation outlined in the Queen's Speech will put BT into Companies Act form and enable the sale of shares. This will be a major extension of real public ownership.

Legislation in place allows the Post Office monopoly to be suspended.

Private operators have been licensed to provide mail services and document exchanges.

Transport Industries

Legislation in place permits the denationalisation of British Airways.

The National Freight Corporation (now Company) has been bought by a consortium of management and workers.

The traffic licensing régime has been relaxed, particularly in relation to express coach services.

Legislation in place allows private capital in the National Bus Company.

British Rail's hovercraft subsidiary has been merged with Hoverlloyd, to form a new private sector company, Hoverspeed.

Six BR hotels have been sold, together with a significant portfolio of property.

Legislation in place allows the sale of Sealink, BR's ferry service.

The British Transport Docks Board, which owns 19 ports, is to be denationalised shortly.

The testing of heavy goods vehicles is being transferred to the private sector.

Energy Industries

Legislation in place permits the sale of shares in Britoil (formed from the oil exploration/production arm of BNOC), and BGC's oil-producing interests in the North Sea. It is intended that Britoil will become a private sector company, although the Government will retain special rights to prevent unacceptable changes in future control.

BGC's statutory privileges in buying gas, and its monopoly position in supplying large gas consumers, have been removed.

Legislation in place permits the sale of BGC's showrooms, subject to further legislation on safety.

BGC's half share in the Wytch Farm onshore oilfield is in the process of being sold.

Legislation outlined in the Queen's Speech will permit the private generation of electricity as a main business.

Other Industries

British Aerospace and Amersham International have been transferred to the private sector.

Legislation outlined in the Queen's Speech will permit privatisation of British Shipbuilders.

BL has disposed of its interests in Prestcold, Coventry Climax and Alvis.

Significant progress has been made with the rationalisation of the British Steel industry, both within BSC and in those sectors of the market where BSC and the private sector operate.

Part of the operations of BSC have been returned to the private sector in the form of a separate company, Allied Steel and Wire Ltd., now one of the largest wire companies in Europe. The Corporation has been reorganised so that the saleable parts, which are not part of the mainstream steel business, are formed into Companies Act companies. BSC's major construction subsidiary, Redpath Dorman Long Ltd., has been sold. Sheffield Forge masters is being established as a unique combination of publicly owned

(BSC) and privately owned (Johnson Firth Brown) industrial interests.

The NEB holdings in 21 companies have, to date, been sold back to the private sector. Prominent among these were holdings in ICL, Ferranti Ltd., and Fairey Holdings Ltd. The NEB's role as an agent of "back door nationalisation" has been ended.

In the longer term, the Government has made it clear that it does not accept that state ownership is the only solution for the so-called natural monopolies.

Labour policy on nationalisation

Labour's Programme 1982 states: "We have to demonstrate the practical benefits of common ownership, showing how public enterprises can be a spearhead for innovation and new investment, making clear the benefits to both workers and consumers, and exploring the best forms of organisation and different forms of common ownership". At least they concede that the practical benefits have not been demonstrated yet, despite over 30 years since Labour's nationalisation programme first got underway.

The programme also promises "a radical improvement in the service which these industries provide to the people who own them". Again, at least the present shortcomings are appreciated. Nevertheless, Labour plans to renationalise the businesses which the present Government has returned to the private sector, to undo everything which has been achieved in liberalising the state monopolies and to extend nationalisation into each important sector of industry.

The terms upon which renationalisation would proceed have been the subject of dispute within the Labour Party. Mr Benn told the House of Commons: "Both at the TUC Congress last year and the Labour Party Conference last year, we called...for the reacquisition of public assets without compensation". (Hansard, 10th November 1981, col. 499). However, the Right of the party appears to have succeeded in moderating this. Labour's Programme 1982 states that "shareholders should be repaid precisely the amounts which were paid for the assets at the time they were denationalised".

A still different form of words emerged from the last Labour Conference. The motion passed said that compensation would only be given: "on proven need and at a level which ensures that the recipients do not gain from their investment".

Gerald Kaufman, Shadow Environment spokesman, has said: "We will make sure that those who have bought into British Shipbuilding will make no gain from their act of piracy", (Financial Times, 20th October 1982). He promised that Labour would renationalise without delay any part of the British shipbuilding industry that is privatised by the Government.

Labour will extend state ownership into the electronics industry. The Programme states: "GEC, which occupies a pivotal position in the British electronics and electrical engineering industries, will form an integral part of our public ownership programme." It also promises more state ownership in construction and building materials, pharmaceuticals, road haulage, major ports, and timber products. It states that existing nationalised industries will be allowed to diversify; and that "We are committed to take a majority stake in all existing and future North Sea oil fields". Mr Benn has warned: "It is long-term policy of the Labour Party to bring all oil into public ownership, including BP". (Hansard, 10th November 1981, col. 499). The 1982 Conference approved a motion which included a call for the nationalisation of 20 to 25 large companies.

At the Labour Party Conference in 1976, Mr Callaghan said that the NEC's proposal to nationalise the banks would be "an electoral

albatross", (Blackpool, 24th September 1976). However, among proposals listed for consideration in Labour's Programme are: "A public stake in the banking system established by taking one or more major clearing banks into public ownership", and "An extension of public ownership into other parts of the financial system". The 1982 Conference threw out a motion to nationalise the banks, but only on a margin of 3.4 million votes for, 3.1 million against.

On the subject of the price to be paid for assets confiscated by the State. Labour's programme warns: "We have learned the lessons of past mistakes and will not overcompensate." It is suggested that shareholders could be compensated by government bonds which would have staggered periods of redemption.

Labour's plans for confiscation extend beyond their nationalisation proposals. They promise to: "provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprise into a workers' co-operative by acquiring the assets of the firm". There is no discussion of the need for consent from the owners of the enterprise, nor of the terms of compensation.

Cost of Labour's Nationalisation Proposals

Re-nationalisation: direct cost at least £800 million today; but it would rise substantially once Britoil and BGC interests sold.

Nationalisation: among the numerous companies which would apparently be nationalised are Beecham Group, Glaxo, GEC, Plessey, Barratt Development and Taylor Woodrow. Compensation for these alone would mean payments to shareholders of well over £12 billion; provided the terms of compensation were fair.

Alliance policy on nationalised industries

The SDP Green Paper No. 2 states: "If a (nationalised) industry is operating in a competitive environment and can viably be operated as a commercial concern, there is no overriding case for subjecting it to the sort of system of Government control which exists at present..... We propose therefore that the competitive industries should be set up as Companies Act companies and given an equity structure Even if the Government continued to hold the initial equity, there would be no objections to issuing further equity to private shareholders Ownership would gradually pass from public to private hands".

This is very similar except perhaps in its stress on gradualism, to the Government's policy. So is the SDP's policy, set out in the Green Paper, of increasing the pressure on the nationalised industries to be efficient, although it is unclear how this would be reconciled to their plans to introduce subsidies. The SDP agree with the Government that the State monopolies need to be kept under tight control.

However, the SDP and the Liberals voted with Labour during last year's debate on the address on a motion "regretting that the Gracious Speech contains proposals which, in putting private profit before public interest, strip the nation's North Sea oil and gas assets"

They voted against the Oil and Gas (Enterprise) Bill second reading and (with the exception of Christopher Brocklebank Fowler, who was then a Conservative and the Liberal Stephen Ross), against the British Telecommunication Bill second reading. The SDP did not exist on the latter occasion, but many SDP MPs voted as Labour MPs on this occasion.

It is therefore very difficult to ascertain whether the theory of the Green Paper commends itself to the Party in Parliament, and how it would be applied in practice.

Conservative Research Dept
32 Smith Square LONDON SW1

LMR/CR
15.11.82

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Next. Ind Prime Minister

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*From the
Minister of State*

Norman Lamont MP

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing St
London
SW1A 2AA

mt

15 November 1982

Dear Prime Minister

I have now seen the British Shipbuilders' figures on shiprepairing losses for September.

The present position is:

Loss for September	Loss April/September
£549,000	£4.8 M
(August - £598,000)	

The useful reduction of some 8% in their overall losses during September is due to the redundancies at the Tyne which I mentioned in last month's letter; these are now beginning to achieve their designed effect and losses there are down by £170,000 compared with August. The other yards, though taken together remaining in the black, made a smaller profit than in the previous month.

BS will be reviewing their loss forecasts to the end of the year next month. You should know that the shiprepair market according to British Shipbuilders is at an all time low and is deteriorating in parallel with shipping. For the period under review both Furness Withy and BP have announced heavy cutbacks in their fleets. 25 per cent of the Greek merchant fleet is now in lay-up. As a consequence shiprepair prices are at very depressed levels for the limited business that is available. Dutch shiprepairers have recently reported heavy losses. The market seems unlikely to improve until the shipping market shows some signs of up-turn.

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The British Shipbuilders Bill which removes statutory obstacles to BS themselves getting out of shiprepair and gives us power of direction on disposals is due to have its Second Reading on November 17. We shall therefore soon be in a position to consider the use of these powers if BS themselves do not soon find buyers for their shiprepair establishments.

Yours

Norman

NORMAN LAMONT

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DEPARTMENT OF INDUSTRY

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From the
Minister of State

Norman Lamont MP

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing St
London
SW1A 2AA

*Clearly their
advice is just
not reliable and we
must be careful
as such*

Prime Minister

(2)

An apology to you from
British Shipbuilders.

5 November 1982 Mus 5/11

Dear Michael

Thank you for your letter of 2 November about British Shipbuilders' decision to retain the Middle Dock at South Shields.

Mr Lamont saw Mr Atkinson yesterday. He told him of the Prime Minister's annoyance on hearing that BS had changed their minds about closing the Middle Dock. The Prime Minister had told Dr Clark, on advice from BS, that the decision to close was irreversible. The subsequent change of plan had therefore put her in a very difficult position and did not reflect well on BS's reliability.

Mr Atkinson said that BS were very sorry to have put the Prime Minister in such a position. The retention of the Middle Dock had been a commercial decision to facilitate the achievement of BS's target for the restructuring of shiprepair on the Tyne; there had been no change in the target. He asked Mr Lamont to tell the Prime Minister that the present restructuring of shiprepair on the Tyne, which was the second in two years, was not necessarily the final stage. Mr Lamont again stressed the need for BS to reduce its capacity in line with the market. Mr Atkinson said BS would be looking at the position again at the end of the year if the company's financial performance had not responded satisfactorily to restructuring by then.

Mr Lamont will be writing shortly to give details of the latest financial position in shiprepair.

We shall be providing advice on Mr Atkinson's letter of 28 October about depreciation allowances in due course.

Yours,
John

JOHN ALTY
Private Secretary

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

2 November 1982

Dear John,

Thank you for your letter of 28 October about British Shipbuilders' decision to retain the Middle Dock facilities at South Shields. I showed this to the Prime Minister over the weekend.

The Prime Minister minuted that we must view any advice from British Shipbuilders with the utmost scepticism; they had shown themselves to be totally unreliable. She has asked me to tell the Chairman of her views on this episode - particularly in view of the fact that British Shipbuilders' advice was given in response to a Member of Parliament's enquiry.

We have discussed this, and you have assured me your Minister will let Mr. Atkinson know the Prime Minister's views.

I enclose a copy of a letter which the Prime Minister has received from Mr. Atkinson about depreciation allowances to ship owners building new ships in the UK.

I enclose, too, a copy of the letter which I have sent to Mr. Atkinson in acknowledgement of this letter. I should be grateful if you could let me have advice on what action, if any, the Prime Minister might take, and for your comments on the British Shipbuilders' note.

Yours sincerely,

Michael Scholar

John Alty Esq
Department of Industry.

CONFIDENTIAL



lie

10 DOWNING STREET

From the Private Secretary

2 November 1982

Dear Mr. Atkinson,

Thank you for your letter of 28 October to Robin Butler with which you enclosed a note on the case for confining 100 per cent depreciation allowances to ship owners building new ships in the UK.

I shall show this to the Prime Minister at the earliest opportunity, and I know that she will be most interested; as you say, during the discussion on the Atlantic Conveyor on 27 July she expressed interest in these points.

