

PREM 19/1325

PART 5

SECRET

CONFIDENTIAL FILE

Shipping Policy  
Austro. & Pickersgill  
Shipbuilding Pay

NATIONALISED  
INDUSTRIES

PE 1: MAY 1979

PE 5: JULY 1973

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>21.7.83</del>		<del>4.1.84</del>					
<del>29.7.83</del>		<del>16.1.84</del>					
<del>4.8.83</del>		<del>24.1.84</del>					
<del>14.9.83</del>		<del>25.1.84</del>					
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Material used by  
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PART 5 ends:-

AT to J. Milne, STUC 26/1/84

PART 6 begins:-

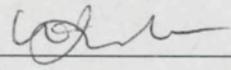
J. Milne to PM 27.1.84.

TO BE RETAINED AS TOP ENCLOSURE

## Cabinet / Cabinet Committee Documents

Reference	Date
E (NI) (83) 7 <sup>th</sup> Meeting, Item 1	28/07/1983
E (NI) (83) 7 <sup>th</sup> Meeting	28/07/1983
E (NI) (83) 16	20/07/1983
E (NI) (83) 15	07/07/1983

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 30/09/2013

**PREM Records Team**

## Published Papers

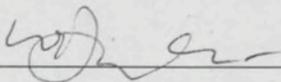
The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

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House of Commons HANSARD, 24 January 1984, column 781 to 827: Scott Lithgow (Britoil Contract)

House of Commons HANSARD, 22 January 1983, column 781 to 827: Scott Lithgow Shipyard

House of Commons HANSARD, 28 July 1983, column 1355 to 1360: British Shipbuilders

Signed  Date 30/09/2013

**PREM Records Team**



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10 DOWNING STREET

*From the Private Secretary*

26 January 1984

Your teletmessage of 24 January crossed with my letter of the same date. I have consulted the Prime Minister and she has confirmed that she does wish the meeting to be confined to the STUC. The Prime Minister has done her best to meet the STUC when a request is made on an issue of this kind but she believes that representations from the wider community should be made to the Secretary of State. Most of those you mention have seen Mr. Younger and the Prime Minister herself has written to many of the people involved.

ANDREW TURNBULL

James Milne, Esq.

Co

Sir William Lithgow  
Telephone Langbank (0475-54) 692  
(after hours Langbank 389)  
Telex 779248

Andrew Turnbull Esq.,  
Private Secretary,  
10, Downing Street,  
LONDON SW1.

Dear Mr. Turnbull,

I take the liberty of enclosing a copy of a letter that appeared in yesterday's Financial Times, since it would appear to illustrate one of the fundamental reasons for a lack of confidence in the Government's judgement in industrial matters relating to this area.

Yours sincerely,

William Lithgow

Prime Minister

Sir William Lithgow has <sup>②</sup>  
asked for you to be drawn to your attention  
I will reply.

P.O. Box 2,

AT 3111

Port Glasgow,  
Renfrewshire.

PA14 5JH

25th January, 1984.

MS

F.T. 26/1/84

## Letters to the Editor

### Why Scott Lithgow deserves to live

From Mr A. R. Belch

Sir, — I was managing director of Lithgows Ltd, the Clyde-side shipbuilders, from 1964 until I became managing director of the Scott Lithgow Group on its formation in 1969. I retired from the shipbuilding scene four years ago to develop other business interests. I believe that, once you have left an organisation it is not helpful to interfere in its activities and problems. However, the letter from Sir Robert Atkinson, former chairman of British Shipbuilders, in the Financial Times (January 24) prompts me to break my silence.

First, as a Clyde shipbuilder of some 40 years' standing, I must agree with the case made by Sir Robert for the retention of the Scott Lithgow facility on the Lower Clyde. To dissipate the great amount of specialist knowledge which has now been built up within the group would be a profligate disregard of a national asset of great value.

However, he prefaces his appeal for Scott Lithgow to be "taken out of BS and sold to a consortium" with a number of immoderate and ill-informed statements which, were they to be taken seriously by a potential buyer, could well destroy any chance of Scott Lithgow being of commercial interest to anyone. I am particularly concerned that he should condemn the workforce in such sweeping terms and, by implication, the people of the Lower Reaches community where I have lived and worked for most of my life.

Speaking from considerable experience in the industrial relations scene on the Lower Clyde I can state categorically that the men I knew and worked with do not deserve the all-embracing character assassination so continuously handed out by Sir Robert. They may have regrettably shown an unfortunate degree of intransigence in recent times, but in my time they were not resistant to change (they signed the first UK flexibility agreement in 1965); they were not particularly militant (they signed the first no-strike agreement known in British shipyards); and their performance over the years testifies that they were far from being inefficient.

Nor had the group the "endemic habit of late delivery" with which Sir Robert labels it. For the records, my memory tells me that the first penalty for late delivery paid by Scott Lithgow was the nominal sum of about £50,000 and that in 1979. It is true that the group delivered vessels on occasion beyond the dates in the original

contracts but these deliveries were always agreed mutually between owner and builder and their "lateness" caused by specification changes or other factors beyond the control of the builders.

I was amazed that Sir Robert widened his attack to embrace customers as well—"over exacting," "difficult," etc, are hardly epithets one applies to people on whose goodwill one must depend for future orders. He is certainly referring to customers with whom I am unfamiliar. Suffice it to say that I cannot think of a single Scott Lithgow customer during my time who would not happily have returned to build with the group. One customer alone built as many as 30 ships with us since the war, the last being delivered in 1979.

One is tempted to wonder how, if all Sir Robert's strictures are justified, Scotts managed to prosper in the business of shipbuilding since 1711 and Lithgows since 1874. Certainly there were good years and bad years, as in most businesses and particularly in shipbuilding, but the facts are that if Sir Robert were to break down his figure of about £200m loss in the past 10 years, he would find that, in the four years prior to nationalisation, the Scott Lithgow Group has an accumulated total loss of only £2.4m over that four-year period after making full provision with our auditors for future anticipated losses. If a £5m compensation, which I believe was paid to Scott Lithgow long after nationalisation for losses arising during that period from faulty submarine electric cables supplied by outside contractors, is taken into account, the £2.4m loss is turned into profit. I suggest there could not be much wrong with an organisation which could perform to that level in a rapidly contracting market whilst having to tackle long-term fixed price contracts in times of rampant inflation.

In the period subsequent to nationalisation, whilst I was still at the helm, there were admittedly substantially greater losses but a significant proportion of these was caused by non-recurring factors such as the costly business of closing down yards and of rectifying major technical problems created by suppliers.

There is, in fact, ample evidence to show that the Scott Lithgow Group, with which I was privileged to be associated for so many years, was at one time rightly regarded as a major shipbuilding success, not only on the River Clyde but also within the whole UK shipbuilding scene. While the UCS saga was developing on the Upper Clyde we were quietly going about our business. At one time we employed 9,000 people in six shipyards (each with its own particular specialist products); we recruited about 400 boys into our training centre each year; we had full order books and delivered ships to the entire satisfaction of their owners; we had excellent industrial relations and survived through the difficult shipbuilding days of the 1960s and 1970s, when many shipyards were going to the wall, until the company was nationalised in 1977. Up to that point we had not received any financial aid from Government except that provided to all shipbuilders under agreed international arrangements.

Finally, I would only express the hope that something will emerge to ensure that the excellent facilities and considerable expertise, which lie within Scott Lithgow, will in some way be saved for the nation and that thereby a decent livelihood will be ensured for the thousands of good people who live in the communities of Greenock and Port Glasgow.

A. R. Belch,  
9 Claimont Gardens,  
Glasgow

## A future for Scott Lithgow?

From Sir Robert Atkinson.

Sir,—Scott Lithgow was given a great opportunity to be a world leading force in onshore work. It has failed for two reasons. It has been unable to convert from shipbuilding to onshore work quickly enough and within reasonable cost. The entrenched attitude of the workforce, their resistance to change, their inefficiency, and their militancy have all contributed to that but there are other causes.

The long history of problems, the endemic habit of late delivery and financial losses have actually caused customers to ask not to deal with that yard. The effect of loss of customer confidence in any business is the equivalent of a terminal illness.

Finally a loss of £74m last year (totalling about £200m in 10 years) could not be tolerated any longer by Government let alone by a private company. Hence my report to the Secretary of State for Industry in April 1983 that Scott Lithgow was not viable in its present form. I named a potential buyer in the private sector with whom discussions had been held.

The Prime Minister was very moderate when she described the performance of Scott Lithgow as abysmal. Scott Lithgow has let the nation down, it has let BS down, it has let itself down and it has let the unions down.

Scott Lithgow's failure to deliver rigs on time and at the right price is also due to other causes: the knock-on effect of previous late ship deliveries; an incredibly difficult complexity of products — submarines, warships, merchant ships and oilrigs; a site several miles long which is, and always was, hopelessly inefficient and unworkable; exacting and difficult customers e.g. unreasonable contract terms, incredible delays in drawings approval, lack of design drawings initially, over-exacting customer inspection, failure of sub-contractors (many foreign and very often specified by customer) have all contributed to delay.

Scott Lithgow faced an extremely difficult task in the time allowed and of its three rigs, two are probably the most difficult ever built in the world. The difficulties of converting from shipbuilding to offshore has broken Swedish, German, American and other builders. There is no doubt that Scott Lithgow has made much progress within the last 18 months and is now near success. After all the first rig was a national engineering feat. It is a great engineering production and Scott Lithgow and Scotland deserve credit for that design and manufacture. Is it not true

that a Finnish yard was more than 18 months late with an equivalent rig?

The cancellation of the Britoil rig should not be allowed to finalise. It will cause yard closure, probably £200m or more in cancellation and associated charges: it will damage the Scottish economy and decimate the Lower Clyde. It will also damage Britain's reputation and manufacturing ability, cause the loss of 5,000 jobs and the skills that go with it. Our country cannot afford that.

Britoil has bent backwards to help British Shipbuilders and it is to be commended for its patience and goodwill, as is BP. The rig must be renegotiated before it is snapped up from abroad. Floating rigs are the most difficult to manufacture. In my view that national capability must be retained.

Scott Lithgow will never achieve acceptable efficiency so long as it has the present IR structure and wage systems. The high skills required by rig manufacture and the time factor, demand and pay, high wages and salaries. They also demand employment terms and conditions not workable in a normal shipyard. Offshore manufacture cannot tolerate restrictive practices and endless negotiations.