Yours sincerely,

Michael Scholar

Robert Atkinson Esq DSC RD.



British Shipbuilders

Chairman
Robert Atkinson DSC** RD

197 Knightsbridge
London England SW7 1RB
Telephone: 01 581 1393
Telex: 8814702 BSBLDR G

ra/mw/1028/1
28 October, 1982

F.E.R. Butler, Esq.,
Principal Private Secretary to the Prime Minister,
Prime Minister's Office,
10 Downing Street,
LONDON SW1.

Prime Minister (4)

*I have acknowledged
and asked her Do?
for comments.*

Dear Mr Butler,

When we met with the Prime Minister in her office at the House of Commons on 27 July and during the discussion on the Atlantic Conveyor replacement, she asked for a note to be taken on the need to confine 100% (free) depreciation allowances to shipowners building new ships in the U.K. The Prime Minister seemed rather surprised that such an allowance was available regardless of where the vessel was built.

The Prime Minister's recent public statement of encouragement to buy British in support of the motor car and the steel industry would be further bolstered if British shipowners were similarly encouraged to invest in new U.K. built ships. You will realise that, whilst motor cars will support the the sheet steel industry in South Wales, British Shipbuilders is British Steel's largest customer in steel plates and heavy sections, the mills for which are situated in the North and in Scotland. Without our total support, which they receive, those mills would be in a sorry state.

Whilst our quality is not questioned, the main problem lies with Korea/Japan who are quoting false prices approximately equal to European material prices (not U.K.). That means that even if we pay no overheads and no wages at all we just compete. Recalling that in excess of 60% of a ship's cost is "bought out" material this represents an attack on British industry and has little to do with competitiveness or productivity. The latter, I am glad to say is improving, but it needs to improve a lot more and much more quickly.

If British shipowners were encouraged to place their tonnage in Great Britain instead of abroad we would need a shipbuilding industry significantly larger than we now have and the serious decline in the U.K. fleet would also be arrested. That would be also a fillip for our many British suppliers in the private sector.

Reflecting on this, I thought the attached note might be helpful to your office, should the Prime Minister decide to pursue this point during the new Parliamentary session, or with us should further clarification be required.

Yours sincerely,

Robert Atkinson

ROBERT ATKINSON

cc. N. Lamont, Esq., MP

INVESTMENT INCENTIVES

1. A number of shipping countries, both inside and outside the EEC, have arrangements which relieve taxation on shipowners' investment in ships or give investment grants for new ships. The indirect benefit to the shipbuilding industries of such schemes is greatest in those countries which have the highest proportion of their flag ships constructed in home yards. Of orders placed by UK owners, the percentage placed in the UK is relatively low. Hence, in this country, free depreciation has tended to benefit the UK shipping industry, to a greater extent than the UK shipbuilding industry. That this is so is unfortunate because the British shipbuilding industry, despite severe contraction, is still able to provide the complete range of ships required by UK owners; though the relatively smaller size of the industry now restricts the availability of berths for UK-build at times of even moderate world-wide demand, e.g. 1981.
2. From the point of view of HMG this situation must seem regrettable because with every effort being made to restrain public expenditure, in effect, public money is being "exported" to support foreign shipbuilding industries, particularly in Japan and Korea. It seems, appropriate, therefore, that free depreciation, applicable only to the shipping industry in the UK, should be limited to ships purchased in the EEC, and preferably, in practice, to UK yards.
3. It may be argued that the aim of reducing public expenditure in this manner could be held to breach Article 3 of GATT, but the position is unclear. Fiscal measures, apart from VAT, do not seem to have been subjected lately to scrutiny in the context of GATT. Certainly it is true, in general, that various forms of accelerated depreciation, tax free reserves, and investment grants available in other countries to the shipping industries tend to be restricted to ordering for own-flag, and in practice to orders placed in home yards. For instance, refunds under the Dutch Investment Account Act (WIR) are subject to the requirement that a Dutch yard must have been invited to tender and if possible the ship should be Dutch built.

4. In so far as restrictions of free depreciation in this way and at this time might be held to be damaging to the UK shipping industry, an alternative might be the following. The General Council of British Shipping, supported by BS, has asked for 40% additional investment allowances to be granted for a three-year period, limited to ships ordered in EEC yards. If HMG considered that this extra support (costing around £100m p.a. in deferred tax revenue) was desirable, this would enable a "two-tier" system to be created. Free depreciation would be available to UK shipowners ordering anywhere in the world; but the 40% additional investment allowances would only be available for ships ordered in EEC yards, and again, in practice, to UK yards.

Recommendations

- (a) HMG to consider, in the next Finance Act, restructuring free depreciation for UK shipowners to restrict this concession to ships ordered in EEC yards, and, in practice, UK yards.
- (b) Failing the above, HMG to consider acceding to the request already made by GCBS and BS to introduce, for a three-year period 40% investment allowances for ships built in EEC (in practice in UK) yards; thus introducing a "two-tier" system which only discriminated against non-EEC ship ordering in the second tier of support.

RA

ROBERT ATKINSON
28 October 1982

Nat Incl:

Shipbuilding

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7672

From the
Minister of State

PS/Norman Lamont MP

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1A 2AA

*W & must have
advise clear
It is to be fully
rather you should
Chairman
Minister
Home Minister
pretty debatable
quantification of the net
and no
cost of
retaining Middle Dock
MS 29/10*

Dear Michael

You wrote to me on 19 October to report the Prime Minister's reaction on BS' decision to retain the Middle Dock facilities at South Shields. The advice we gave to the Prime Minister for her letter of 10 August to Dr Clarke of course reflected the position as it was then.

When the Department first knew of BS' change of heart, which we too found surprising after their protracted study of the situation, my Minister took it up with Mr Atkinson.

Mr Atkinson explained that there had been no change of overall strategy. The target of an overall reduction from 2,400 to 1,000 men at the Tyne Shiprepair Group is being adhered to. But there has been a greater reduction of numbers employed on the north side to compensate for the retention of Middle Dock. BS changed their minds on the closure of Middle Dock because their shiprepair customers had made it clear to them that they liked the Middle Dock facilities. BS came to the view in the light of this customer preference that they would also gain additional flexibility if they retained these facilities. The unions also agreed on interchangeability of labour on both sides of the river.

You will recall the Prime Minister did ask Mr Lamont to explore with BS whether there was any way of lessening the impact of their intended cut-backs. As it turns out BS's decision will help slightly to alleviate the employment situation on the South side of the Tyne. In our view it was right to leave BS to exercise their commercial judgement on how and where these reductions should be reached provided there was the same overall reduction in capacity.

*Yours,
John*

JOHN ALTY
Private Secretary

Not. Ind. - Shipbuilding Pol. Pt. 4

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
120 VICTORIA STREET
LONDON SW1 0HE
TELEPHONE 2361 (4 LINES)
FACSIMILE 2361



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cc D/I
bc JV

Not inf

10 DOWNING STREET

From the Private Secretary

26 October 1982

HARLAND AND WOLFF: PUBLICATION OF ACCOUNTS

Thank you for your letter of 21 October in which you set out the proposed arrangements for the publication of Harland & Wolff's Report and Accounts for 1981/82.

I have shown this to the Prime Minister and she is content with these arrangements.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry).

M. C. SCHOLAR

M.W. Hopkins, Esq.,
Northern Ireland Office.

cc: JV



NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Michael Scholar Esq
10 Downing Street
LONDON SW1

21 October 1982

Dear Michael

Yes

Prime Minister ①

Content with these arrangements?
(Treasury offer no objection)

ML 25/10

HARLAND & WOLFF : PUBLICATION OF ACCOUNTS

You will wish to be aware that the Harland & Wolff (H&W) Report and Accounts for 1981/82 are to be published shortly and that they show an overall loss for the period of £26m and a trading loss of £30.5m. These losses will no doubt attract adverse comment both from the media and from Parliament.

The company's accounting year has been changed from the calendar year to bring it into line with the Government's financial year. These accounts therefore cover a 15 month period and this makes it difficult to compare the results with past performance. However on an annualised basis, the company's position, while still extremely poor, has improved slightly by comparison with previous years: sales increased by 28% on 1980 and the rate of deficit reduced from 56% of sales in 1980 to 29%.

While Mr Prior remains very concerned at the company's poor financial performance, he is encouraged by the determination which has so far been displayed by management and workforce to work towards a more competitive shipyard in extremely difficult market circumstances. The labour force has already been reduced by 650 this year - largely following consultants' recommendations on steps to reduce overheads and shrink facilities - and a further 250 to 300 will go early next year. He has made it clear at a number of meetings with management, unions and local politicians, the latest of which was held on 14 October, that further major savings in costs must be urgently and vigorously pursued. As a pre-condition to approval of an order from the Blue Star Line, the workforce has been asked to provide assurances to management that they will collaborate with the latter in implementation of cost-saving plans and also that any wage increase in 1983/84 will be severely restricted.

Mr Prior wishes to emphasise, as in the attached press release, that the yard must become more efficient and competitive. This would accompany publication of the company's Report and Accounts which are likely to be published next week. Copies of the Report and Accounts would be placed in the Library of the House (as is customary).

/...

CONFIDENTIAL

Mr Prior would be glad to know if the Prime Minister is content with these arrangements.

I am sending a copy of this letter to Jonathan Spencer (DOI).

Yours sincerely
Mike Hopkins

M W HOPKINS

CONFIDENTIAL

Bre,



file re: L. Gow

10 DOWNING STREET

From the Private Secretary

19 October 1982

The Prime Minister was grateful for your Minister's letter of 13 October which gave the BS monthly profit and loss figures for shiprepair.

The Prime Minister was astonished to read that BS, after consultation with the unions, have decided to retain one shiprepair yard at South Shields. She has commented that this is a complete change of course, and that in her meetings with Dr. David Clark she had said, on advice, that it would be impossible to retain this yard; and that she wrote in these terms to Dr. Clark.

I would be grateful if you could let me have a note on the reasons for this change of course.

M. C. SCHOLAR

John Alty, Esq.,
Department of Industry



Prime Minister (2)

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-2125902
SWITCHBOARD 01-212 7676

From the
Minister of State
Norman Lamont MP

Do you wish to
see these monthly
reports?
MUS 15/10

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
Whitehall
London SW1

X This is a
constant charge.
You will
remember they
said they
couldn't - and
we won't -

13 October 1982

Dear Prime Minister

You asked me in your letter of 9 August to send you BS monthly profit and loss figures for shiprepair each month.

The position is as follows:

<u>Loss for August</u>	<u>Loss April-August</u>	<u>Forecast loss to end of year</u>
£598,000	£4.2 million	£6.2 million

accordingly,
Please follow
with
Norman
Lamont
MP.

The losses principally result from the position at Tyne Shiprepair and illustrate the reason why BS under pressure from us decided that a drastic cut back was necessary. You will recall from your meeting with Dr Clark the controversy that the announcement of BS's plans caused in an area which has been particularly hard hit by closures. Nevertheless BS are pressing ahead with 1,400 redundancies and about 1,000 men have already gone. BS after consultation with the unions have decided to retain one shiprepair yard at South Shields but Mr Atkinson has assured me that he expects that this can be made profitable once the restructuring exercise has been completed. We cannot expect while restructuring is going on that Tyne Shiprepair should make a dramatic recovery and traditionally the winter months in shiprepair are the most difficult. This is reflected in the overall loss forecast for the year. I shall be keeping a close watch for any divergence.

If the restructuring at Tyne Shiprepair is successful BS would expect that the shiprepair division as a whole will be running at a profit by the end of the year. The rest of the division in aggregate are now forecasting a profit for the year. The refits to the QE2 and the Canberra after their service in the South Atlantic have made a useful contribution.

X ||

COMMERCIAL IN CONFIDENCE



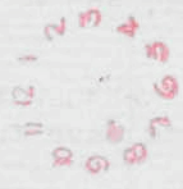
I have recently reminded Mr Atkinson very firmly again that the private shiprepair sector must not have grounds for complaint about BS's pricing policies, and he has assured me that this will be the case.