Scott Lithgow then should be taken out of BS, sold to a consortium and its debts written off. The labour force should be strengthened and offered entirely new employment terms. If they do not accept them a new labour force should be engaged.

The Scottish banks have never had their fair share of BS banking. So a Scottish private consortium should be formed to take over floating rig manufacture (not Scott Lithgow) and the yard separated to a smaller site employing about 1,000. Such plans were produced a year ago. The facilities at Greenock are of the best in the world with the natural and deep water facilities bringing additional bonus.

The consortium should be funded by the amount it is going to cost to cancel and close which is about £200m or more. In the national interest HMG should give a three year guarantee.

The permanent union officers should press their local misguided and inexperienced colleagues to acknowledge the situation and a sincere appeal to that fair minded Secretary of State, Mr George Younger, will do more to attract a private buyer than anything else and without which there will be no future.

(Sir) Robert Atkinson,  
Southwood House,  
Ichen Abbas,  
Winchester, Hants.

F.T  
24/1/84

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Prime Minister. ①  
Content I wrote in these terms.  
AT 25/11

GR. Pl type  
as letter to  
Mr Milne

AT

DRAFT LETTER TO J. MILNE, GENERAL SECRETARY, STUC

Your telemessage of 24 January crossed with my letter of the same date. I have consulted the Prime Minister and she has confirmed that she does wish the meeting to be confined to the STUC. The Prime Minister <sup>has done</sup> ~~does~~ her best to meet the STUC when a request is made on an issue of this kind but she believes that representations from the wider community should be made to the Secretary of State. Most of those you mention have seen Mr. Younger and the Prime Minister herself has written to many of the people involved.

mf

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CC: MASTER SET

10 DOWNING STREET

From the Private Secretary

25 January 1984

SCOTT LITHGOW

The Prime Minister held a meeting today to discuss the issues raised in your Secretary of State's minute of 17 January. Also present were the Secretaries of State for Energy, the Environment, Trade and Industry, the Chief Secretary and Mr. Redwood.

The Secretary of State for Scotland said that the closure of Scott Lithgow would have a very concentrated impact on the Inverclyde community, raising male unemployment there possibly to 35 per cent. He fully endorsed the Government line that the decision about the rig contract and closure of the yard should be left to the commercial judgement of Britoil and British Shipbuilders. He also believed that there was more understanding of the wisdom of this position in Scotland than was often apparent. Where the Government was vulnerable to criticism was in appearing to do nothing, either to promote the emergence of the successor enterprise to complete the rig, or to mitigate the impact of the closure on the area.

The loss of confidence in Scott Lithgow was now such that there was no prospect that Britoil would re-negotiate the contract with them nor was there any prospect that other orders would be placed. The best prospect for the completion of the rig was the emergence of a new operator, making a totally fresh start. Such an enterprise might take on up to 800 of the existing employees.

The Secretary of State for Energy noted that over the next 10 years the market for off-shore equipment would be very large. With its accumulated experience, the UK ought to be able to win a substantial part of this market for itself. It would be very damaging to the reputation of the UK off-shore industry if this rig were replaced by one produced overseas. He therefore favoured the search for a new operator to complete the rig. He warned, however, that the worst outcome of all would be a second attempt which ended in failure because work practices and management had failed to adapt. Before going down this road, therefore, it was important to take a judgement on whether improved performance would be secured.

/In discussion,

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In discussion, it was argued that Scott Lithgow should be liquidated, leaving a new operator to acquire such assets as it required from British Shipbuilders. The latter, together with the Government, would bear the losses to date and the closure costs. The new operator would not take on the employment contracts of existing workers but would recruit such men as were required on new terms. It was noted that a new enterprise would be unlikely to qualify for significant sums of Regional Development Grant or selective financial assistance. The aim of the new operator should be not merely to finish the rig as a one off operation but in the process to establish itself for new orders. This might provide an opening for a company which wished to break into this market relatively cheaply. It was noted that there were two possible operators, Trafalgar House, who would probably need to go into partnership with a Swedish firm in order to acquire the necessary technical expertise; and Howard Doris who are 50 per cent French owned.

Summing up this part of the discussion, the Prime Minister said that the Department of Trade and Industry, as the sponsor Department, should ask Mr. Day to conduct negotiations with possible new operators to complete the rig. These negotiations should be on the understanding that, while the Government would bear the losses incurred to date and the costs of closure, there was no commitment to provide further resources. It was important for the Government to avoid giving the impression that it was mounting a rescue operation. For this reason no inter-Departmental group should be established though the Department of Trade and Industry should, of course, work closely with the Scottish Office.

The discussion then turned to the measures which were needed to re-generate the Inverclyde area. The Secretary of State for Scotland explained that the Scott Lithgow site accounted for a very large part of the flat land in the area. Substantial clearance and site renovation would be needed to enable new activities to develop. He agreed with the Chief Secretary that no commitment should be made at this stage to a figure for the money to be devoted to this. He proposed, in consultation with the SDA, to assess what work needed to be done, what resources were already available, and what additional resources might be required. He would bring proposals back to colleagues in due course. This was agreed.

In his minute of 17 January, the Secretary of State for Scotland had suggested the establishment of an Enterprise Zone in Greenock/Port Glasgow. The Chief Secretary argued that there were already 25 Enterprise Zones and their effectiveness in generating new jobs needed to be reviewed. The Government should avoid working itself into the position where the establishment of an Enterprise Zone became an almost automatic response to any major closure. It was agreed that this proposal would not be pursued.

I am copying this letter to Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office), Richard Mottram (Ministry of Defence), John Alty (Mr. Lamont's Office, DTI) and to Richard Hatfield (Cabinet Office).

John Graham, Esq.,  
Scottish Office.

ANDREW TURNBULL

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ADPM

AT

28/1

PRIME MINISTERSCOTT LITHGOW

The Secretary of State for Scotland sent me a copy of his minute of 17th January to you setting out his proposals for a recovery initiative in the Inverclyde area.

2. I do not believe my Department can substantially assist in these proposals. As you know, our outstanding work with Scott Lithgow consists of the Seabed Operations Vessel HMS Challenger which is due for completion in August. Our preference has always been that if possible this vessel should be completed at Scott Lithgow and the British Shipbuilders proposed run-down plan suggests this will be effected satisfactorily. Looking ahead, if a 'phoenix' yard could offer some capacity for MOD work this would be helpful in a number of ways, including stimulating competition, but we do not believe it would be essential to our future warship construction or refit programme.

WJeb

Ministry of Defence  
24th January 1984



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PRIME MINISTER

SCOTT LITHGOW

Flag A You have a meeting tomorrow at 1600 hours to discuss the next steps on Scott Lithgow. The origin of this meeting is Mr. Younger's minute of 17 January. He suggested action in two areas:

- i) to promote a successor operation at the Scott Lithgow yard
- ii) to alleviate the impact of redundancies on the Inverclyde area.

Flag B Since then the Chief Secretary has written arguing against making any commitment of resources in support of ii) above until the needs of the area have been more fully assessed. Although he appears to support i) I think we can take it that this is on the assumption that no further Government money is put up.

Flag C The Secretary of State for Energy has written to support a "Phoenix" operation as he attaches particular importance to maintaining an offshore capability.

Other papers are:

- Flag D - a further minute of 23 January from Mr. Younger on the "Phoenix" operation
- Flag E - DTI's minutes of 28 October and 24 January on costs of cancellation
- Flag F - Mr. Younger's speech in the debate today
- Flag G - A Policy Unit note

I suggest you organise the discussion around the two main subject areas above. On i) the questions to be answered are:

- what is the state of play on possible bidders?
- on what terms

- on what terms might they take on completion of the rig?
- is Government assistance likely to be sought and if so how much?
- how should negotiations be handled to ensure, as the Policy Unit note recommends, that discussions are conducted at arms length from the Government so that it is not manoeuvred into the position of being seen as the direct arbiter of Scott Lithgow's fate?
- is an inter-departmental group of officials the right way to proceed? (As this subject falls between Scottish Office, DTI and Energy there might be merits in this but there is a danger that such a group could conflict with the objective of staying at arms length). *See Mr Gregson's minute at Flag H recommending Scottish Office be in the lead.*
- what action is needed in relation to BS's remaining operations on the Clyde?

On the remedial measures, you and the Secretary of State for Scotland are on record as promising that the Government will do what it can, using SDA resources, to mitigate the immediate impact. Enough needs to be done to fulfil this pledge. As yet no commitments have been entered into.

The questions which need to be answered are:

- how should the needs of the area be assessed?
- what are the options?
- what existing resources are available?
- what are the costs of going further?

Again agreement needs to be reached on the mechanics for handling these issues.

AT

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cc Mr Redwood

G

MR. TURNBULL

SCOTT LITHGOW

Third party interest in acquiring Scott Lithgow is still fluid. The attached note - part brief, part status report - may therefore prove to be of ephemeral value.

We should beware of making expensive gestures of salvation and stick to commercial rationale for appraising whatever proposals emerge. If ever there were a case for not bailing out a public sector disaster, this is it.

Just as importantly, Government should not be manoeuvred into a position in which it is seen as the direct arbiter of Scott Lithgow's fate. Discussions must be conducted at arm's length from Government, between BS and the third party or parties. Another bidder in active competition with Trafalgar House would be ideal.

R.J.

ROBERT YOUNG  
24 January 1984

CONFIDENTIAL

SCOTT LITHGOW

1. The Current Position

The Scott Lithgow yard is open and is working on a nearly complete rig for BP and a Seabed Operation Vessel (SOV) for MoD. Work on the rig for Britoil is all but at a standstill following cancellation of the contract by Britoil last December.

Nearly 300 men have already been laid off, and 800 redundancies will be declared within the next week or so. These job losses are inevitable, given that the yard is to all intents and purposes nearly out of work. No new work is currently being sought.

BS have taken Britoil to court over the cancellation - not because BS wish to reverse the cancellation, but in order to reduce the penalties to which Scott Lithgow is liable. BS maintain that in some (minor) respects Britoil did not honour their side of the contract.

2. Third Party Interest in Scott Lithgow

We have spoken, off the record, to DTI and to Trafalgar House (the latter coincidentally rather than on purpose).

DTI say that Trafalgar House (TH) have expressed serious interest in acquiring Scott Lithgow. The nature of their interest is still apparently fluid, but to the extent that TH have indicated conditions, they require (a) a debt free balance sheet, (b) BS to pay for all necessary redundancies, (c) transfer of the assets of the yard very cheaply or free, and (d) assistance, if necessary, to renegotiate the Britoil contract.