BS have taken some time to produce this first report. They have however undertaken to let me have future reports four weeks after the end of the month.

Yours in
Norman

NORMAN LAMONT

3 OCT 1982



CONGRUENCE



FILE

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noted

10 DOWNING STREET

From the Private Secretary

11 October 1982

Dear John,

HARLAND AND WOLFF:
BLUE STAR LINE ORDER

The Prime Minister was grateful for your Secretary of State's minute of 8 October.

She has commented that the more important the order is to the yard, the easier it should be to negotiate a zero pay increase. She has further commented that she is already under criticism from British Shipbuilders who desperately need orders for yards in Great Britain; and that a "modest increase" would have to be no more than 2% or so.

I am sending copies of this letter to the other members of E(NI) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholer

John Lyon, Esq.,
Northern Ireland Office.

CONFIDENTIAL

SW

CONFIDENTIAL

cc JV.

The more important it is to the yard - the more it should be rejected - the more



Prime Minister (1)

Prime Minister

I am already under some criticism from who desperately need people ahead if there would be a zero pay increase.

HARLAND AND WOLFF: BLUE STAR LINE ORDER *Agree to a 'modest' pay increase not negotiable by Mr Prior?*

I have seen a copy of your Private Secretary's letter of 4 October about the Blue Star Line order for Harland and Wolff. I understand that Geoffrey Howe is content for me to respond.

I see your point about not paying the Harland and Wolff workers more when the yard is not making a profit. We shall deploy this forcefully in the next pay round and I shall do my best to obtain a nil pay settlement. Incidentally, Short Bros, who are next door, did obtain a nil settlement last year. But in order to achieve our productivity package which E(NI) agree is crucial to our strategy for the Yard and to achieve very substantial public expenditure savings, we may need to offer the workers who are still with the Yard a modest pay increase: their pay is already lower than comparable workers at British Shipbuilders and is likely to remain so. We have already reduced the labour force by 650 this year, and another 250 to 300 will go early next year.

For the reasons I explained to colleagues and which they accepted, the Blue Star order is crucial to keeping the Yard going while we make the major economies which are necessary to secure the future of the Yard. I shall ensure that wage economy goes hand in hand with reducing manning levels and improving working practices. But I can only do so, and avoid the political catastrophe which closing the Yard now could lead to (not to mention the security and financial costs), if we go ahead now with the Blue Star order.

I am /...

CONFIDENTIAL

CONFIDENTIAL



I am copying this letter to colleagues on E(NI), John Belstead, Norman Lamont and Sir Robert Armstrong and Mr Spence.

A handwritten signature in dark ink, appearing to read "J P".

PP

J P

8 October 1982

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

NATIONALISED INDUSTRIES: SHIPBUILDING POLICY.

PART 4.

CONFIDENTIAL

TMP

cc: JOE
SO
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NVO
M/S, FCO
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CPRS,
CO



bc - Mr. Veecher

10 DOWNING STREET

C80, HMT

From the Private Secretary

4 October 1982

ON
DM

Dear Margaret,

HARLAND AND WOLFF LIMITED: POSSIBLE ORDER
FROM BLUE STAR LINE

The Prime Minister was grateful for the Chancellor's minute of 30 September, recording the conclusions of E(NI) about a possible order from the Blue Star Line for Harland and Wolff Limited.

The Prime Minister endorses these conclusions, on the understanding that a zero pay increase at Harland and Wolff should be a pre-condition of the Government's agreeing to the terms proposed.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI), the Secretary of State for Northern Ireland, the Minister of State, Foreign and Commonwealth Office (Lord Belstead), the Minister of State, Department of Industry (Mr. Lamont), and to Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Miss Margaret O'Mara,
HM Treasury.

CONFIDENTIAL

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CONFIDENTIAL

①

cc Mr. Walters
Mr. Mount

Prime Minister

MR. SCHOLAR

Please see the Chancellor's minute (attached).
Endorse E(NI)'s conclusions, subject to the slight
broadening at X? MS 1/10

HARLAND & WOLFF

As you know, in the Prime Minister's absence last week we briefed the Chancellor for the discussion in E(NI) on the special terms for the Harland & Wolff shipbuilding order. We said that it was quite wrong that a loss-making nationalised industry, receiving massive subsidies, should be allowed to assume a pay rise of 7 per cent in the coming pay round, on top of the 6.5 per cent awarded on 1 April of this year. That point is reflected in paragraph 7(b) of the Chancellor's note of 30 September reporting the outcome to the Prime Minister, and the Prime Minister will see that it was agreed that Mr. Prior is to press H & W to negotiate a lower pay increase, preferably zero.

I have discussed this further with Alan Walters. We still do not see why a zero pay increase should not be a precondition of the subsidised order agreed by E(NI). Mr. Prior has made it clear that the alternative to this order will be a loss of a large number of jobs, hastening the eventual closure of H & W. Under such circumstances, H & W's employees are in no position to argue for any pay rise this year.

Yes -

mt

J.

JOHN VEREKER
1 October 1982

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

HARLAND AND WOLFF LIMITED: POSSIBLE ORDER FROM BLUE STAR LINE

In your absence in the Far East, I took the chair at a meeting of the Ministerial Sub-Committee on Nationalised Industries (E(NI)) to discuss a prospective order for Harland and Wolff Limited (H&W).

2. You will recall that the Sub-Committee discussed H & W earlier this year (E(NI)(82) 2nd Meeting, Item 1); they invited the Secretary of State for Northern Ireland to seek their agreement to any proposal that H&W should accept a shipbuilding order with support on terms more generous than those generally available for shipbuilding orders in the United Kingdom.

3. Since then, the Secretary of State for Northern Ireland has been encouraging H&W to reduce its labour force and improve its productivity. Two firms of management consultants have been engaged to produce recommendations in these areas. The Secretary of State considers that good progress has been made, and he expects it to continue; but this is, in his view, dependent on H & W receiving new orders so that they can offer their workforce the prospect of continuing employment.

4. The only order currently in prospect is for four 10,000 deadweight tonne refrigerated cargo vessels to be supplied, via a leasing company, to the Blue Star Line. To secure this order H & W will have to offer financial assistance by way of assistance from the Intervention Fund, shipbuilders relief, soft credit, and losses on construction costs, currently assessed as worth £19.47 million or 31.3 per cent of the contract price of £62.13 million. This may indeed be an underestimate. It does not include the cost of normal shipbuilding credit terms, assessed as being worth some £5.28 million; and there are risks that the complicated financing arrangements envisaged between the leasing company and the shipping line could generate higher costs, and that H & W will not be able to obtain the improvements in productivity assumed in the estimates.



5. Such a level of assistance is both undesirable in itself and likely to have adverse effects on our policy for the shipbuilding industry. We shall have to resist demands from British Shipbuilders (BS) for more finance. BS have shown interest in the order, which they could probably carry out at a lower cost, and will undoubtedly complain if we are willing to subsidise H&W to a greater degree than we would BS. Some BS yards face difficulties no less serious than H & W.

6. Nevertheless, the Sub-Committee took the view that H & W should be authorised to accept the order on the terms proposed. The Secretary of State for Northern Ireland is clear that such an order is a necessary condition of achieving a continued improvement in H & W's manning levels and productivity. 600 jobs have already been shed since last February, 300 more are planned to go by February 1983 and further measures thereafter should lead to a total reduction of 1800 jobs over the two years 1982-84. It is, however, desirable to keep H & W in operation over the next two years. Without the order, closure would be virtually inevitable. The political and economic effects would be extremely serious. Northern Ireland has the highest regional unemployment rate in the United Kingdom and faces difficulties worse in both kind and degree than the rest of the country.

7. The Sub-Committee's agreement was accompanied by a number of points.

(a) The workforce will be required to give satisfactory assurances regarding manning levels and working practices.

(b) The Secretary of State for Northern Ireland will press H & W to negotiate pay increases lower than they are currently budgetting for, and preferably zero.

(c) The Secretary of State for Northern Ireland will also consider the future of H & W's business and discuss it with the Chief Secretary, Treasury, and the other Ministers concerned.

The Secretary of State for Northern Ireland will contain the cost of the assistance within his existing public expenditure programme.

CONFIDENTIAL



8. The Sub-Committee also decided that the European Commission should not be notified of the proposed assistance. It is true that the proposals are inconsistent with assurances we have given the Commission that merchant shipbuilding orders assisted from the Intervention Fund will be taken only on terms expected at least to breakeven on the construction cost. Although the assurances did not explicitly cover H & W, the Commission could reasonably have assumed that they did so. However, notification could expose the use of soft credit, not only in the present case but also in earlier orders for both H & W and BS; and the Commission might decide to ban future use and to unpick previous cases. So far as the Sub-Committee was able to establish, if H & W fail to secure the order it will go to the Far East: there is no prospect of it going to another Community member. It is unlikely that BS would complain to the Commission, since they would not wish it to launch an investigation into financial assistance to British shipbuilding.

9. The Minister of State, Foreign and Commonwealth Office (Lord Belstead) was present at the meeting and agreed with this assessment.

10. Nevertheless, officials will explore the possibility of restructuring the assistance so as to reduce the risks of subsequent challenge by the Commission. For example, H&W may be able to offer financing free of interest, in exchange for a higher contract price which would eliminate the prospective loss on construction costs.

11. I am sending copies of this minute to the other members of E(NI), the Secretary of State for Northern Ireland, the Minister of State, Foreign and Commonwealth Office (Lord Belstead), the Minister of State, Department of Industry (Norman Lamont), Mr Sparrow and Sir Robert Armstrong.

(G.H.)

30 September 1982



Nat Incl

Shipbuilding

PK 4

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Handwritten mark or signature, possibly a stylized 'V' or 'W'.

Faint, illegible text at the bottom of the page, possibly bleed-through.



From the Secretary of State

Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Treasury Chambers
London SW1

27 September 1982

NBM

rw 27/9

Dear Geoffrey:

HARLAND AND WOLFF: POSSIBLE ORDER FROM BLUE STAR LINES

As I shall be unable to attend the meeting of E(NI) which you will be chairing tomorrow, 28 September, I am writing with my views on the proposal in Jim Prior's paper [E(NI)(82)28]. *— PM's Boy*

The Atlantic Conveyor case was unique. We only agreed to it on that basis. The Prime Minister supported it in Parliament on that basis. We really cannot now have it quoted as a precedent.

There are no "shipping" arguments in favour of the proposition. On the contrary this kind of subsidisation simply makes the general situation worse, not better. I do not imagine we should be considering the case at all but for the special problems of Northern Ireland. Even so, the fact that such an enormous subsidy is needed surely means that we should ask what prospects Harland and Wolff now have of taking any orders at all without exceptional Government financial assistance.

Since we last discussed Harland and Wolff's prospects in March, shipping markets - particularly for the kind of vessels Harland and Wolff is well-equipped to build (large tankers and bulk carriers) - have seriously deteriorated. I do not think therefore that we should go down the road of taking hand to mouth decisions on individual cases in the belief that each one is exceptional.

CONFIDENTIAL



From the Secretary of State

I agree entirely with the CPRS view that discussions on such matters must be related to whatever broader strategy we adopt for employment in Northern Ireland.

I am copying this letter to the Prime Minister and other members of E(NI).

A handwritten signature in dark ink, appearing to read 'John P. H. Cockfield', with a long horizontal flourish extending to the right.

LORD COCKFIELD



SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Sir Michael Havers QC MP
Attorney General
Royal Courts of Justice
LONDON WC2A 2LL

cc JV
Nat Ind

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

NBPM

Mus 21/1

21 September 1982

Dear Attorney General

SOFT CREDIT FOR SHIPBUILDING

I am most grateful for the advice contained in your letter of 6 September. It is helpful to have a clear statement of the position.

I must emphasise that Government guarantees form no part of Harland and Wolff's sales effort. Even though they have been authorised for past contracts, it has been made clear to the company that every effort should be made to avoid any requirement for Government guarantees. Harland and Wolff themselves are loathe to contemplate guarantees, since they realise that the difficulties created for us are likely to cause serious delay in consideration of the terms.