The TH view is slightly different. They claim to have been approached by Government (Department not stated) and admit that they could be persuaded to take an interest if the terms were right. They feel that they might be able to sustain 1200 of the 4,000 plus jobs remaining at Scott Lithgow, but would want Government cover for redundancies and for future losses on the Britoil contract, which TH assess at £70 million. Presumably TH are in negotiating mode!

TH have a clutch of subsidiaries - the largest of them is Redpath Dorman Long - involved in heavy fabrication and offshore engineering, as well as in offshore exploration. Undoubtedly there is synergy of sorts between Scott Lithgow and the spread of current TH interests.

/DTI observe

DTI observe that TH are particularly keen to take Scott Lithgow with the Britoil rig because it would provide them with immediate, direct experience of work in which they would like to expand. TH have said that they tried for RGC Offshore before Scott Lithgow, but lost patience with Ivory and Sime in the process. (IS own an option.)

Finally, this morning's "Scotsman" reports interest not only from Trafalgar House, but also from a small Swedish yard, Goteverken Arendal of Gothenburg, and from an "unnamed British company.... with experience in shipbuilding, ship repair and the offshore sector". Difficult to think of a big name here.

### 3. Financial Considerations

3.1 Some preliminary costings for the closure of Scott Lithgow if Britoil cancelled its rig contract appear in Cecil Parkinson's letter of September 14th 1983 to George Younger. The cash cost of cancellation in 1983/84 was put at £106m, broken down as follows:

Instalment due but not paid	£44m
Repayment of previous payments and interest	£45m
Damages	£ 7m
'Extra' redundancy costs	£10m
	<hr/>
	£106m
	<hr/>

The term 'extra' redundancy costs meant the costs of pulling forward into 1983/4 some 2000 redundancies which would have occurred later anyway. The approximate severance cost used was thus £5000 per employee.

In the following analysis, we deal separately with redundancy costs, asset write offs, cancellation costs associated with the Britoil rig, and other possible expenditures thereafter.

### 3.2 Redundancy

BS will bear the cost of the 800 inevitable redundancies to be announced immediately, at an estimated cost of £4m.

That will leave roughly 3500 employees in the yard, of whom TH might require 1200. The cash cost of severing the difference of 2300 employees would be in the region of £11m.

/The peak

The peak level of redundancy payments available under the state Shipbuilding Redundancy Payments Scheme (SRPS) is very high by private sector standards, especially for a company such as Scott Lithgow, which is technically bust. Even the average is on the high side.

We agree therefore that a third party buyer should not be saddled with the cost of shedding surplus Scott Lithgow employees. It is highly desirable that the buyer and seller agree on the number of employees to be retained so that the taxpayer does not fund the severance cost of employees who are re-engaged shortly afterwards. Once a level of retention has been agreed, any further severance costs should ideally be for the account of the new buyer.

### 3.3 Asset Write Off

We do not know what the book value of Scott Lithgow's assets is, since neither the published accounts nor the corporate plan break down the balance sheet to yard level. We assume, however, that once the large items of work in progress (ie BP rig, Britoil rig and SOV) are taken out of the calculation, the book value of remaining fixed and current assets must be low - certainly below £10m. (The whole of BS had a book value of only £220m in the 1982/3 accounts).

Since the book value is almost certainly very small (and the market value nil) and since asset write off is not a cash cost to Government, we agree that the assets of Scott Lithgow could be given free of charge to a third party.

### 3.4 Cancellation Costs of Britoil Rig

Some £96m is at stake, of which £45m has been paid and could be repayable. An instalment of £44m payable to Scott Lithgow last December was not paid, and possible penalties payable by Scott Lithgow are assessed at £7m.

The negotiating aim of BS must be to hang on to the £45m paid, and to avoid payment of £7m damages. In effect, therefore, the maximum amount within which Britoil and a third party buyer might negotiate should be £44m. We suggest that Government should firstly make it plain that it is not committed to financial aid towards a solution. If it wanted, for non commercial reasons, to assist in a solution it should not venture more than it would cost to sever the remaining 1200 jobs at Scott Lithgow, ie roughly £6million.

3.5 Downstream Costs

Mr. Younger is already arguing for the injection of an additional £30/35m of funds for the SDA. This is premature. There are other uncertainties about the near term future of industrial Scotland - Bathgate, Ravenscraig and other shipyards at veryleast - and we must not be drawn into a costly precedent.

In a wider context, we should oppose any non commercial basis for settling the future of Scott Lithgow, and Mr Younger's suggestion of an inter departmental team to "encourage" a solution. We succeeded in persuading Mr. Younger to leaving BS and Britoil to reach a commercial solution to the troublesome contract, and we have no reason to change tack now. To do so would undermine Graham Day's efforts to put the rest of BS under commercial pressure, and would send the wrong signals to other parts of the public manufacturing sector.

R.Y.

ROBERT YOUNG  
24 January 1984

  
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MR TURNBULL

SCOTT LITHGOW

We have nothing to add to the papers which the Prime Minister will already have before her at her informal meeting on Scott Lithgow, except on one point of mechanics which may come up.

2. In his minute of 23 January the Secretary of State for Scotland has reported that Mr Day, Chairman of British Shipbuilders is willing to try and find a new operator to take over part of the Scott Lithgow yard and complete the rig for Britoil. In addition he has proposed that an inter-departmental group of officials, drawn from the Scottish Office, DTI, Energy and the Treasury, should be set up to work with Mr Day as necessary on this matter.

3. Departments appear to be agreed that this would be a sensible way to proceed. There are however two possible contenders for the lead department - the Scottish Office or the DTI. It ought to be one or the other. This is not one of those cases where it would make sense to put a neutral third party such as the Cabinet Office in the lead; it is a narrowly defined executive task requiring some detailed work on the ground. My own view is that it would be better to put the Scottish Office in the lead. They have the major interest in achieving a positive outcome. Moreover, as Mr Younger points out, it is the Scottish Office who is most likely to have to find the money for any financial sweetener. It seems unlikely that the DTI would strongly object. It would not however be unreasonable to have the DTI in the lead, if it could be more amicably settled on that basis. The important point is that the two Secretaries of State should agree quickly which of the two departments should lead.

*PLG*

P L GREGSON

24 January 1984

CONFIDENTIAL

General Secretary  
Scottish T.U.C  
16 Woodlands Terr  
Glasgow G3

*a 80  
DTI*

24 January 1984

TELEMESSAGE  
RT HON MARGARET THATCHER MP  
PRIME MINISTER  
10 DOWNING STREET  
LONDON  
SW1

*b25  
cf pms*

THE STUC REQUESTED A MEETING ON SCOTT LITHGOW IN ORDER THAT YOU MIGHT UNDERSTAND OUR VIEWS ON THE SUBJECT, AND THE VIEWS OF OTHER SECTIONS OF THE SCOTTISH COMMUNITY. WE ALSO LOOK FORWARD TO HEARING YOUR VIEWS AND HOPE THAT ON THE BASIS OF RECENT DIALOGUE A SOLUTION MIGHT BE FOUND. WE ARE DEEPLY CONCERNED AT THE RESTRICTIONS YOUR OFFICE HAS PLACED ON THE MEETING SINCE ORIGINALLY AGREEING TO IT. WE HOPE YOU WILL RECONSIDER AND MEET US AS ORIGINALLY AGREED IN ORDER TO HEAR OUR CASE. WE FURTHER HOPE THAT YOU WILL AGREE TO OUR DELEGATION INCLUDING REPRESENTATIVES OF THE CHURCHES, LOCAL AUTHORITIES, AND THE SCOTTISH COUNCIL DEVELOPMENT AND INDUSTRY. I LOOK FORWARD TO YOUR RESPONSE.

MR JAMES MILNE.

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Blind copy SO  
DTI

## 10 DOWNING STREET

*From the Private Secretary*

24 January, 1984

You wrote to the Prime Minister on 19 January seeking, on behalf of the General Council of the Scottish TUC, a priority meeting with the Prime Minister. She is willing to hold such a meeting and can do so at 0930 hrs on Tuesday, 31 January. In agreeing to such a meeting the Prime Minister has asked me to make clear that there can be no question of the Government over-riding the commercial decisions of British Shipbuilders, nor of the Government providing additional finance to fund losses by Scott Lithgow.

When I spoke to your office today, I was told that you were inviting a number of people from the Churches and local authorities. Your letter did not mention such a wider meeting and implied that it was the General Council of the STUC that was seeking it. The Prime Minister accepted your proposal on this understanding and therefore wishes the meeting to be with the STUC alone.

(Andrew Turnbull)

J. Milne, Esq.



E

E CCL/NO

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

CONFIDENTIAL

TELEPHONE DIRECT LINE 01-215 5186  
SWITCHBOARD 01-215 7877

JU496

From the Minister of State for Industry

24 January 1984

NORMAN LAMONT MP

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
London SW1

*Dear Peter*

BRITOil CONTRACT AT SCOTT LITHGOW

*and request it revised*

I last wrote to you on 24<sup>8</sup> October about this contract. Since then, as you know, events have moved on considerably. BS have refused to renegotiate. On 19 December Britoil issued a cancellation notice, which BS is contesting. We have come under considerable pressure to intervene, and a further (supply) debate will take place on Tuesday 24 January.

2 Meanwhile, I have been keeping in close touch with British Shipbuilders as events have unfolded. They have recently revised their calculations of the relative costs of cancelling and continuing with this contract. The new figures are substantially different from the old.

3 Originally, as recorded in my letter of 24 October, BS considered that whilst on face value - i.e without taking probabilities into account - the figures might be interpreted as meaning cancellation would be rather more expensive than continuation, nevertheless there was a substantial counter-balancing risk of failing to meet new time and quality constraints, and therefore they did not wish to renegotiate. Having since taken extensive legal advice on the contractual terms, BS are now confident that their liability on cancellation is significantly less than originally feared. Their new estimate is that over the whole contract period cancellation would cost £64m, continuation (assuming completion in mid 1986), £80m.

4 These new figures strongly support BS' earlier strategic view that they should not renegotiate. They also mean that should cancellation go ahead and all the costs fall into this financial year, the additional cash need should work out at about £84m, against our original estimate of £106m, though we still cannot be precise at this stage.