Having said that, however, I have to face the fact that Harland and Wolff is finding it acutely difficult to win orders and, if we do not wish to see the company close, I cannot rule out the possibility that Government guarantees may in some future instance be essential to obtain an order which is critical to the yard's survival. I can assure you that, if a requirement should materialise in such circumstances, the established practice of early consultation will be followed.

I am copying this letter to recipients of yours.

Yours sincerely
James Prior

JP JAMES PRIOR

(signed on behalf of the
Secretary of State in his
absence)

CONFIDENTIAL



01-405 7641 Extn

NBM
ms 219
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

6 September 1982

The Rt Hon James Prior MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
London SW1

Dear Jim.
SOFT CREDIT FOR SHIPBUILDING

Having been away I have only now seen your letter of 27 July to Douglas Hurd and his reply of 3 August. My officials alerted yours last month that I might be writing.

I agree entirely with the second paragraph of Douglas' letter. If Government were to give a guarantee without notifying under Article 93 of the EEC Treaty and we were then "found out", we would be even more likely to lose before the European Court than in a case in which the soft credit or guarantee was given by the shipbuilders themselves; and we would not even have the respectability of the arguments set out in the eighth paragraph of Patrick Jenkin's letter of 7 July. *P 3*

Moreover, there might be a further possible consequence, and this is what I particularly want to draw attention to. If soft credit or guarantees given by the shipbuilders themselves were to fall foul of Article 92 and 93 it would be the government aid which enabled the giving of the credit or guarantee that would constitute the breach of Community law and not the credit or guarantee itself, and thus I would think that the validity of the credit or guarantee itself would not be affected; in other words, there might be egg on the Government's face and subsequently financial embarrassment.

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ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

for the shipbuilders, but the commercial arrangements themselves would remain unaffected and fully enforceable. However, in the case of government guarantees relating to ships built by Harland and Wolff it is the guarantees themselves which constitute the aid. If a guarantee were to be given without notification and it were subsequently held to be notifiable or, a fortiori, if it were found to be incompatible with the common market, many difficult legal problems could result. It is impossible to predict at this stage what the implications for all concerned (Government, Harland and Wolff, customer, lending bank) might be, but the validity of the guarantee under our domestic law might be called into question, and this in turn might affect the contractual obligations between the lending bank and the customer and between the customer and H + W. This could prove exceptionally damaging to our international commercial standing.

I mention these points in order to reinforce Douglas Hurd's view that the established ground rules and the principle of early consultation should be followed rigorously and to urge great caution in deciding whether to notify a government guarantee.

I am copying this letter to the recipients of yours.

Yours truly,
Michael

CONFIDENTIAL

g/c SV

5 7641 Ext. 3020

Communications on this subject should
be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/82/210

11 August 1982

Private Secretary to the
Secretary of State for Northern Ireland
Great George Street
London SW1

Ⓟ
12/4

Dear Private Secretary

SOFT CREDIT FOR SHIPBUILDING

Since the Attorney General is on leave this month he has not seen your Secretary of State's letter of 27 July to the Minister of State at FCO or the latter's reply. I shall be drawing them to his attention upon his return. My purpose in writing now is to let you know that he may wish to write to colleagues about guarantees given by Government to the creditors of purchasers of ships from Harland and Wolff. This is a rather different case from that of soft credit and guarantees given by British Shipbuilders and was neither discussed at EQO in June nor covered in the Secretary of State for Industry's letter of 7 July. Accordingly, he may wish to point out the rather different considerations to be borne in mind.

I am copying this to the Private Secretaries to the recipients of the previous correspondence and also to James Braggins in the Treasury Solicitor's Department.

Yours sincerely
A. M. Susman

A M SUSMAN

CONFIDENTIAL



11. 2. 1952

1234567890



10 DOWNING STREET

THE PRIME MINISTER

cc. *Timmer/Scholar.*
BF Mrs or
WM To see.
Me

CF/ who produced the
draft for this letter?
Whose idea was it?

9th August 1982

MCS 6/9

British Shipbuilders - Ship Repairing

Thank you for your letter of 4th August.

I am glad to know that you are very fully aware of the deep interests of private sector ship repairers, and that you have now asked Mr Atkinson to let you have profit and loss ship repair figures each month.

Because of the great concern among our own backbenchers about this, would you please send a copy of these monthly figures to me, together with your own comments upon them?

Norman Lamont Esq MP



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 Margaret Thatcher MP
Prime Minister
10 Downing St
London SW1

4 August 1982

Dear Prime Minister

Thank you for your letter of 19 July about the shiprepair case which John Corrie wrote to you about.

Unfortunately British Shipbuilders cannot identify the particular case despite having gone through all their shiprepair contracts for this year. They will look into the matter further if John Corrie is able to give more details. However all our experience is that allegations of unfair competition are very difficult to prove through individual cases because it is almost impossible to be sure that quotations are on a comparable basis. Shiprepair work consists of one-off jobs difficult to specify precisely, and shiprepairers in preparing their quotations make varying allowance for work not foreseen at the commencement of contract and later additions to the contract at the request of the shipowner. As an example of the difficulty in making comparisons, the Shipbuilders and Shiprepairers Independent Association, which represents the private sector, earlier this year sent to the Commission complaints about unfair competition from BS which the Commission did not uphold.

But despite the Commission's findings it is quite clear to me from BS's heavy losses on shiprepair that they must have been making losses on individual contracts even though the Corporation has assured me that their normal pricing policy on shiprepair is to achieve at least breakeven with full recovery of overheads. I have stressed the Government's strong concern for the private sector and Mr Atkinson has assured us he regards the losses in BS's shiprepair activities as unacceptable and intends to rectify the situation.

It is as a result of continual pressure from the Government that Mr Atkinson announced on 14 July a very substantial cutback in shiprepair activity. (This should not be disclosed to John Corrie as it must be presented as BS's own decision.) The cutback principally affects Tyne Shiprepair where up to 1,400 jobs could be lost from the rationalisation of BS's activities on one side of the river. I should say that virtually all the complaints of



unfair competition have related to work taken by Tyne shiprepair. The redundancies will be difficult and controversial to carry out in an area which already has high unemployment, as you will recall from our conversation with David Clark MP on this very problem. However BS are determined to implement this policy and according to Mr Atkinson it will go a considerable way towards restoring viability to BS shiprepair division. Profitability in the division would help both to ensure and demonstrate fair competition.

I am very conscious of the very real anxieties of private sector shiprepairers about BS losses in this area, and I can assure you that I shall continue to monitor very closely BS performance on shiprepair. We have monitoring information from BS quarterly and I have asked Mr Atkinson to let me have profit and loss shiprepair figures monthly in addition. He is in no doubt whatsoever that because of the private sector allegations of unfair competition we are scrutinising this area of BS activities with the greatest care.

Yours

Norman

NORMAN LAMONT

CONFIDENTIAL

sc sv
Nac mf.
am
ZK



Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

3 August 1982

Rt Hon Douglas Hurd CBE MP

Dear Tim,

Thank you for your letter of 27 July on third party guarantees issued by Harland and Wolff and British Shipbuilders to support ship financing.

It is helpful to have clear the distinction between the two enterprises. As you know, we consider ourselves on unsure ground with the Commission already on the general question of soft credit for ship building. In the case of Harland and Wolff, where the third party guarantee is in effect issued by the Government, then the position is fairly clear. A loan guaranteed by the Government would almost certainly be regarded by the Commission as a state aid, and would be notifiable. We would have difficulty in rebutting Commission criticism of this arrangement if it came to light.

This does not lead me to differ from the line agreed in Patrick Jenkin's letter to me of 7 July - but it means that the established ground rules and the principle of early consultation should be followed rigorously.

I am copying this letter to the recipients of yours.

Yours,
Douglas.

The Rt Hon James Prior MP
Secretary of State for Northern Ireland
Northern Ireland Office
Great George Street
LONDON SW1P 3AH

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin, Esq MP
 Secretary of State for Industry
 Ashdown House
 123 Victoria Street
 LONDON
 SW1E 6RB

MBPM

MUS 30/7

29 July 1982

Dear Patrick

SOFT CREDIT FOR SHIPS

I have seen a copy of your letter to Douglas Hurd of 7 July about the use of soft credit to obtain orders for British Shipbuilders and Harland and Wolff. I have also seen Douglas Hurd's letter of 14 July and Jim Prior's letter of 27 July. ^{pt 3}

In general, I agree with your conclusion. I regard it as particularly important that we and other colleagues should continue to have the opportunity to consider collectively each case where soft credit is proposed.

I am copying this to the recipients of your letter.

John Wakeham

JOHN WAKEHAM

30 JUL 1982



SUBJECT



File

dsj part 1 not
de
a matter

bc JV
BI

10 DOWNING STREET

From the Private Secretary

28 July 1982

Dear Caroline,

Cunard/ACL Order

The Prime Minister held a meeting of Ministers last night to discuss your Secretary of State's minute of 27 July to the Chancellor of the Exchequer about the Cunard/ACL order (Atlantic Conveyor "replacement"). As well as your Secretary of State, the Chancellor of the Exchequer, the Secretaries of State for Defence and Trade, the Minister of State for Industry (Mr. Lamont) and Mr. Mumford (Assistant Under-Secretary of State, MOD) were present. Mr. Atkinson and Mr. Parker of British Shipbuilders were also present.

Discussion centred round the table attached to your Secretary of State's minute which set out a number of ways of closing the \$24.2 million gap between British Shipbuilders' and the Korean yard's contract prices. It was noted that Lord Matthews had already indicated that Cunard might be ready to go \$2.3 million above the Korean price, to a contract price of \$50 million. British Shipbuilders would undertake a further round of efforts to persuade their suppliers to cut their prices (BSC had already knocked £1 million off its £6 million contribution to the material cost). The Prime Minister referred to her meeting earlier in the day with the TUC, and urged British Shipbuilders to seek a further contribution from their workforce towards reducing costs and bringing forward the delivery date of the ship. Mr. Atkinson indicated they would do all they could on these fronts.

It was agreed that the measures set out in (a) to (d) of the Annex to your Secretary of State's minute should be pursued, strictly on condition that the order would in fact be placed with British Shipbuilders. It was noted that (d) in the Annex might have an impact on BS's EFLs; but the amount in question would be sufficiently small as not to require an adjustment. In view of Cunard's willingness to go to \$50 million these measures should close the gap with a small margin to spare, without any need to pursue the measure at (e) in the Annex. Mr. Lamont should arrange a meeting with Lord Matthews on 28 July to reach final agreement on closing the gap in this way, and to clearing up any other outstanding points, including two on the Ministry of Defence contribution: the Ministry of Defence were seeking that their contribution of £4 million (plus a further £2 million which would be required to pay for modifications

/to the

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to the structure of the ship) should be subject to a condition that Cunard would refund - or seek MOD agreement otherwise - in the event of their selling the new ship to an overseas owner; it would also be necessary to ensure that the MOD contribution was made in such a way as not to attract tax. The aim should be to reach agreement on all these points so that an announcement could be made before lunchtime on Thursday 29 July.

I am sending copies of this letter to John Kerr (HM Treasury), David Omand (Ministry of Defence), John Rhodes (Department of Trade), John Alty (Minister of State's Office, Department of Industry), Bill Mumford (Ministry of Defence) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Ms. Caroline Varley,
Department of Industry.

CONFIDENTIAL



BK

10 DOWNING STREET

From the Private Secretary

23 July 1982

Dear Caroline,

ATLANTIC CONVEYOR "REPLACEMENT":
MEETING WITH THE TUC

I enclose a copy of a record of the Prime Minister's meeting yesterday with the delegation from the TUC about Cunard's order for a new merchant ship.

I am sending copies of this letter to John Kerr (HM Treasury), John Rhodes (Department of Trade), Barnaby Shaw (Department of Employment), Nick Evans (Ministry of Defence), John Alty (Department of Industry), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Ms. Caroline Varley,
Department of Industry

SUBJECT

cc Murray

RECORD OF A MEETING HELD AT 10 DOWNING STREET AT 1145 HOURS ON
TUESDAY 27 JULY 1982

Present:	Prime Minister	Mr. David Lea
	Secretary of State for Industry	Mr. Terry Duffy
	Mr. Brian Mower	Mr. Bill Sirs
		Mr. Alex Ferry
		Mr. T. Christopher
		Mr. K. Gill
		Mr. T. Crispin
		Mr. D. Delay
		Mr. D. Thomas
		Mr. B. Barber

ATLANTIC CONVEYOR "REPLACEMENT"

Mr. David Lea thanked the Prime Minister for seeing a delegation from the TUC, and offered the apologies of Mr. Len Murray, who was involved in an uncancelable engagement elsewhere in the country. Mr. Lea said that the TUC had had a meeting with Lord Matthews of Cunard, with the object of persuading Cunard to place the order for this new merchant ship with British Shipbuilders. They had now sought the present meeting with the Prime Minister because they believed that the Government, too, had a responsibility in this regard. It would be a disgrace if this order went outside the UK, given that the ship was to be a replacement for the Atlantic Conveyor, and given the circumstances surrounding the demise of the Atlantic Conveyor. If the order went to the Far East the TUC would campaign around the UK to get this decision reversed. The British people would not understand an order being placed outside Britain.

Mr. Sirs said that he was shocked at the decision which appeared to have been taken at an earlier stage to place the order outside the UK. The Government seemed to be standing to one side. This was a big let down after the Falklands campaign. Our Forces had fought well in the campaign, and could not have believed that their success would be followed by a surrender of British jobs. The Government

/ should insist

should insist on the order being placed here. He and his members were proud of the Falklands campaign, and it would be very regrettable if a sourness should enter at this stage. The Prime Minister had a large influence in these matters, and he hoped she would use it.

Mr. Ferry thanked the Prime Minister for seeing the TUC. He said that it would be a betrayal of British interests if this order were placed outside the UK. He did not propose to discuss differences in price between British Shipbuilders and their overseas competitors, since price and competitiveness had nothing to do with the matter: the Japanese and Korean prices were artificial; they amounted to only the material cost in the British Shipbuilders quotation. Mr. Ferry said that British Shipbuilders and the unions concerned were doing all they could to retain a shipbuilding base in this country. British Shipbuilders' losses were down from £100m to around £19m, their productivity was up 15%, and the industry had been largely restructured. Mr. Ferry said that their members had responded superbly to the demands of the Falklands operation. Swan Hunter, who were most likely to get an Atlantic Conveyor replacement order placed in the UK, had done eight weeks work in six to finish HMS Illustrious ahead of time. If the order were placed outside the UK there would be a further 1,000 redundancies on top of 1,400 already in the pipeline for the Tyne. Some package must be got together to keep the order in the UK. It was particularly offensive that Cunard should be contemplating offering the order to a country which, during the Falklands crisis, either abstained or voted against us in the United Nations. Mr. Ferry said that they had received more correspondence from individuals on this issue than on any other subject. They were determined to campaign very vigorously to achieve their objective of keeping the order in Britain.

The Prime Minister said that the Government wanted as much as the TUC did that this merchant ship should be built in the UK. If the Government had not taken this view the order would already have been placed elsewhere. The Government was currently engaged in trying to put together a package to that end. But help was needed from all those involved. Could the union side put British Shipbuilders

/ in a position

in a position to quote a nearer delivery date? Or to reduce their price through lower costs? This was not simply a point for the ship-building unions but also for the steel unions and the others involved. The Prime Minister said that the Government's wish to see the ship built in this country could not lead it to a commitment to subsidise the whole of the gap between British Shipbuilders and its competitors' price, whatever that gap might be. A 30% subsidy of British Shipbuilders' contract price had already been offered. What was needed was a concerted effort on all sides, of the kind which had been seen in mobilising for the Falklands campaign.

Several of the Union side said that Lord Matthews had not, in their meeting with him, made much of the delivery date. The Prime Minister pointed out that the Korean delivery date was much more favourable than that which had been offered by British Shipbuilders. Mr. Ferry said that the unions would do all they could to ensure that the ship was delivered on time. Mr. Sirs said that the steel for the ship would be provided as quickly as possible. The price had already been shaved to the bone. The Prime Minister referred to four recent ship orders which had come to the UK, partly as a result of efforts from Downing Street. She referred, too, to the Polish ships order and said that, as she understood it, not one of the Polish ships had been delivered on time. It would be essential for the unions to undertake to reduce British Shipbuilders' costs and to tighten up the delivery schedule. The gap between the British Shipbuilders' price [redacted] (a price which took account of a 30% Government subsidy) and the Korean price [redacted] was very large indeed. Nevertheless, she shared the opinions which the TUC had expressed that this order must come to British Shipbuilders. This was a deeply instinctive view. On this, the TUC were preaching to the converted. Nonetheless, the gap must be reduced; if it were not we would be advertising our inefficiency to the world.

Mr. Duffy said that the employers, the Government and the unions all had the same objective. The Government should announce that it had taken a decision that this ship would be built in the UK. There should be no conditionality about this. Mr. Christopher said that

/too much

too much should not be made about the need to reduce British Shipbuilders' costs. If British Shipbuilders were to build the ship at a Far Eastern price, its workforce would need to work for no pay at all. The Prime Minister commented that this argued for cost savings in British Shipbuilders' suppliers. The Government accepted that some subsidy was necessary, in the face of subsidised overseas competitors, for British shipbuilding. She pointed out that, in addition to the 30% subsidy already conceded, the Government was looking, as had been reported in the press that morning, at other ways of financing this ship. Mr. Gill said that we could compete with the Koreans only if our workforce were made to accept a Korean standard of living. Cunard's stance in the matter was that they were simply taking the Government's advice to act in a commercial way. The Prime Minister said that a move by Cunard was an essential part of the package. They too, would have to do all they could to achieve the common desired end. The issue was one of patriotism. Mr. Duffy said that the unions believed that the Prime Minister had very considerable influence with Cunard. The Prime Minister reiterated that efforts would be required on all sides. Mr. Duffy said that the unions would, as a matter of honour, bend all their efforts on the delivery schedule for the ship. They had given the Prime Minister a pledge on this. They had the impression that they were pushing at an open door so far as the Government was concerned.

Mr. Lea said that the TUC believed that if the order went outside the UK it would be wrong to lay the responsibility for this at the door of shipyard workers. The Prime Minister said she was not contemplating that the order would go outside the UK. She asked the unions to look at ways of reducing British Shipbuilders' costs yet again. There would be further discussions with Lord Matthews and with British Shipbuilders. She was always ready to see the TUC, on this, and on other matters.

MCS

28 July 1982

File No.

DRAFT

Addressed to:

The Chancellor of the
Exchequer

CONFIDENTIAL

Copies to:

Originated by:
(Initials and date)

ACR 27.7.82

Seen by:
(Initials and date)

Enclosures:

Type for signature of

SECRETARY OF STATE
(Initials and date)

DEPARTMENT OF INDUSTRY

CUNARD/ACL ORDER

Officials from the Department of Industry, the Ministry of Defence and the Department of Trade had discussions today with Cunard to explore further the Cunard response to the offer of £4m from Defence Votes which Norman Tebbit and I put to Lord Matthews yesterday on condition that the ship would be available in times of emergency and also for annual exercises for a period of say two to three weeks per annum.

Lord Matthews' initial response to our offer was predictably that it was too small to come near bridging the gap, and it would be necessary for the Government to top up its offer either through the compensation route, or from extra money coming from the Defence Votes, or from soft credit to be made available through BS.

The discussions at official level on the availability of the ship for Defence purposes made some progress, and provisional Heads of Agreement are attached.

(CONTINUE TYPING HERE)

File No.

However, despite being pressed very hard by MOD officials, Cunard were not prepared either to guarantee the availability of the ship at short notice in conditions short of national emergency or to any limitation of their total freedom to sell or otherwise dispose of the ship with no refund of money to MOD.

As regards the issue of compensation Cunard have put in a claim to the Department of Trade for consequential losses arising from the loss of the Atlantic Conveyor. The largest item is for \$4m to cover the increased cost to them of purchasing a ship from one of the other members in the ACL Consortium. Cunard say that they have a strong moral claim for such a payment, but they recognise that their legal position may not be ^{as strong} If therefore the Government were to meet this claim, they would regard the payment as being a Government contribution towards bridging the gap without prejudice to pursuing their claim if the Government does not feel able to offer the \$4m as part of the total package. Whether there are any other additional ways of closing the gap between the BS bid and the Far East through the compensation route is for consideration.

The attached schedule shows how the gap could be reduced if Ministers could use the compensation route and other inducements to Cunard. Rescheduling of instalments payments under normal Home Credit rules present no difficulty, but it is also for consideration whether to offer Cunard additional rescheduling which would allow Cunard to pay nothing before delivery.

If all the items in the list were authorised, and Lord Matthews agreed to buy at a PDV value of \$50M as he has hinted, it would only be necessary

(CONTINUE TYPING HERE)

File No.

to reduce the gap to \$2.3M.

However Cunard at present are saying at senior management level, that they would need the MOD contribution of £4M, compensation inducements of \$4m, plus an interest free loan from BS of around £4m. They are concerned whether the MOD contribution would be liable to tax.



\$ 2m
50.

CLOSING THE GAP IN PDV TERMS

	BS	\$M Korea	Gap	\$M
	71.9	47.7	24.2	
(a) Less MOD contribution of \$7.04m (£4m) which is worth \$9.2m in NPV			15	
(b) Less Compensation \$4M which is worth \$5.2m in NPV			9.8	
(c) Less Rescheduling of payments under normal Home Credit Rules worth \$3.2m			6.6	
(d) Less Further rescheduling with Cunard paying nothing before delivery \$2.4M			4.2	
(e) Less Paying Cunard Marine Risk Insured Value on Atlantic Conveyor \$2.1m worth \$2.8M			1.4	

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47.7
 2.8

 50.5
 24

 22 mths.

49

12% productivity improvement.

10 } -
11 }

16.6



PROVISIONAL HEADS OF AGREEMENT BETWEEN THE MINISTRY OF DEFENCE
AND CUNARD LIMITED

REPLACEMENT FOR THE ATLANTIC CONVEYOR

Cunard undertake:

- 1) To agree, subject to detailed investigation, to incorporate in the initial design of the G3 replacement ship for the Atlantic Conveyor modifications to improve its adaptability for military use, on the understanding that identifiable additional costs will be met by the Ministry of Defence and that the modifications will not involve detriment to the commercial operations of the ship or delay its planned entry into service;
- 2) To make this ship available to the Ministry of Defence for up to five weeks per annum from its entry into service (planned for August 1984) so long as it remains in Cunard ownership, subject to a minimum of twelve months notice by the Ministry of Defence and the payment of normal market charter rates;
- 3) To make available in the Spring of 1983 on the same basis as (2) above, the Atlantic Causeway (G2 ship);
- 4) That if for any reason the G.3 replacement ship is not available, to use their best endeavours to make a GI or other suitable ship available on the same basis as in (2) above;
- 5) Not to dispose of the ship without prior consultation with the Ministry of Defence.

1 1 1 1 1

Ac.

\$16.6

2.6



CONFIDENTIAL

MR HARDBATTLE, PARLIAMENTARY BRANCH

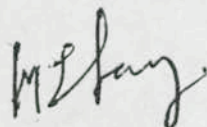
cc PS/Secretary of State
PS/Minister of State
(Mr Lamont)
PS/PUSS - Mr Butcher
Mr Manzie, Dep Sec
Mr Russell, SBP
Mr Broomfield, SBP3

PM'S QUESTIONS - 22 JULY 1982CUNARD/ACL ORDER

No 10 will have had our briefing for the PM's meeting with the TUC. This material can be drawn upon for questions this afternoon.

You told me that No.10 nevertheless wished to have additional briefing on a number of points. For this purpose I attach the following:-

- Table 1 - Prices and deliveries.
It should be noted that the position can change very rapidly in the light of the efforts being made to secure the order for BS.
- Table 2 - Subsidies available for the order.
- Table 3 - Redundancies in BS
Breakdown of BS's costs
BS's competitiveness.