5 I am copying this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger and Sir Robert Armstrong.

*Norman*

NORMAN LAMONT



24 JAN 1984



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER

23 January 1984

SCOTT LITHGOW

We are to meet with colleagues on Wednesday 25 January to discuss in particular two aspects of the situation at Scott Lithgow - the possibility of a new operator coming in to take over part of the yard and to complete the rig; and measures to assist the economy in the Inverclyde area. Since I first ministered I have had a meeting with the Chairman of Britoil, and my officials have met the Chairman of British Shipbuilders.

It is clear to me that during the summer and autumn of 1983 Britoil completely lost confidence in British Shipbuilders' (BS) ability to finish the rig to the standards required and in time to meet Britoil's needs, and that BS did not respond to Britoil's efforts to get the contract back on the right lines. Britoil's view is that the contract was mismanaged from the beginning, and they have told me that in their view 80% of the responsibility for the failure lies with management, and only 20% with the workforce. Britoil would still like to get this rig finished, since their preference is for a British built rig, and because it represents the best chance of meeting their (revised) drilling timetable. But Mr Day sees no future in trying to renegotiate the contract. There is therefore no way forward on the basis of the present relationship between the two companies. Both are however willing to support a new operator who would take over part of the yard and finish the rig for Britoil, if the right conditions for this exist or can be created.

It will not be easy to get this going. Britoil's timetable is tight (they want to be in a position by the end of February to decide whether or not to start afresh); they want to be assured of the standing and credibility of any new management; their financial conditions will not be easy to satisfy; that part of the workforce which is locally recruited will have to sign up for new conditions they have hitherto not committed themselves to. Mr Day is however prepared to take the lead in finding a new operator, and I think he would wish to be helpful over the financial conditions for a transfer of the existing assets at Port Glasgow.

My proposal is that we should encourage Mr Day to take the lead in this, and that we should set up an inter-departmental group of officials to work with him as necessary. This group would be drawn from the Scottish Office, DTI, Energy and the Treasury. Its purpose would be to examine, and report as necessary to Ministers on, issues arising from the proposed disposal by BS of part or the whole of the Scott Lithgow yards. We shall have to decide who should take the lead; the Scottish Office has a substantial interest in the outcome, and will be involved in questions relating to selective financial assistance for the new operator, if that should arise.

I am sending copies of this minute to Norman Tebbit, Peter Rees, Peter Walker, Patrick Jenkin and Sir Robert Armstrong.

G.Y.

G.Y.

23 JAN 1954

11 17  
10 17  
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Second section of faint, mostly illegible text in the middle of the page.

Third section of faint, mostly illegible text at the bottom of the page.

SCOTT LITHGOW

cc RY

I suggest the following general line if Scott Lithgow is raised at Questions:

Very much appreciate the effects on the community if Scott Lithgow were closed. Unemployment is a human tragedy and a waste of resources. The Secretary of State for Scotland will be considering how Government resources and the Scottish Development Agency can be used to help the area.

But it is customers who create jobs, not Governments. The Government has already poured vast amounts of taxpayer's money into Scott Lithgow - £165 million since nationalisation in 1977. It cannot carry on doing so.

As the Rt Hon Member for Manchester, Gorton said in 1977 "it would be foolish to bail out yards that are not able to meet pricing and delivery criteria".

DF

23 January 1984

Official Report cols 1654 - 1655

In response to the Question: '.. Can the Minister assure us that the moneys will be allocated to yards with proven records of meeting delivery dates and with established standards of productivity and profitability?..' from Mr Biffen,

Mr Kaufman replied

'... The assistance will go to yards very much according to the criteria that the hon Gentleman suggested. It would be foolish to bail out yards that are not able to meet pricing and delivery criteria, which would make sure that the money allocated was spent in a sensible way...'

Other Kaufman quotes

'...My immediate concern is to secure orders in order to promote the increased competitiveness needed to secure a future for the industry. These measures to alleviate the industrial and social effects of the world shipbuilding crisis are important and must form part of a longer-term strategy of modernisation and rationalisation following upon public ownership'. Col 1654

'...Shipbuilding industries all over the world from Japan to Sweden are accepting the inevitability of contraction, and Britain cannot be insulated from this world trend...'. Col 1652-3

MR TOWNSEND

Speech

Mr Speaker, it is right that the House should debate the present difficult position at Scott Lithgow following the cancellation of the Britoil contract as this is a matter which is of great concern to everyone who has at heart the well being of the Scottish economy and future employment prospects in the Inverclyde area. As Secretary of State for Scotland I am and always have been deeply concerned about both of these issues and the implications of cancellation for the future of Scott Lithgow. This is a very serious situation by any standard, but it is also a most unusual one. This is not, as so many others have been, a crisis that has come upon us by surprise. On the contrary, everyone concerned saw it coming long ago and tremendous efforts have been made to avert it.

As long ago as December 1982, Britoil (the customers) had grave doubts as to whether the contract would be completed. They made this clear to Scott Lithgow and all through 1983 intensive discussions continued right up to Chairman level, between the two parties in an effort to sort out the difficulties.

I and my colleagues in Government were also extremely concerned and we continued to approve the funding by British Shipbuilders of the huge and growing losses on the contract in order to give all concerned every chance to get the contract back on the rails. At the same time repeated and well publicised warnings were given in the hope that those concerned at every level in Scott Lithgow would understand the crisis and respond.

As long ago as December 1981, I wrote to the Chairman of British Shipbuilders expressing my concern about the appalling absenteeism record at that time at Scott Lithgow and last April I warned, at a meeting with local representatives and shop stewards from the yard, that there was a danger of the yard closing if it could not improve its performance. That warning was not one which was directed solely at the workforce. It was intended to be heard and heeded by all who had an interest in the future of the yard - owners, managers and workers. Nor was I, by any means the only one who gave such warnings from Spring 1983 onwards. The then Chairman of British Shipbuilders, Sir Robert Atkinson spoke out with such bluntness that he was criticised by some for being unnecessarily frank. My hon friends the Members for Edinburgh Central and Kingston Upon Thames as well as my Rt Hon Friends the former and present Secretaries of State for Industry and more recently my hon friend the Minister for Industry and

some of which, such as the BP tanker "British Spirit", were very far from being on the frontier of new technology -has also been very poor. For example, the loss of £26.6 million on the "British Spirit" actually exceeded the contract price of £23.4 million. During the past ten years, the yard has lost nearly £260 million and since nationalisation in 1977 losses have totalled £165 million.

The Opposition demand that, notwithstanding this past record, the Government should intervene in the contractual - and now legal - dispute between British Shipbuilders and Britoil and secure the renegotiation of the contract for Hull 2002. Even if the issue was only one of finance, the Government would find it very difficult to justify further support for a yard which has already been such a heavy burden on the taxpayer. But there are other considerations, not least the attitude of the parties to the contract. The Chairman of British Shipbuilders has made it clear that renegotiation would be prejudicial to the interests of British Shipbuilders as a whole. For their part, Britoil made clear as long ago as December 1982 their serious doubts about the rate of progress on the contract. Their present position is that although ready to consider any specific proposals for completion of the rig they have lost confidence in the commitment of Scott Lithgow to do this on satisfactory terms. The Government are accordingly being asked to bring not one, but two unwilling parties to the negotiating table. I have heard the argument that despite this, the Government have a responsibility because they own British Shipbuilders and have a significant stake - albeit a minority one - in Britoil, to knock the heads of the two parties together. I reject this suggestion entirely. The future of the contract is a matter between the two parties in which it would be quite wrong for Ministers to intervene.

A further argument is that the Government should intervene because it is claimed it would be cheaper to renegotiate the contract rather than to cancel it. Various estimates purporting to support this conclusion have been referred to in the press. I am not sure how these estimates have been arrived at, but they clearly show a wide variation. Professor Pickett of Strathclyde University has produced figures claiming to show that the 'renegotiation option' would be cheaper by around £21 million, while I understand that the Engineers' and Management Association has put the difference at nearly £90 million. This wide fluctuation simply confirms the fact of the matter which is that the 'renegotiation option' cannot be estimated with any degree of precision. This is

because the calculation contains a number of unquantifiable items, not least the length of time it would take to actually complete the rig and the knock-on effect on potential renegotiation of other British Shipbuilders contracts. But British Shipbuilders, which is the organisation best placed to estimate the cost of renegotiation has assured me that, even without taking into account this potential knock-on effect, acceptance of cancellation is the significantly cheaper and commercially justified option.

But let us for a moment speculate on what would have happened if the Government had been foolish enough to take the advice of the hon Members opposite and had intervened and secured the renegotiation of the Britoil contract. For a start this would have been to fall into the trap of encouraging the belief that the Government are always there to bail out a nationalised industry from difficulties in which it finds itself as a result of commercial realities. That is the seemingly easy course which has led to so many of the problems with which we are having to grapple today. It is not a course which seemed to commend itself to the party opposite when they were in Government.

*pages 5*  
*ngv*  
The then Minister of State at the Department of Industry, the Rt Hon Member for Gorton said in a debate on 24 February 1977 on the Shipbuilding Industry (Assistance) Bill "It would be foolish to bail out yards that are not able to meet pricing and delivery criteria". This could not be more apt to the present circumstances at Scott Lithgow. In this case it would have meant accepting a completely open-ended financial commitment - virtually writing a blank cheque - as we would have no idea how long the contract would have taken to complete or whether the yard would ever have won a further order. It is clear from my discussions with oil companies that the yard has lost customer confidence so completely that the prospects of it obtaining any further orders are remote to say the least. In short, it is clear that intervention would simply have led to the need for still further support by the taxpayer while merely postponing the inevitable.

No, intervention in the commercial and legal issues currently in dispute between British Shipbuilders and Britoil is not the course. The role of Government is not to try to change the commercial realities. We must concentrate our efforts on two tasks. The first and most immediate is that of finding a new operator who can make a new start at Port Glasgow. This task will not be easy, particularly in view of the past history of Scott Lithgow, but it has been achieved elsewhere on the Clyde and I and my colleagues are doing all that we can to assist the Chairman of British Shipbuilders in his efforts to find a private buyer. It is a task on which the Chairman of British<sup>4</sup> Shipbuilders is already embarked [and

which British Shipbuilders as owners of the assets are best placed to undertake]. My colleagues and I are doing all that we can to assist. We are agreed on the importance of maintaining our skills and the capacity of the yard in the offshore business, but it must be a profit making operation. This is going to require a major change in attitudes, in methods of work and management. Obviously the attitude of the customer for the partly completed rig is immensely important to any take-over operation. It is too early to speculate on the outcome or the attitude of particular companies which might be interested in taking over the Scott Lithgow facilities and completing the Britoil contract, but we recognise the urgency of the situation.