M E FARRY
SBP1
Rm 162 Ashdown
212 5997

27 July 1982

TABLE 1

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COMPARATIVE BIDS CUNARD/ACL PRICES

	<u>Cash</u> £	<u>PDV of Cash</u> (<u>PDV Present</u> <u>Day Value</u>)	<u>£M</u> <u>Credit</u> <u>Charges</u>	<u>Supervision</u> £	<u>Positioning</u> £	<u>Total</u> <u>PDV</u> £	<u>Deliveries</u>
BS	79 (£45.7m)	65.9	5.5	0.5	-	71.9	26 ^(a) months
Korea	50	44.6	0.9	1.1	1.1	47.7	22 months
Japan	54	47.6	1.0	0.8	1.0	50.4	18 months
France ^(b)	69.85	65.0	3.1	0.5	-	68.6	27 months

(a) BS delivery improved to August 1984 26 months on assumption that they will gain technical cooperation from Swedes.

(b) The French prices are now out of date and the French are negotiating direct with CGM the French shipping line.





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SUBSIDIES AVAILABLE UNDER SHIPBUILDING
SUPPORT SCHEMES

		(of contract price)
Intervention Fund	£6.9m	15%
Shipbuilders Relief	£0.9m	2%
	—————	—————
	£7.8m	17.0%
Home Shipbuilding Credit Scheme	£6.2m	13.5%
	—————	—————
	£14.0m	30.5%

Note: Public Dividend Capital does not enter directly into the subsidisation of individual orders. PDC is used to meet cash needs for investment and to cover losses incurred by BS as a whole from unrecovered overheads due to capacity underutilisation as well as losses on individual contracts.

Sums approaching £600m have been provided to BS by the present administration. The breakdown of payments made from 1979/80 to date is:-

	£m
Intervention Fund	125
Public Dividend Capital (PDC)	418
Shipbuilding Redundancy Payments Scheme	51
	—————
	£594m
	—————



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TABLE 3

Redundancies in BS

<u>1980</u>	<u>1981</u>	<u>1982</u>
8,300	3,300	560 (+ 1540 announced in shiprepair mainly on Tyneside).

Breakdown of Costs

British Shipbuilders have said that their bid is made up of:-

	£m
Materials	27
Labour	14
Overheads	12
	—
Total	53
less Intervention Fund	7
	—
Bid	<u>£46m</u>

The Japanese and Korean prices Cunard have quoted are around £30m. This is little more than the price BS say they have to pay for materials - about 90% of which are bought in the UK. Considerable reductions in overhead and labour costs would therefore be needed to make the bid comparable. BS's building time is however many months longer than the Far Eastern yards and this must have a sizeable effect on the gap.

There has been no suggestion of a wage cut to help win the order.

It is unlikely that the cost of restrictive practices (which BS are tackling) could have had a substantial effect on the price offered.

Improvement in competitiveness

Merchant productivity at BS fell during the worst of the recession but has improved over the last 2 years as the intake of orders has improved and the yards have been better loaded. But the overall level has still to surpass pre-nationalisation levels.

Throughput/employee year in merchant yards (compensated gross registered tons)

1978	15.3
1979	13.2
1980	15.0
1981	16.7



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-2-

New orders in 1981 were nearly 20% up on 1980 and two thirds were for export reflecting BS's success in revitalising their export marketing efforts. In what is now a weak world market orders so far this year have been poor.



CUNARD ACL ORDER

Q COMPONENTS OF GOVERNMENT ASSISTANCE TO BRITISH SHIPBUILDERS

A Sums approaching £600m have been provided by the present administration. The breakdown of payments made from 1979/80 to date is:-

	£m
Intervention Fund	125
Public Dividend Capital (PDC)	418
Shipbuilding Redundancy Payments Scheme	51
	<hr/>
	£594m
	<hr/>



Background Note

The whole of the £418m in PDC indicated above has been paid out to BS.

A number of nationalised industries are given access to PDC by statute. PDC is equivalent to an equity holding entitling the Government to draw a dividend. While PDC bears no interest it is envisaged that the average level of dividend payments taking good and bad years together should be at least as much as interest on loans from the National Loans Fund. However in October 1979 Mr Butler told the House that until BS was profitable it would not pay dividends.



Secretary of State for Industry

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A General brief -
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B Brief on redundancies
at Tyne Shiprepair
(prepared for Mr Hammond)

C Question and
answer brief
for PM on
Shiprepair
redundancies



CONFIDENTIAL

PS/SECRETARY OF STATE

cc PS/Minister of State
(Mr Lamont)
PS/Mr Butcher
PS/Secretary
Mr Manzie
Mr Farry

We spoke late last night about the request from No 10 for a Speaking Note for the Prime Minister's meeting with the TUC Delegation. This is attached together with a Confidential Note which advises the Prime Minister not to reveal the current assistance being contemplated from Defence Votes.

A. C. Russell
A C RUSSELL
US/SBP
RM 160 ASH
212 6296
27 July 1982



A

CONFIDENTIAL

BACKGROUND NOTE

The Secretary of State for Industry and the Secretary of State for Employment saw Lord Matthews yesterday and put to him that £4m might be available from Defence funds if the vessel was ordered in the UK and there could be guarantees about its availability both in a national emergency and for exercises two or three weeks each year.

The Cunard response was perhaps predictably that this money was nowhere near sufficient, and they asked for the possibility of soft loans by BS to be taken into account and for their compensation claims consequential upon the loss of the Atlantic Conveyor to be treated sympathetically.

Officials from DOT, DOI and MOD are meeting Cunard on Tuesday 27 July 1982 to discuss and evaluate Cunard's response. After a report-back to Ministers it is likely that there will then have to be another meeting between Lord Matthews and the Secretary of State for Industry.

The Prime Minister is strongly recommended not to reveal to the delegation the offer so far to Cunard of £4m. Now talk of £3m being offered by MOD has appeared in the Press, it would be very difficult next day to reveal that £4m has been offered. Ascending offers of money only weakens the negotiating stance of the Government which can only be maintained if the Government gives an impression that the Government is prepared to see the order go if the Cunard price cannot be reached without excessively high levels of subsidy. Moreover unless Cunard softens its present position, the Government will be faced with a difficult choice.



CONFIDENTIAL

PRIME MINISTER'S MEETING WITH
TUC DELEGATION
CUNARD/ACL ORDER

SPEAKING NOTES

I fully recognise the importance of this order to the shipbuilding industry and the industries supplying the shipbuilding industry.

RELATION TO FALKLANDS

We also very much appreciate the strength of feeling that the order has aroused because it has been linked with the loss of the Atlantic Conveyor in the Falklands. In fact however before the Falklands crisis, Cunard together with their fellow shareholders were considering a modernisation plan to replace six ships of which the Atlantic Conveyor was one, with five more efficient ships, and before the Falklands conflict, arrangements were being made to sell the Atlantic Conveyor. Nevertheless we fully recognise from a defence point of view the excellent service rendered by the Atlantic Conveyor and the importance to Defence of having available in any future emergency, vessels like the new Cunard ship.

PRICE GAP

The main difficulty in this case as Lord Matthews has said on a number of occasions is the large price gap between BS and its competitors. I am not going to comment at this stage on the size of the gap though there have been various figures suggested in the Press, but the BS price has not been the best in Europe. However as Lord Matthews has also made clear the real competition is not with Europe but with the Far East. The price gap arises after BS has taken into account Intervention Fund assistance whose purpose is to help them to meet Far Eastern competition, and the availability of the Home Credit Scheme which makes available to British shipowners



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ordering in British yards the terms which they can get if they order overseas.

GOVERNMENT TRYING TO FIND A WAY TO BRIDGE THE GAP

The Government is exploring ways of bridging the gap, and is anxious to find a solution. There are currently talks with Cunard between DOI, the sponsor Department for shipbuilding, the Department of Trade, the sponsor Department for shipping, and the Ministry of Defence. The excellence of the Atlantic Conveyor's service in the Falklands and the interest which the Ministry of Defence have in the availability of large modern merchant ships in times of national emergency, make it entirely appropriate that in this case Defence considerations should be taken fully into account. Cunard are not expected to reach a decision on the order until towards the end of this week so that there is time for the Government's initiative to be fully considered by Cunard.

WILL THE GOVERNMENT'S INITIATIVE BE SUCCESSFUL?

I cannot however forecast whether the current discussions will result in good news. There must be a limit to what the Government can pay to obtain a single order or to the amount of subsidy which can be paid to a single industry. We have paid approaching £600 million to the shipbuilding industry since coming into Office and this is proof of the Government's intention to help the industry towards viability. But as I have indicated it is the Government's hope that a way will be found to bridge the gap though I cannot guarantee the outcome of present talks. The unwelcome position is that the price gap between British Shipbuilders and its Far Eastern competitors is large.

DEFENSIVE

WILL THE PRIME MINISTER CONFIRM WHETHER £3M HAS BEEN OFFERED TO CUNARD?

I do not think that it would be right to comment on figures which appear in the Press, while discussions are going on with Cunard. When discussions have been completed I will of course give as



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full an account as possible consistent with the needs of commercial confidentiality.

WHAT ABOUT THE EEC LIMITATIONS?

EEC limits on subsidies for shipbuilding is certainly a difficulty which restricts our room for manoeuvre in bridging the gap. The Government supports the Community policy of reducing subsidies for shipbuilding. It is in the shipbuilding industries' own interests and excessive subsidisation is also harmful to shipping. We must certainly not give shipbuilding jobs a higher priority than shipping which is a very large and important industry to this country in its own right. But because of the Falklands link to this case which so clearly demonstrated the potential usefulness of ships such as this order, there are Defence considerations which also have to be taken into account in this case.

DOES THIS SIGNAL A NEW DEPARTURE IN GOVERNMENT POLICY IN ATTACHING DEFENCE CONSIDERATIONS TO ORDERS BY UK SHIPOWNERS?

There are special considerations in this case resulting from the service given by Cunard ships in the South Atlantic and this is amply demonstrated by the strength of feeling which has led to the TUC bringing a delegation to me. I do not therefore think that this case should be regarded as a precedent.

CAN COMPENSATION BE USED TO INFLUENCE THE CUNARD DECISION?

Cunard have a legal right to the compensation which has been paid on the Atlantic Conveyor and in any event it would be totally wrong to attempt to put an illegal fetter on the compensation due to them to put pressure on Cunard to "buy British".

WHAT ABOUT HEAVY SUBSIDIES ABROAD?

We certainly keep a very close watch on the practices of other European countries but as I have indicated the real competition in this case is not with Europe but with the Far East. The subsidies given to our shipbuilding industry compare very



CONFIDENTIAL

favourably with those given by other countries to their industries. While for example Sweden gives generous aid to domestic shipowners, their shipbuilding industry does not have direct production subsidies.



B
CONFIDENTIAL

PS/MINISTER OF STATE
(Mr Lamont)

cc PS/Secretary of State ✓
PS/Mr Butcher
PS/Secretary
Mr Manzie
Mr Atkinson NERO
Mr Beale

MEETING BETWEEN THE PRIME MINISTER,
MINISTER OF STATE AND DR DAVID CLARKE MP
29 JULY 1982

REDUNDANCIES AT TYNE SHIPREPAIR GROUP

I think a somewhat fuller brief is needed than that submitted
by Mr Beale in his minute of 26 July and I attach a revised
brief.

A C Russell (log)
A C RUSSELL
US/SBP
RM 160 ASH
212 6296
27 July 1982



CONFIDENTIAL

PRIME MINISTER AND MR LAMONT'S MEETING WITH DR DAVID CLARKE MP
29 JULY 1982

BACKGROUND

BS announced on 15 July contraction of their shiprepair activities affecting mainly Tyne Shiprepair Limited which currently employs 2500. The company is to be concentrated at Wallsend Dry Docks on the North Bank of the Tyne and three shiprepair establishments in Dr Clarke's constituency are to close. The total reduction of the labourforce could be up to 1,400 men. Discussions with the unions are to take place soon at yard level. (A copy of the BS Press Notice announcing the contraction is attached).

Dr Clarke can be expected to argue that because of the very high unemployment in the constituency the closures should be postponed and that in any case they are due to the reduction in BS's loss limit from £25m last year to £10m this year.

POINTS TO MAKE

- (i) Tyne Shiprepair has been lossmaking every year since Vesting Day and losses increased from £5.3m in 1980/81 to £7.9m last year. BS regard these losses as unacceptably high.
- (ii) There have been numerous causes of complaint by private sector shiprepairers that BS has been taking business at a loss and competing unfairly. Practically all these complaints on investigation were about contracts taken by the Tyne Shiprepair Group. It is difficult to judge whether a particular price is unfair because shiprepair consists of one off jobs. But the strongest evidence is the very high rate of loss at Tyne Shiprepair which no private



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company could sustain for a year.

- (iii) Keeping open the over capacity in BS shiprepair would therefore be only too likely to damage private sector shiprepair companies and this point was recognised by the Industry and Trade Select Committee's first Report on British Shipbuilders early this year who stated that "they would wish to see the clearest evidence within the next year that BS have started to carry out their Chairman's intention of closing, selling or getting rid of any company which continues to show no sign of viability. Meanwhile tendering at below cost should cease."
- (iv) This Government has endeavoured to help the shiprepair industry. In 1979 this Government extended the Home Credit Scheme for UK owners to cover conversions on ships costing over £1m. On Monday the Minister of State announced that credit on conversions for UK owners would be increased from 5 years to 8½ years.
- (v) Substantial aid is going to Tyneside, apart from the very substantial support to shipbuilding, the Government has provided £58m to Tyneside in Regional Development Grants and offers of Selective Financial Assistance - indeed the latter is estimated to have safeguarded around 9000 jobs and directly created about 3000 jobs.
- (vi) As part of our policy of concentrating assistance on areas of greatest need the Government is on 1 August reducing the coverage of assisted areas from nearly a half of the population to just over a quarter and this will naturally enhance the attractions of Special



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Development Areas such as Tyneside and South Shields.

DEFENSIVE

HOW CAN BS CONTRACT THEIR SHIPREPAIR ACTIVITIES WHEN THEY HAVE A STATUTORY DUTY TO HAVE FULL REGARD TO THE REQUIREMENTS OF NATIONAL DEFENCE IN ALL THEIR ACTIVITIES?

BS of course consulted the Government whether there are Defence implications in their restructuring plans for shiprepair but there is ample capacity in shiprepair taking account of capacity in the Royal Dockyards and indeed Chatham Dockyard has to go because there is surplus Royal Dockyard capacity.

ARE BS WILLING TO SELL THE YARDS TO PRIVATE SHIPREPAIR COMPANIES?

The Government position is that if the private sector is willing to take on any of these facilities, they would be most welcome. It is the employment which would be offered that is important and the Government would certainly be prepared to talk to British Shipbuilders if they need any persuasion to be willing to sell. However the position is that so far it is too early to tell whether the private sector is going to be seriously interested.



THURSDAY, JULY 15, 1982

BS SHIPREPAIR RESTRUCTURING

British Shipbuilders announced today that, as a result of appalling market conditions and consequential adverse financial performance in the Shiprepair sector, they are restructuring shiprepair companies on the Tyne, Tees and at Grangemouth.

British Shipbuilders has made strenuous efforts to achieve financial viability overall and its performance has improved dramatically with losses being reduced from £108 million in the first year of operation to a limit for the current year of £10 million.

Considerable success has been achieved throughout the Corporation, but shiprepair remains a difficult area. This is caused by the worldwide recession which has affected shipping, which in turn means that there is only limited, and highly competitive shiprepairing business available. This is a problem common to the industry worldwide, but particularly in Western Europe.

However, in certain areas of the UK there are additional problems such as the geographical location of some repair facilities in rivers or estuaries where the traditional shipping trade has been reduced, thus limiting the possibilities of voyage repairs, etc..

For further information:

*Benton House, 136, Sandyford Road, Newcastle upon Tyne, NE2 1QE Tel: Newcastle upon Tyne (0632) 326772
197, Knightsbridge, London SW7 1RB Tel: 01-581 1393*

Because of all these factors, the Shiprepair Division has been sustaining heavy losses, of more than £1 million per month in recent times. Clearly figures of this order threaten the objective of achieving viability, and would undermine other parts of the industry.

The action now being taken is intended to correct the situation taking into account the adjustments needed to cover the long-term effects of the changes in the market and to match the repair facilities offered by British Shipbuilders to the requirements of the shipping industry.

In this way, shiprepair will continue to provide services and facilities competitive with other parts of Western Europe and offer a long-term future for the companies and security for their employees.

Regrettably, the changes now being introduced could involve a total of more than 1,500 employees at the yards affected. Every effort will be made to minimise the effect on individuals and, in the first instance, the Corporation will so far as possible offer transfer and voluntary redundancy where appropriate.

Following meetings with the Shipbuilding Negotiating Committee of the Confederation of Shipbuilding and Engineering Unions, and discussions which will now take place at yard level, the situation will be kept under close review during the next three months.

It should be stated that British Shipbuilders firmly intends to remain in the shiprepair business, in accordance with its statutory duties under the Aircraft and Shipbuilding Industries Act 1977.

The detailed changes are :

Vosper Shiprepairs Ltd., Southampton : No change in labour force but continued urgent efforts to reduce overheads.

Falmouth Shiprepair Ltd. Falmouth : No change.

Grangemouth Dockyard Ltd. Grangemouth: Labour force to be reduced by 40 to 95.

Smith's Dock Ltd. Middlesbrough : This company is principally in shipbuilding and this will remain unchanged, but it will cease shiprepairing, and about 100 employees could be affected.

Tyne Shiprepair Ltd. : Shiprepair to be concentrated on North Bank of River Tyne in Wallsend Dry Docks. Labour force could be reduced by 1,400 together with other urgent efforts to reduce overheads.

ends.



NOTES ON SUPPLEMENTARIES

SHIPREPAIR

Q: WILL THE PRIME MINISTER INSTRUCT BS NOT TO RESTRUCTURE ITS SHIPREPAIR ACTIVITIES TAKING INTO ACCOUNT BS'S STATUTORY DUTY TO HAVE REGARD TO THE REQUIREMENTS OF NATIONAL DEFENCE IN ALL ITS ACTIVITIES?

A: No Sir. In the Government's view there are no Defence considerations which would warrant such action taking into account the capacity at the Royal Dockyards.

The Government supports the recommendation of the Industry and Trade Committee that BS should close or dispose of shiprepair interests which show no sign of becoming viable.

Q: WILL THE GOVERNMENT TAKE STEPS TO STOP UNFAIR COMPETITION FROM BS?

A: The Chairman of BS regards the heavy losses in ship repair as unacceptable, and the steps announced last week are evidence of his determination to bring BS's shiprepair activities into viability.

We do not wish to see the private sector ship repair undermined by a lossmaking public sector, and his determination to restore profitability is welcome. The heavy losses in shiprepair have been of great concern to the Government and the private sector. Around £50m has been lost on ship repair by BS since Vesting Day.

Q: DO NOT THE SHIP REPAIR REDUNDANCIES MAKE IT ALL THE MORE IMPORTANT FOR BS TO OBTAIN THE CUNARD/ACL ORDER?

A: It goes without saying that the Government would very much prefer this ship to be built in a British yard and as the Minister of State, Mr Lamont, told the House last night there are continuing talks with Cunard on how the present large gap might be closed and the Government is anxious that a way will be found.



Q: INADEQUATE HELP FOR BS?

A: BS have the advantage of the Intervention Fund, Shipbuilders Relief, and being financed by Public Dividend Capital which is unremunerated. Approaching £600m has been provided to BS through Public Dividend Capital, Intervention Fund and the Shipbuilding Redundancy Payments Scheme. There must be limits on the amount of subsidy going to a single industry, and our policy is to reduce subsidies and BSs dependence on the Exchequer. Considerable progress has been made, but the amount of shipbuilding aid still compares favourably with that given by foreign Governments to their shipyards.

Q: IS BS'S LOSS LIMIT THIS YEAR OF £10M IN DANGER OF BEING EXCEEDED?

A: BS have told us that they think they can meet it.



SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

CV JV

Nat Ind

NBPM

MUS 27/7

27 July 1982

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

Dear Douglas

I have seen your reply of 14 July to Patrick Jenkin's of 7 July, and was pleased to note your agreement to Patrick's recommendations against notification to the European Commission of the use of Soft Credit for Shipbuilding, subject to the continuation of the present ground rules. I strongly support this line.

Patrick's letter also refers to third party guarantees issued by Harland & Wolff (H&W) and British Shipbuilders (BS) to support ship financing, and concludes that these too should not be notified. I should point out that in H&W's case, we are dealing with a Companies Act firm (not a statutory corporation like BS) which, with its record of losses, is not in a position to issue credible guarantees. The role of guarantor, therefore, necessarily falls on Government - though as Patrick says, such guarantees do not form part of H&W's normal sales effort. However as the precise function of such guarantees cannot be specified in advance, I suggest that when any proposals for their use are made, the question of notification to the Commission be examined on a case by case basis.

I am copying this letter to the recipients of yours.

Yours
T
m

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

27 JUL 1982



10 DOWNING STREET

From the Private Secretary

26 July 1982

Dear Caroline,

CUNARD ORDER

The Prime Minister discussed this morning your Secretary of State's minute to her of 23 July on Cunard's order for a "replacement" for the Atlantic Conveyor. The Chancellor, the Secretary of State for Defence and the Secretary of State for Employment were also present.

The Prime Minister said that there was no question but that Cunard's order should be placed with a British shipbuilder. The question was how this should be done. There were clearly difficulties about increasing the already high level of subsidy through a payment from defence votes, as had been set out in the note by the Ministry of Defence attached to your Secretary of State's minute. Equally, any transaction between the Department of Industry and British shipbuilders was likely to generate difficulties with the European Commission. She understood that there was no possibility of artificially increasing the compensation which the Government was paying to Cunard for the loss of the Atlantic Conveyor itself.

After discussion the Prime Minister said that it was agreed that the Government should make available a further subsidy in an attempt to bridge the \$20 million gap to which your Secretary of State's minute alluded. The Defence Secretary was prepared to find up to £4 million from the agreed Defence budget to this end. The Ministry of Defence should embark on further discussions with Cunard to see what this sum would buy: for example, access by defence personnel to Cunard's new vessel whenever needed during construction, experiments on the ship during trials, and perhaps alteration of the design of the vessel to meet defence purposes. The Secretaries of State for Industry and Employment should have an early meeting with Lord Matthews, and seek to persuade Cunard themselves to find money to help to close the gap. If Cunard were unwilling to find half of the sum required they might be persuaded, on wider political grounds, to find at least £1 million. To the extent to which, after these negotiations, a gap remained, British Shipbuilders might be asked to adjust their price; the Department of Industry and the Treasury would be prepared to accept any consequential worsening of British Shipbuilders' loss position.

/ I am

SECRET

SECRET

- 2 -

I am sending copies of this letter to Peter Jenkins (HM Treasury), Nick Evans (Ministry of Defence), Barnaby Shaw (Department of Employment), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar
—

Ms. Caroline Varley,
Department of Industry.

SECRET



10 DOWNING STREET

(1)

Prime Minister

Atlantic Conveyor

Len Murray is trying this evening to get together the necessary people for a meeting with you at 11 30 tomorrow on the Atlantic Conveyor.

MCS 26/7



10 DOWNING STREET

From the Private Secretary

26 July 1982

Dear Mr Murray,

I am writing on behalf of the Prime Minister to thank you for your letter of 23 July about the Atlantic Conveyor "replacement".

As I mentioned to you on the telephone earlier this evening, the Prime Minister will be happy to see the TUC about this matter. We are trying to arrange a meeting to take place tomorrow morning.

Yours sincerely,

Michael Scholar

The Rt. Hon. Lionel Murray, O.B.E.



no
atkinson
Mr Fryham

10 DOWNING STREET

From the Private Secretary

23 July 1982

Atlantic Conveyor

I enclose a copy of a letter which the Prime Minister has received from Mr. Len Murray, in which he requests a meeting between the Prime Minister and the trade union leaders most directly concerned with the Atlantic Conveyor "replacement" issue.