But I recognise that even if a new operator can be found there will still be significant job losses. This brings me to our second task. As I have made clear, I am therefore ready to do all that I can to help the local Inverclyde economy. I have already had discussion with the Chairman and Chief Executive of the Scottish Development Agency. In response to an invitation from Inverclyde District Council, the Scottish Development Agency has already with my support commissioned consultants to examine the prospects for the area and, in the light of their report, I shall discuss with local interests what remedial action might be taken.

The Government are not prepared to intervene in the dispute between British Shipbuilders and Britoil over the future of the contract for Hull 2002, but we do accept a responsibility to help in the effort to find a new operator for the yard and to assist the regeneration of the local Inverclyde economy. Irrespective of that, however, as long as hope remains of putting this rig into production again under a new owner or new management or both, we will certainly do all we can to facilitate such a deal.

The Government believes that it is very important for the UK to maintain and develop further our capability in the offshore construction industry, and we certainly do not believe that, as a country with a large presence of the world's highest technology industries, there can be any question of any basic deficiency in our skills which prevents us from doing so.

I, and my colleagues in Government will, as I say, be doing all in our power to assist, but there is a vital element of help which we need from all concerned on

the Lower Clyde. We need a clear and unequivocal commitment from all who wish to form the workforce for this industry in the future. We need an open agreement for new work practices, for flexible shift working and total cooperation with what will have to be a new and dynamic management team. We need too an assurance of no disputes in any circumstances without full use of agreed procedures, and a joint commitment to the customer by all concerned that the work will be delivered on time.

Only in this way can the essential confidence of customers both present and future be rebuilt. I am sure that the vast majority of those who work in the Lower Clyde would be only too willing to give such undertakings, and that they undoubtedly have the skills when properly used, to out-perform anyone in the world in this field.



ms

10 DOWNING STREET

From the Principal Private Secretary

Sir William Lletgow phoned, first to apologise for having to send this telex. A letter was impossible on account of the blizzard. Secondly, he made the point that there is a lack of advance factories in the Greenock / Port Glasgow area. Thirdly, he protested strongly about Mr Younger's remark that the Koreans had a better record "taking people from the Paddy fields to work in the shipyards". Finally he has repeated his view that Scott Lletgow is a failure of management under nationalisation rather than of working people and the trade unions.

I will draft a reply, to be sent after the debate and the meeting of Ministers on Wednesday.

AT  
23/1

FOLLOWING TEXT TO BE DELIVERED TO MR. ANDREW TURNBULL, NO.10 DOWNING STREET, LONDON SW1:-

REFERENCE OUR CONVERSATION, HAVE CHECKED ON VERBATIM TRANSCRIPT OF MR. YOUNGER - 'GOOD MORNING SCOTLAND', 10TH JANUARY, WHEN HE ACCUSED SCOTT LITHGOW WORKFORCE OF MAKING NO EFFECTIVE EFFORT ON THE BRIT OIL RIG AND SAID:-

'THEY HAVE PRODUCED A RIG OF THIS SORT IN KOREA ON TIME, AND I THINK WITHIN BUDGET, CERTAINLY ON TIME WITH PEOPLE WHO WERE MORE OR LESS TAKEN OFF THE PADDY FIELDS TO DO THE WORK.'

THIS IS INCONSISTENT WITH FACT.

BILL LITHGOW

779248 LITHGL G.

887073 BOFS G

779248 LITHGL G

AS ARRANGED WITH MR. ANDREW TURNBULL, HERewith THE TEXT OF A PRIVATE AND CONFIDENTIAL LETTER WHICH IT HAS PROVED IMPOSSIBLE TO DELIVER BY HAND DUE TO THE BLIZZARD HERE. -

PRIVATE AND CONFIDENTIAL

THE RT. HON. MARGARET THATCHER MP  
PRIME MINISTER,  
NO. 10 DOWNING STREET,  
LONDON SW1.

23RD JANUARY, 1984.

DEAR PRIME MINISTER,

THANK YOU FOR YOUR LETTER OF 23RD DECEMBER. I UNDERSTAND MUCH OF YOUR GOVERNMENT'S DIFFICULTY WITH BRITISH SHIPBUILDERS' TRAGIC FAILURE TO MAKE A SUCCESS OF SCOTT LITHGOW. IT IS INTENSELY HURTFUL TO REFLECT UPON WHAT MIGHT HAVE BEEN ACHIEVED UNDER PRIVATE ENTERPRISE WITH SUCH MASSIVE FUNDS. WHEN OTHERS THROUGHOUT EUROPE FAILED, SCOTT'S AND LITHGOWS WITH LIMITED FINANCE, SUCCEEDED THROUGH TAUT MANAGEMENT, A SOLID WORKFORCE, PROGRESSIVE TECHNOLOGY AND MARKETING, AND SATISFIED CUSTOMERS.

A HOME GROWN COMMUNITY ON THE END OF A PENINSULA, GREENOCK AND PORT GLASGOW DESPERATELY NEED RECONSTRUCTION OF CORE INDUSTRY BASED ON STRENGTHS, AND WITHOUT THE FATAL WEAKNESSES THAT REMOTE CONTROL AND INEPT INTERVENTION HAVE CREATED. WE MUST NOT THROW AWAY THE OPPORTUNITIES OF A 21ST CENTURY OCEAN ENGINEERING INDUSTRY FOR WHICH WE HAVE THE TECHNOLOGY, SKILLS AND FACILITIES, SIMPLY BECAUSE OF THE DISASTER OF NATIONALISATION. THE BRIT OIL PROBLEM HAD CLEARLY TO BE LEFT TO COOK, THOUGH WE HEAR SCOTT LITHGOW IS NOW BEING HANKED AROUND. CHARACTERISTICALLY SWIRES AND LITHGOWS, THE FORMER OWNERS, HAVE NOT BEEN APPROACHED, DESPITE OUR OIL RELATED INTERESTS. TO PUT IT MILDLY, THE DEPARTMENT OF INDUSTRY'S ADVERSARY ATTITUDE TO US IS INCOMPREHENSIBLE. LITHGOWS HAVE NO MISGIVINGS ABOUT THE QUALITY OF WORKPEOPLE IN THE DISTRICT: WE HAVE BROUGHT OVER 200 NEW TECHNOLOGY JOBS TO GREENOCK IN THE LAST TWO YEARS AND WILL DOUBLE THAT WHEN WE CAN GET A SUITABLE FACTORY.

I HOPE THAT THERE CAN BE A CLEAN BREAK AND PRIVATE ENTERPRISE CAN MAKE A FRESH START AND PICK UP THE PIECES. SCOTTISH OFFICE MUST GET CRACKING IN AN AREA WITHOUT EVEN A WORTHWHILE ADVANCE FACTORY. INDUSTRIAL RECONSTRUCTION, WITH BOTH MARITIME AND OTHER INDUSTRY, WOULD BE GREATLY FACILITATED BY THE IMMEDIATE TRANSFER OF SCOTT LITHGOWS' LAND AND BUILDINGS TO THE SCOTTISH DEVELOPMENT AGENCY: THEY CAN THEN LEASE THEM BACK TO B.S. OR TO WHOEVER CAN MAKE THE BEST USE OF THEM. SCOTT LITHGOW OWN THE ONLY REAL RESERVE OF FLAT LAND FOR MODERN FACTORIES. BRITISH SHIPBUILDERS' FERGUSONS STILL HAVE TO BUILD SOPHISTICATED SMALL VESSELS ON OPEN BERTHS, HAIL, RAIN OR SNOW. I RESCUED CAMPBELTOWN SHIPYARD 13 YEARS AGO ON THE BASIS OF H.I.D.B. BUYING IT AND LEASING IT ON. SINCE THEN, THIS COVERED YARD HAS NEVER MADE A LOSS NOR TASTED THE POISONED CHALICE OF THE INTERVENTION FUND. A COMBINATION OF STATE AND PRIVATE INTEREST DEFUSED POLITICAL AND UNION TENSION.

I HAD HOPED WE MIGHT BE SPARED THE ODIOUS COMPARISONS AND  
ILL INFORMED COMMENT OF MINISTERS. THE SECRETARY OF STATE FOR  
SCOTLAND SEEMS TO HAVE CAUGHT THIS ENGLISH DISEASE. IT DOES NOT HEL

WE PEOPLE WHO ARE TRYING TO REBUILD A LOCAL ECONOMY. IT IS LESS THA

FAIR TO THOSE WHO ARE TRYING TO WIN BACK THE SUPPORT OF ORDINARY  
PEOPLE TO THE CONSERVATIVE CAUSE IN SCOTLAND. FORT GLASGOW HAD THE  
FIRST EVER UNIONIST PROVOST IN SCOTLAND NOT SO LONG AGO. WE SENT A  
CONSERVATIVE TO EUROPE WHILST THE GOOD BRAVE ANNA MCCURLEY HAS WON  
BACK WEST RENFREWSHIRE. SCOTT LITHGOW WAS SCOTLAND'S LARGEST HOME  
GROWN MANUFACTURING ENTERPRISE. IT DERIVED NO PRACTICAL BENEFIT  
FROM PUBLIC ASSISTANCE UNLIKE INCOMING MULTI-NATIONALS. IT WAS NO  
TRANSPLANT LIKE ROOTES OR B.M.C. IT WAS SET TO TAKE THE LEAD IN  
OCEAN ENGINEERING UNTIL IMPENDING NATIONALISATION WITH A THREE YEAR  
BRAWL IN PARLIAMENT THREW THAT STRATEGY INTO DISARRAY. LOCAL PEOPLE  
KNOW HOW A HORRIFIC TECHNICAL BLUNDER BY M.O.D.(N) LEFT SCOTT LITHGO

W  
IN THE MIDST OF AN INTERNATIONAL ROW AND WITH PRODUCTION THROWN INTO  
CHAOS. THE MATTER WAS SETTLED OUT OF COURT LAST YEAR. NO-ONE HAD  
THE COURTESY TO TELL THE FORMER SHAREHOLDERS WHO HAVE BEEN DERIDED B

Y  
THE D.O.I. FOR THE LOSSES INVOLVED. NO-ONE WAS CALLED TO ACCOUNT.  
IN FACT THE CONTROLLER OF THE NAVY WAS MADE CHAIRMAN OF BRITISH  
SHIPBUILDERS. TODAY SCOTT LITHGOW ARE BEING PUBLICLY BLAMED FOR THE  
DELAYS IN THE DELIVERY OF 'CHALLENGER'. WHO IS PREPARED TO STAND UP  
AND SAY THAT THIS IS BECAUSE BATH HAS BLUNDERED AGAIN? THE D.O.I.  
POSTED ONE OF IT'S OWN MEN AS CHIEF EXECUTIVE OF BRITISH  
SHIPBUILDERS. HIS CONDUCT WAS DEPLORABLE AND SCOTT LITHGOW WAS LEFT  
WITH THE BUTT END OF ANOTHER DEBACLE. MR. BELCH, WHO YOU MET IN OUR  
HOUSE, NOW CHAIRS A LEADING NORWEGIAN DRILLING COMPANY.