As I mentioned to you on the 'phone just before lunch, I should be grateful if you would see to it that included in the advice which your Minister will be putting to the Prime Minister this evening on this matter will be advice as to whether she should agree to Mr. Murray's request for a meeting.

M. C. SCHOLAR

J.H.M. Alty, Esq.,
Department of Industry.



10 DOWNING STREET

Premier's Minute

1. Mr. Jenkins recommends sticking to the decision of E(C9) and unless Mr. Hoff is prepared to make a contribution direct to Council he does not see how the MOD money can be utilised to secure the votes for BS.
2. Agree to see Leithenay and representatives of the TUC, Economic and Steel Committee, and the Confederation of Shipbuilding and Engineering Unions, (as recommended by Mr. Jenkins).

Alan Logan

Duty Clerk

23/7/52

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030

Telegrams TRADUNIC LONDON WC1

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London,
SW1.

YOUR REFERENCE

OUR REFERENCE LM/DL/DT/RWE/JW

DEPARTMENT Secretary's

23rd July, 1982.

Dear Prime Minister,

Atlantic Conveyor

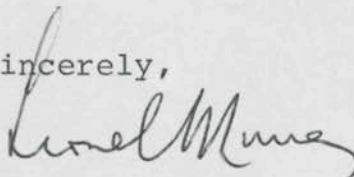
I am writing to you arising from a meeting today between a trade union delegation and Lord Matthews, Chairman of Cunard, to express to him our concern at the possibility that the replacement for the Atlantic Conveyor may be built in a foreign shipyard. The delegation included representatives of the TUC Economic and Steel Committees, and the Confederation of Shipbuilding and Engineering Unions. The broad based composition of the delegation indicates the widespread concern on this issue in the trade union Movement.

Lord Matthews assured us that the matter was not closed until the end of next week, but that at present the gap between the price quoted by British Shipbuilders, which was the cheapest in Europe, and the price quoted by a Far East shipyard could not be bridged unless Government was prepared to give some assistance.

Contact has already taken place between the interested parties at Department of Industry level, and we believe that the matter can only be resolved in a satisfactory way if we are able to discuss the matter with you directly.

In the light of the urgency involved we would welcome the opportunity to meet with you at the earliest convenient time.

Yours sincerely,



General Secretary.

Prime Minister

JF1253

PRIME MINISTER

CUNARD/ACL ORDER

*We must discuss
further. Chancellor,
P.S. G.M. chief whip.**PA*

John Nott made the interesting and constructive suggestion in Cabinet on Thursday that the Ministry of Defence might find some money as a contribution towards bridging the gap between the BS bid and the Far Eastern competitors.

flag A

2 The size of the gap is, on Cunard's figures set out in the attached Table A, over \$20m after BS have taken full account in their bid of the Intervention Fund (including Shipbuilders' Relief) and the Home Credit Scheme which together already amount to a subsidy of 30.5% of the contract price. However, while we have not established Cunard's negotiating position, it is clear from the figures set out in the attached Table B that the gap could be covered at appreciably less cost either through interest free loans over 10 years (possibly £7m, equal to 15% of contract price, would be sufficient) or possibly a grant of, say, around £5m or perhaps a little less. These devices provide a stream of income to Cunard, and leave the contract price unchanged for the purposes of tax allowances and credit. The suggested MOD contribution would have to be used to close the gap; it would not buy modifications and would have to be justified as ensuring availability of the ship for MOD purposes.

flag B

CONFIDENTIAL



3 Against this background we have very urgently examined whether an MOD contribution toward bridging the gap would help BS secure the order.

4 The attached Note by the Ministry of Defence, of whose contents John Nott is aware, concludes that a contribution purely to ensure the availability of the ship would not be justified, since on the present design of the ship, other ships would be equally or more suitable for uses in exercises and the contribution would not enhance the military value of the ship.

5 Officials have therefore considered whether John Nott's offer could be useful in the form of a transfer of £3.5m from the Defence Vote to the Department of Industry to apply a further subsidy for this order. The suggestion would be that this Department would state in Parliament that in view of the excellent service of the Atlantic Conveyor in the Falklands and taking account of the Defence considerations in having modern ships of the Cunard/ACL type available in any future conflict, a transfer was being made to apply a further subsidy for this order.

6 I have considered this suggestion carefully, but, despite its manifest political attractions, I hesitate to recommend it. Any such statement would advertise to the Commission that the

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Government is giving additional help to secure the order; the Commission and other Member States would strongly suspect that the £3.5m was merely an additional subsidy not justified by Defence considerations; they would be likely to open a procedure against the United Kingdom which would stop at least all the civil aid on this order while the Commission explored the issue further and came to a definitive view; we would find it very difficult to explain to the Commission how the additional subsidy was justified on Defence grounds.

7 If therefore we regard it as essential on political grounds to subsidise the order it is a question of attempting to do it secretly through an interest-free loan from BS to Cunard of around £7m - the solution rejected by E(EA) at their meeting on 14 July. It would involve massive subsidies of well over 40% and in view of the widespread publicity on this order we could not hope to keep it secret; this would give rise to very difficult international implications. I therefore see no grounds for changing the decision of E(EA).

8 Unless, therefore, John Nott is prepared, despite the arguments in the MOD's Note, to make a contribution direct to Cunard in one of the ways suggested in paragraph 2 above, I do not see how we can utilise MOD money to secure the order for BS.



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9 On the present timetable Cunard are due to discuss a possible Letter of Intent with the Japanese and the Koreans on Monday and Tuesday with a view to announcing placing the order towards the end of next week. I have seen Len Murray's letter to you asking you to see a delegation on this, and I would recommend you to see them. While you would not be able to quote the detailed prices, you would be able to give a general indication of the price and delivery gap, and explain the difficulties of adding to the very considerable support which we already give to shipbuilding.

Flagc

10 Copies of this letter go to members of the Cabinet, the Chief Whip and to Sir Robert Armstrong.

Caroline Verley

*BR PJ (approved by the Secretary
of State
and signed
in his absence)*
23 July 1982

Department of Industry
Ashdown House
123 Victoria Street

COMPARATIVE BIDS CUNARD/ACL LATEST PRICES

	<u>Cash</u>	<u>PDV of Cash</u>	<u>\$M</u> <u>Credit charges</u>	<u>Supervision</u>	<u>Positioning</u>	<u>Total</u> <u>PDV</u>
BS ^(a)	79.061 (£45.7m)	65.9	5.5	0.5	-	71.9
Korea	50	44.6	0.9	1.1	1.1	47.7
Japan	54	47.6	1.0	0.8	1.0	50.4
France ^(b)	69.85	65.0	3.1	0.5	-	68.6

(a) BS delivery improved to August 1984 26 months on assumption that they will gain technical cooperation from Swedes.

(b) The French prices are now out of date and the French are negotiating direct with CGM.





CONFIDENTIAL

THE GAP

Value of loan, interest free to Cunard, repayable at the end of 10 years

<u>Loan</u>	<u>Value \$M(A)</u>
£5m	16.9
£7m	23.7
£8m	27.1

Value over 10 years at outright grant

<u>Grant</u>	<u>Value \$M</u>
£3.5m	15.55
£7m	31.10

(A) Note:

Loans or grants to Cunard are invested by them to produce annual income. The value is calculated by discounting the annual income, and in the case of loans, subtracting the discounted value of the loan on repayment.

REPLACEMENT FOR THE ATLANTIC CONVEYOR

(Note by the Ministry of Defence)

We have examined further the justification for a direct contribution from Defence funds towards bridging the gap - currently assessed at £20m - between British Shipbuilders quotation and those of the overseas competitors. The approach we have considered is that, in return for our contribution, Cunard would give guarantees that the ship would be available for military use both in emergency and on a regular basis for annual exercises, with Cunard charges for such use taking account of our contribution.

2. In her present design, which incorporates an unconventional tall girder structure on the weather - deck, the ship would not be suitable without substantial modification for use by helicopters or Harriers; nor would it be possible to move heavy vehicles or aircraft from her vehicle deck to her weather-deck. Also the stern door of her vehicle deck is being designed for use with specific port facilities on the North Atlantic routes which may restrict its use elsewhere. Discussions are currently in hand with Cunard at the technical level and without commitment on either side on the practicability and additional cost of introducing modifications into the design which would render the ship more suitable for military purposes.

/ 3. The ...

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

3. The usefulness of the ship, both in emergency and peacetime exercises has been considered in the following roles, recognising that, as she is planned for commercial operations on the North Atlantic routes, she should be available in a reasonable timescale:-

- a. a general support or convoy role to carry a variety of equipment and supplies in support of NATO or out of area tasks;
- b. in support of amphibious operations in the NATO area and world-wide when an ability to operate helicopters off her deck and to move heavy vehicles and aircraft from the vehicle to the weather-deck would be essential.

4. While the ship would clearly have a use in the convoy role (a above), there is no shortage at present of more suitable ships readily available from trade both for exercises and, as the Falklands operation demonstrated, in emergency by requisition or charter; and it would be difficult to justify paying money in advance to earmark a specific ship for this purpose.

5. For the amphibious task (b above), the ship would not be suitable in her presently planned configuration and other more suitable ships are available and more readily adaptable. The relatively minor modifications currently under discussion would improve her potential

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military usefulness but not to a degree significantly greater than other ships likely to be available. If, however, more radical modifications to her design were feasible and acceptable to Cunard in relation to her commercial tasks, notably to provide limited space for helicopter operations and access between that and the vehicle deck, her guaranteed availability for exercises would make her a valuable reserve defence asset.

6. The cost of any modifications to make the ship a more useful naval asset (they might cost between £1m and £2m) would be additional to the present estimated cost of the ship. A defence contribution to cover the cost would not therefore in itself help to close the gap between the BS and foreign tenders. There is no technical or security reason which would require the modified design to be built in this country.

7. The issue therefore is whether a contribution to help bridge the gap in return for guarantees of availability would be justified against the military value of the ship as described above. Our conclusions are that in emergency the ship would be available, on her planned employment, for requisition and no contribution would be justifiable. In peacetime unless radical modifications were made to her (beyond those currently under discussion) other ships would be equally or more suitable for use in exercises and again

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a contribution would not be justifiable. Even if radical modifications were feasible and acceptable, the possibilities of negotiating regular availability for exercise use would need to be explored with the firm before a case could be made for paying an advance premium by way of an immediate contribution to bridging the gap. Since any such contribution would be part compensation to Cunard to offset the additional cost of building in this country, it would not provide an assured basis for negotiating less than commercial rates for peacetime charter.



10 DOWNING STREET

THE PRIME MINISTER

21 July 1982

Ships
*file C: DoZ
NIO
Trade.*
210
Dear Mr. Suis,

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 wholly 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 considering a modernisation plan which would replace six ships of which Atlantic Conveyor was one, with five more efficient ships. This order would have been placed even without the loss of the Atlantic Conveyor in the Falklands.

Naturally, like you, I prefer a situation where British shipowners buy British ships, where both the price and delivery dates can compete with those in the rest of the world. But I cannot instruct any UK shipowner to "buy British" and I have no powers to do so. British shipping itself is a very important
/industry and of

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industry and of great value to our country. Unless it can buy where it chooses, it will lose its competitive edge.

We are of course doing everything we can to help British shipbuilders to obtain the order. We appreciate very much the benefit shipbuilding orders bring to the steel industry. The Government provides substantial help to the shipbuilding industry through the Intervention Fund and the general financing of British shipbuilders. This support 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.

I am sure 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.

W. Sirs, Esq., J.P.

Yours sincerely
Raymond Shilton

Lamont

(D.T.)

19th July 1982

John Corrie has sent on to me your letter to him dated 28th June, together with the letter from his constituent, Mr Keith Murray.

I have also seen Ian Gow's letter to you dated 6th May, and a copy of your reply to him dated 28th May.

Have you yet heard from British Ship Builders, as envisaged in the 2nd sentence of the 2nd paragraph of your letter to John Corrie?

You will understand my concern about this.

Norman Lamont Esq MP

PART 3 ends:-

16.7.82

PART 4 begins:-

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~~21~~.7.82