BRITISH SHIPBUILDERS' SLOPPY POLICIES, AND THE CRAZY WAY THEY  
SET ABOUT RECONSTITUTING MY PLANS FOR OCEAN ENGINEERING, ONLY  
ACCELERATED THE LOSS OF VITAL MEN. A DEMORALISED AND UNHAPPY TEAM  
WERE CASTIGATED IN A MOST OBJECTIONAL MANNER BY THE LAST CHAIRMAN O  
F

BRITISH SHIPBUILDERS. SCOTT LITHGOW'S NEW CHIEF EXECUTIVE WHO HAD AN  
EXCEPTIONAL RECORD IN KINCAIDS. ANOTHER FORMER GREENOCK SUCCESS  
STORY, WAS PUBLICLY HUMILIATED. MEN NEED TO BE LIFTED UP BY AN  
APPEAL TO THEIR PRIDE NOT CRUSHED BY BEING TOLD THEY ARE NO USE. IS  
IT LITTLE WONDER THAT AFTER SUCH A WRETCHED RECORD OF PUBLIC  
STEWARDSHIP SOME OF US FEEL MUTINOUS AND 'WRONG UNS' HAVE HAD A BALL

INDUSTRY DOES NOT LIVE BY CASH ALONE. THE REAL CAPITAL OF THE  
DISTRICT HAS BEEN BURIED BY THE GARBAGE OF THIS ADVENTURE IN  
SOCIALISM AND ORWELLIAN DOUBLE-THINK

IF WE ARE TO MAKE A SUCCESS OF INDUSTRY AND NEW TECHNOLOGY IN  
THIS LAND, THEN SURELY WE MUST GET OUR ACT TOGETHER. IT IS  
EXPERIENCE OF THE FRONT LINE, NOT THE CYNICISM BORN OF SOME OFFICE  
ARMCHAIR, THAT SHOULD DIRECT OUR EFFORTS. I HOPE YOU CAN DIRECT YOU  
R  
MINISTERS ACCORDINGLY.

MY RESPECTS AND GOOD WISHES  
YOURS VERY SINCERELY,  
BILL LITHGOW .  
779248 LITHGL G  
887073 BOFS G

CCAO

2 pp's

Sir William Lithgow  
Telephone Langbank (0475-54) 692  
(after hours Langbank 389)  
Telex 779248

P.O. Box 2,  
Port Glasgow,  
Renfrewshire.  
PA14 5JH

PRIVATE & CONFIDENTIAL

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister,  
No.10 Downing Street,  
LONDON SW1.

125 of pps

23rd January, 1984.

Dear Prime Minister,

Thank you for your letter of 23rd December. I understand much of your Government's difficulty with British Shipbuilders' tragic failure to make a success of Scott Lithgow. It is intensely hurtful to reflect upon what might have been achieved under private enterprise with such massive funds. When others throughout Europe failed, Scott's and Lithgows with limited finances, succeeded through taut management, a solid workforce, progressive technology and marketing, and satisfied customers.

A home grown community on the end of a peninsula, Greenock and Port Glasgow desperately need reconstruction of core industry based on strengths, and without the fatal weaknesses that remote control and inept intervention have created. We must not throw away the opportunities of a 21st century ocean engineering industry for which we have the technology, skills and facilities, simply because of the disaster of Nationalisation. The Britoil problem had clearly to be left to cook, though we hear Scott Lithgow is now being hawked around; characteristically Swires and Lithgows, the former owners, have not been approached, despite our oil relate interests! To put it mildly, the Department of Industry's adversary attitude to us is incomprehensible. Lithgows have no misgivings about the quality of workpeople in the district; we have brought over 200 new technology jobs to Greenock in the last two years and will double that when we can get a suitable factory.

I hope there can be a clean break and private enterprise can make a fresh start and pick up the pieces. Scottish Office must get cracking in an area without even a worthwhile advance factory. Industrial reconstruction, with both maritime and other industry, would be greatly facilitated by the immediate transfer of Scott Lithgows' land and buildings to the Scottish Development Agency; they can then lease them back to B.S. or to whoever can make the best use of them. Scott Lithgow own the only real reserve of flat land for modern factories. British Shipbuilders' Fergusons still have to build sophisticated small vessels on open berths, hail, rain or snow. I rescued Campbeltown Shipyard 13 years ago on the basis of H.I.D.B. buying it and leasing it on. Since then, this covered yard has never made a loss nor tasted the poisoned chalice of the Intervention Fund; a combination of State and Private interest defused political and union tension.

I had hoped we might be spared the odious comparisons and ill informed comment of Ministers; the Secretary of State for Scotland seems to have caught this English disease. It does not help we people who are trying to rebuild a local economy. It is less than fair to those who are trying to win back the support of ordinary people to the Conservative cause in Scotland. Port Glasgow had the first ever Unionist Provost in Scotland not so long ago. We sent a Conservative to Europe whilst the good brave Anna McCurley has won back West Renfrewshire. Scott Lithgow was Scotland's largest home grown manufacturing enterprise. It derived no practical benefit from public assistance, unlike incoming multi-nationals. It was no transplant like Rootes or B.M.C. It was set to take the lead in ocean engineering until impending Nationalisation with a three year brawl in Parliament threw that strategy into disarray. Local people know how a horrific technical blunder by M.O.D.(N) left Scott Lithgow in the midst of an international row and with production thrown into chaos. The matter was settled out of court last year; no-one had the courtesy to tell the former shareholders who have been derided by the D.o.I. for the losses involved. No-one was called to account; in fact the Controller of the Navy was made Chairman of British Shipbuilders. Today Scott Lithgow are being publicly blamed for the delays in the delivery of "Challenger". Who is prepared to stand up and say that this is because Bath has blundered again? The D.o.I. posted one of it's own men as Chief Executive of British Shipbuilders. His conduct was deplorable and Scott Lithgow was left with the butt end of another debacle. Mr. Belch, who you met in our house, now chairs a leading Norwegian drilling company.

British Shipbuilders' sloppy policies, and the crazy way they set about reconstituting my plans for ocean engineering, only accelerated the loss of vital men. A demoralised and unhappy team were castigated in a most objectional manner by the last Chairman of British Shipbuilders; Scott Lithgow's new Chief Executive who had an exceptional record in Kincaids, another former Greenock success story, was publicly humiliated. Men need to be lifted up by an appeal to their pride not crushed by being told they are no use. Is it little wonder that after such a wretched record of public stewardship some of us feel mutinous and "wrong uns" have had a ball. Industry does not live by cash alone; the real capital of the district has been buried by the garbage of this adventure in Socialism and Orwellian double-think.

If we are to make a success of industry and new technology in this land, then surely we must get our act together. It is experience of the front line, not the cynicism born of some office armchair, that should direct our efforts. I hope you can direct your Ministers accordingly.

*My respects and good wishes  
Yours very sincerely  
Bill Lithgow*

BRIEF FOR THE OPPOSITION DAY DEBATE  
ON SCOTT LITHGOW

Tuesday 24th JANUARY 1984  
House of Commons

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## Scott Lithgow

In 1982-3 losses and provisions on Scott Lithgow's orders totalled an unprecedented £73 million, and as a result of this the Clydeside yard's troubles received considerable publicity. The losses were due largely to late delivery and delays on current work. Sir Robert Atkinson, the then Chairman of British Shipbuilders, dubbed the workforce '5000 deaf men' and said no one could remember when the yard had last delivered an order on time.

The controversy surrounding the yard has centred throughout on the £88 million rig that Britoil ordered from Scott Lithgow in December 1981. On 19th December 1983 Britoil issued a notice cancelling this order, and Scott Lithgow then issued a writ challenging the validity of the cancellation. The full details of the rig and Britoil's notice of cancellation were given in the House by Mr Norman Lamont in a statement on 20th December 1983. The text of this was as follows:

'In December 1981 Scott Lithgow contracted with Britoil to produce a semi-submersible drilling rig. The contract value was £88.6 million, and the contractual delivery date was April 1984. Construction began in February 1982. By March 1983, British Shipbuilders had provided for losses of £43.8 million on the rig. The then Chairman, Sir Robert Atkinson, warned that performance and losses at Scott Lithgow were unacceptable.

'On 31st October 1983, Britoil was sufficiently concerned about progress on the contract to issue through its agents a notice requiring Scott Lithgow to demonstrate within 30 days that the rig could be completed by February 1985. Scott Lithgow responded to Britoil by arguing that despite the undoubted delays on the contract hitherto, completion would be possible within the terms of the contract. However, on 19th December a notice of cancellation was served on behalf of Britoil on the basis that Scott Lithgow had not demonstrated that the rig could be delivered by February 1985. British Shipbuilders has responded to the cancellation notice by disputing its validity and I understand that it has now instituted legal proceedings.

'While British Shipbuilders and Britoil are considering the next step in this negotiation, all work on the rig will be stopped. British Shipbuilders is instructing suppliers to suspend work on contracts relating to the rig. Up to 2,000 of the work force are involved in construction of the rig. The remainder of the work force - about 2,250 men - is employed on two other contracts: one for BP and one for the Ministry of Defence. It is British Shipbuilders' intention that these contracts will continue.

'Unemployment in this area is already high and a further increase of the scale implied by the cancellation of this order would be a matter of deep concern to the Government. My Right hon Friend the Secretary of State for Scotland this morning met the Scottish TUC and told it that he would, of course, seek to do all that he can to alleviate the very real distress that would be caused in the local community. However, the offshore industry is highly competitive and customers insist upon contractors - including management and work force - delivering on quality, price and time. Regrettably, Scott Lithgow so far appears to have been unable to satisfy Britoil that it can fulfil its obligations on this contract' (Hansard, Col 281-2).

### Recent Developments

Following the cancellation notice work on the Britoil rig stopped.

However, immediate lay-offs were avoided because the yard moved to three-shift working on the BP rig (see Mr Lamont's statement above). It has recently been wrongly reported in the press that BS have called for 800 redundancies to take affect immediately. The correct position is that:

- 1) The agreement to three-shift working on the BP rig has now lapsed and the yard's management is seeking union agreement to continue it. If agreement is reached some 300 men will be laid off immediately; if agreement is not reached then about 800 will be laid off immediately.
- 2) BS will also be issuing, towards the end of January, a statutory redundancy notice covering 800 redundancies. BS will be seeking voluntary redundancies.
- 3) As work is completed at the yard further redundancies will be called for, and as a result the work force is expected to fall to 500-700 men by the end of March.

The workers meet tomorrow (20th January) to consider their response to these redundancies. The Shipbuilding Negotiating Committee of the Confederation of Shipbuilding and Engineering Unions met on Wednesday 18th January, under the chairmanship of Mr Jim Murray, and decided to give full support to 'any decision' the workers may take.

The BS Chairman Mr Day, is reported as saying that BS has no money to reopen negotiations on the cancelled contract and that the yard's only hope is its sale to another company. This would be possible under the provisions of The British Shipbuilders Act 1983 (see p 6 below)

The dispute between Scott Lithgow and Britoil is a commercial matter between the two parties and is now sub judice. The Government has made clear that it is not prepared to use public money to fund further losses at Scott Lithgow, but it is prepared to consider sound commercial proposals for the future of the yard. It appreciates the affect that cancellation of the contract and possible closure of the yard would have on the local community. If there are large scale redundancies the Government will urgently consider how the Scottish Development Agency may help the area.

### Greenock

Scott Lithgow falls within the Greenock Travel-to-Work Area where unemployment is 16.8 per cent (November 1982). The area's other traditional employer is the sugar industry, but employment in this has declined in recent years. Greenock however is on the periphery of Silicon Glen. National Semiconductors presently employ 1600 people at their integrated circuit plant, and expect to take on 300 more this year. IBM manufacture their extremely successful micro-computer in Greenock, where they employ 2,500 people. On January 11th the Scottish Development Agency announced that it had commissioned a study by the international management consultants Coopers & Lybrand Associates of ways to improve the industrial development of the Inverclyde area, of which Greenock is a part.

### British Shipbuilders

#### Background

British Shipbuilders was established under the Aircraft and Ship-

building 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 1950s and 1960s. In the UK the slide has been especially marked. Our share of the world market fell from nearly 40 per cent in 1926 to 20 per cent in 1956 and just 3 per cent today. 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 approximately £1000 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.

The Government has made clear its commitment to the industry, but it has also emphasised that the ultimate size and shape of the industry must depend on its competitiveness. Productivity is still below pre-nationalisation levels, so there is considerable room for improvement.

In 1982-3 British Shipbuilders lost £117.5 million, an increase of 600 per cent and far in excess of its agreed loss limit.

#### The BS Survival Plan & the threatened national strike

Towards the end of last year the BS management offered its workforce, who have not had a pay rise since April 1982, a £7 increase in return for acceptance of its 'survival plan'. This involves a sweeping reform of restrictive practices and demarcation lines within the yards and aims to improve productivity to the level of BS competitors in Northern Europe. It would not increase productivity to the levels attained in Far Eastern yards. The unions rejected the plan, and threatened to strike on January 6th if BS insisted on implementing it. In the event the unions withdrew the strike threat at the last minute, when it became clear that BS were not prepared to back down and that some commercial yards might be closed permanently if the strike went ahead. In return BS offered to backdate the £7 pay rise to November 2nd 1983, provided the yards voted to accept the plan; and the management also accepted a minor union amendment which allows the working party set up to discuss the survival plan to also discuss the unions counter-proposals. These talks are now in progress.

#### 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 March 1983, 91 million tonnes of shipping were lying idle up from 55.3 million tonnes nine months earlier. Competition from foreign, mainly Far Eastern, yards is intense. British Shipbuilders current order book at the end of November 1983 was estimated at approximately £2500 million, which included £1800 million for warships and £500 million for merchant shipping. Sir Robert Atkinson, the former Chairman of BS, warned before his retirement that the corporation is 'fighting for it's life'. His successor is Mr Graham Day, one-time head of Cammell Laird. He is now preparing a new corporate plan: British Shipbuilders now faces severe competition in world markets at a time when world shipbuilding capacity is reckoned to be 40 per cent greater than is required.

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. The Navy has recently announced that it will be ordering up to 12 of the new Type 23 frigates, designed by Yarrow, over the next decade at a cost of approximately £100 million each. The first orders are expected this year. In its 1983 Manifesto the Government said it would return parts of BS to the private sector and in July Mr Norman Lamont confirmed that the warship yards, which made a profit of £54.75 million in 1982-3, are indeed the most likely candidate, (Hansard, 28th July 1983, W/A Col. 576-7).

Merchant Yards: This market is very depressed and expected to remain so. The Merchant Yards are the division most affected by foreign competition and the situation is bad in all the large yards. Sunderland Shipbuilders, however, has recently won an order from the Stena Line of Sweden for two sophisticated diving support vessels with an option for a third.

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. Activity in the North Sea, however, is picking up.

Ship Repairing: This slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year. This division has now been put up for sale. Redheads, on the Tyne has been bought by its work force, whom BS had made redundant. Tyne Ship Repair is being sold to a management buy-out which will save the 850 jobs involved. This has now been reluctantly accepted by the unions. Grangemouth Dockyards has also been bought by two of its former managers and reopened for business.

The Times on 5th January conducted a survey of BS' major yards:

'Austin & Pickersgill, Sunderland, 1,800 workers. Three bulk carriers and three cargo vessels, no delays for delivery next year.

'Govan Shipbuilders, Clydeside, 2,500 workers. Building two bulk carriers for Norwegian firm, due to be delivered late spring. 'We are running out of work, and need new contracts'.

'Smith's Dock, Cleveland. 1,700 workers. Ahead of schedule on two roll-on, roll-off ships for Brazil, the second due in May next year.

'Sunderland Shipbuilders, 2,200 workers in three yards. On time with three years work on five bulk carriers and two diving support ships.

'Appledore Shipbuilders, North Devon, 750 workers. New order for cargo vessel for Iceland due next year.

'Ferguson-Ailsa, 800 workers at Troon and Port Glasgow. 'We need orders within three months. Six tugs for Kenya and the new Arran car ferry are on time, but will be finished by the end of this year'.

'Hall Russell, Aberdeen, 800 workers. 'We are urgently seeking work now'. They are building four patrol craft, on time, for Hongkong.

'Cleland Shipbuilders, Clydeside, Henry Robb, Leith, and Goole Shipbuilders, Humber. No fresh orders and face 'serious risk of closure'.

'Swan Hunter the composite four-yard Tyneside company, with 7,500 workers, are building the new Ark Royal aircraft carrier, a Type 42 destroyer, and two Type 22 frigates due by late 1987.

'Three merchant vessels are underway, including a container ship for Cunard, which is delayed. 'We have been slightly behind on a couple of programmes, but we expect to catch up by delivery dates'.

'In the warshipbuilding division:

'Brooke Marine, Lowestoft. Will run out of work in the autumn.

'Vickers, Barrow-in-Furness, 12,300 workers. Expect to complete the first Type 2400 submarine in November and are working on four nuclear-powered submarines, with no delays.

'Vosper Thornycroft, Southampton, 4,800 workers. Have two yards working on three minehunters for the Royal Navy, and are fitting out two fast patrol boats. 'We are very anxious to get an order for a Type 22 .

'Yarrow Shipbuilders, Glasgow, 5,500 workers. Have work until 1987 on a £450 million order for five Type 22 frigates and one minehunter, with all ahead of schedule.

'In the offshore division:

'Cammell Laird, Merseyside. 3,500 workers. Slightly delayed on a semi-submersible drilling rig for Sovereign Explorer, ahead of schedule with the missile destroyer HMS Edinburgh, which is due in a year's time, and on time with a jack-up accommodation vessel for British Gas in the Spring.

'A strike last year and problems with supply of parts has caused delays, but 'future prospects of work are good'.

'Scott Lithgow, Glasgow, 5,00 workers. Recently lost Britoil order for a rig overdue, and a £60 million exploration rig for BP is also behind schedule.

'Falmouth Shiprepairers and Vosper at Southampton are both secure, but Tyne Shiprepair will close next month unless a sale is agreed shortly.'

### Manpower

BS's work force has been reduced from 87,500 at nationalisation in 1977 to under 60,000 today. 6000 jobs were lost in the second half of last year, but the redundancies at Scott Lithgow are the only one now pending.

### BS's Finances

British Shipbuilders, like all nationalised industries, looks to the Treasury for external finance which it usually receives in the form of loans and public dividend capital. Under the 1977 Aircraft and Shipbuilding Industries Act, which created the corporation, the original limit for this finance was £200 million. This was increased in stages, to £800 million by July 1983. Later last year the

Government introduced The British Shipbuilders (Borrowing Powers) Act 1983 to enable the Secretary of State to increase this again, initially to £1000 million and eventually, with the further consent of the Treasury and the House, to £1200 million. The Bill was necessary because of British Shipbuilders' continuing difficulties and the continued deterioration of its markets.

### BS Financial Results

<u>Year to April</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Turnover	497	842	813	899.3	1025.6	1092.5
Trading Loss	104.5	49.4	109.9	41.4	19.8	117.5
Intervention Fund	2.7	10.6	31.2	38.9	46.1	43.8
Capital Expenditure	20.1	27.4	18.6	16.7	36.8	43.2

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.

### The British Shipbuilders Act 1983

The Government is committed to the promotion of private ownership in the shipbuilding industry. This Act removed the previous statutory obstacles to the introduction of private capital, and provided enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. BS is now no longer obliged to carry on the full range of activities specified in the 1977 Act that nationalised it; it can discontinue unprofitable work and dispose of profitable yards when appropriate. The Act gives the Secretary of State powers to restrict foreign shareholdings in any yards that are sold, and gives him other powers to safeguard assets or activities which are important to our national security. Before giving any general direction to BS the Act also requires that the Secretary of State must be satisfied that it will further the national interest. The recent move to sell the repair yards, and the announcement that private investment will be sought for the warship yards, are a result of this Act.

### Labour Policy

Labour said in their 1983 Manifesto that they intended to ensure that British Shipbuilders remained a wholly nationalised concern, and intended to create a state-owned shipping organisation to act as its customer. Labour would have introduced protectionism in shipping 'to protect our shipping and jobs from unfair competition' and promised to provide BS with a 'new financial basis and adequate resources for investment'. In short, Labour proposed 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 would have particularly harmful effects on international trade and the viable jobs that depend on it. Labour said nothing about the fundamental problems that make our yards uncompetitive or how they would have tackled them.

/ANNEX A - AID TO SHIPBUILDING AND SHIPOWNERS - attached

Conservative Research Dept  
32 Smith Square LONDON SW1

RE/CR  
20.1.84

AID TO SHIPBUILDING AND SHIPOWNERS

Direct Aid to Shipbuilding	Home Credit Scheme Aid to Shipowners
<u>United Kingdom</u>	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent. (On orders placed in United Kingdom yards only)
Up to 17 per cent of contract price (Includes 2 per cent Shipbuilders Relief)	
<u>Belgium</u>	Home Credit Scheme 70 per cent over 15 years. Interest relief subsidy (maximum 3 percentage points)
Nil	
<u>Denmark</u>	Home Credit Scheme 80 per cent over 12 years at 8 per cent interest including 2 year grace period
Nil	
<u>France</u>	Home Credit Scheme 80 per cent over 8½ years at 7½ per cent interest.
Up to 20 per cent of contract price (Excludes cost escalation insurance which benefit ranges from zero to 3 percentage points)	
<u>Germany</u>	12½% investment grant. Interest subsidy 1% (1983) and 2.5% (1984 & 1985). The Investment Grant automatically reduces the amount of credit to which the Interest Subsidy applies). Credit Guarantees at OECD terms.
Nil	
<u>Ireland</u>	Home Credit Scheme 80% over 8½ years at 7½% interest.
Old scheme expired 31 December 1980. No new formal scheme. Subsidy applications considered on a case by case basis subject to EEC approval.	
<u>Italy</u>	1983 Interest relief scheme:- 2.75% of contract price paid six monthly for 12 years.
Wef 1 January 1983 up to 21% of contract price. (In Mezzogiorno maximum is 26%).	
<u>Netherlands</u>	2% Interest subsidy. New investment subsidy of 12%, plus 2.3% premium for 5 years.
1983/84 up to 8% of contract price. Special maxima of 15% (1983) and 11% (1984) for yards in IEC and VGH groups.	
<u>Finland</u>	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.
Nil	
<u>Japan</u>	Home Credit Scheme*. Government (Japanese Development Bank) loan of 50 or 60 per cent, Over 13 years at 7% per cent interest including 3 year grace period. Further
Nil	

Direct Aid to Shipbuilding

Home Credit Scheme Aid to Shipowners

Norway

For cash contracts subsidies given in 5 annual instalments to a total value of the amount that would have been given on the same contract under home shipowners finance scheme.

Spain

Up to 9½ per cent of contract price.

Sweden

For 1984 and 1985 a total of £40m budgetted for Government write-off loans to shipyards.

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.

80% of contract price over 8½ years at 8% interest. The scheme also applies to longer or shorter term financing, but always contains the same amount of subsidy; in the case of cash payment the subsidy is equal to that of a 5 year loan.

Home Credit Scheme. 85 per cent over 12 years at 8 per cent interest with up to 2 years grace period. (Smaller subsidy - 60 per cent of value at 8 per cent for 5 years plus 1 year grace - available for conversions and major repair work).

Credit Guarantees of 90% of contract price for up to 12 years on commercial loans. Interest rate subsidy about 2½% available in certain cases.

Notes

- \* Japanese Home Credit. The 60% and 20% loans are available only for LNG carriers. Other types of vessel attract the lower percentages.

→ CF Scott Lithgow file

SCOTT LITHGOW

Line to take

I regret the cancellation of this contract, especially given the high level of local unemployment. What we are witnessing is a company which is losing its customers. Scott Lithgow and indeed the rest of British Shipbuilders' workforce must realise that they are operating in a highly competitive world market where it is essential to be able to deliver to cost and to time. It is by attending to these that customers are won and retained, rather than through looking to Government.

Government should intervene

Britoil have made a decision in what they see as their commercial interest. British Shipbuilders have responded in a way that reflects what they see as their commercial interest. The Government believes that it is in the best long term interests of the UK taxpayer, and UK industry at large, that companies and nationalised industries should take decisions of this kind on a commercial basis.

Scott Lithgow's record [ If pressed ]

I very much regret that this latest contract is by no means the first example of Scott Lithgow over-running both time and budget. I also note that the unions at Scott Lithgow have refused to sign British Shipbuilders' survival plan and the changes in working practice which it calls for.

20 December 1983



CONFIDENTIAL

PS/Secretary of State

cc PS/Mr Lamont  
PS/Mr Butcher  
PS/Sir Brian Hayes  
Mr Dobbs Spec Adv  
Mr Manzie Dep Sec  
Mr Treadgold SBP  
Miss Bowe SBP1  
Mr Thomas SBP3  
Mr Hardbatttle PB  
Miss Marshall Inf

BRITOIL - SCOTT LITHGOW

British Shipbuilders, and the press, expect Britoil to serve a notice of cancellation of the rig contract at Scott Lithgow sometime today.

STRICTLY  
CONFIDENTIAL

2. BS do not yet know the terms of the notice, but are expecting a straight statement of cancellation. As Ministers know, BS' strategy is to accept the cancellation. But tactically they must be seen to be putting up a strong fight. They must minimise the risk of industrial action jeopardising work on the BP rig and SOV also in the yard. And they must put themselves in the best possible position to contest and minimise damages in the subsequent wrangle with Britoil.

3. BS therefore propose to challenge the cancellation on whatever basis they can, to be determined by their lawyers in the light of the terms of the notice. They may well issue a writ within 24 hours seeking a declaration that the notice is invalid.

STRICTLY  
CONFIDENTIAL

4. The immediate practical consequence is that work on the rig will cease on receipt of the notice. Scott Lithgow will try to redeploy as many men as possible onto other work, in particular the BP rig, provided there is no industrial action. As the yard anyway closes on Thursday until 4 January for the Christmas holiday, there will be no immediate lay-offs. The position will then be re-assessed in the first week of January. The likely course of events then will be about a month of litigation and wrangling before cancellation is accepted, when about 2000 jobs will be permanently lost. The immediate future of the yard will then depend on the industrial relations position and various other imponderables.

5. BS will also, on receipt of the notice, be informing suppliers and sub-contractors for the contract that they will accept no further deliveries in order to minimise future damages claims against Scott Lithgow.

6. In press terms, BS will be issuing a notice confirming receipt of the notice, that they are challenging it, that work on the rig will cease forthwith but that there will be no immediate layoffs.

7. We will provide briefing for Press Office and No 10, and for PM's Questions, as soon as we have the details of the notice.

E P CAMERON  
SBP1  
153 ASH  
212 6538

19 December 1983

SCOTT LITHGOW

Following today's announcement by Britoil that they served notice of cancellation of the rig contract Mr George Younger MP, Secretary of State for Scotland said:-

"The decision announced by Britoil this afternoon is not unexpected, but it has tragic implications for the future of Scott Lithgow and for employment in Inverclyde, matters which are of serious concern to me. The highly competitive offshore market requires not only considerable technical expertise but high productive efficiency to succeed.

Unfortunately the yard's performance both on cost and delivery has created serious problems which neither British Shipbuilders nor its customers can any longer sustain. Against this background, where everything depends on performance, it is tragic that management have still not secured the full agreement of the workforce to the improved working practices which are necessary for efficient operation.

Throughout the crisis I have kept in close touch both with the Chairman of British Shipbuilders and with Britoil. I understand that discussions may continue for some time about the future of the rig. In the meantime I will of course be ready to do anything I can to provide assistance for the area."

Scottish Information Office  
Dover House  
Whitehall  
London  
SW1A 2AU  
19 December 1983



cc TF  
BT

STATEMENT ON BRITOIL

Mr Speaker, with permission I will make a statement about the contract between Britoil and British Shipbuilders.

In December 1981 Scott Lithgow contracted with Britoil to produce a semi-submersible drilling rig. The contract value was £88.6 million, and the contractual delivery date was April 1984. Construction began in February 1982.

By March 1983, BS had provided for losses of £43.8 million on the rig. The then Chairman, Sir Robert Atkinson, warned that performance and losses at Scott Lithgow were unacceptable.

On 31 October 1983, Britoil were sufficiently concerned about progress on the contract to issue through its agents a notice requiring Scott Lithgow to demonstrate within 30 days that the rig could be completed by February 1985.

Scott Lithgow responded to Britoil by arguing that despite the undoubted delays on the contract hitherto completion would be possible within the terms of the contract.

However, on 19 December a notice of cancellation was served on behalf of Britoil on the basis that Scott Lithgow had not demonstrated that the rig could be delivered by February 1985.



BS have responded to the cancellation notice by disputing its validity and I understand that they have now instituted legal proceedings.

While BS and Britoil are considering the next step in this negotiation, all work on the rig will be stopped. BS are instructing suppliers to suspend work on contracts relating to the rig. Up to 2,000 of the workforce are involved in construction of the rig.

The remainder of the workforce - approx 2,250 men - are employed on two other contracts: one for BP and one for the Ministry of Defence. It is BS' intention that these contracts will continue.

Unemployment in this area is already high and a further increase of the scale implied by the cancellation of this order would be a matter of deep concern to the Government. My Right Honourable Friend the Secretary of State for Scotland has this morning met the Scottish TUC and told them that he would of course seek to do all he can to alleviate the very real distress that would be caused in the local community. However, the offshore industry is highly competitive and customers insist upon contractors - including management and workforce - delivering on quality, price and time. Regrettably Scott Lithgow so far appears to have been unable to satisfy Britoil that it can fulfil its obligations on this contract.



WHY IS GRAHAM DAY IN CANADA?

For personal reasons. He is in touch with BS Headquarters.

[If pressed on whether his visit is in connection with the Dome rig at Cammell Laird: firm denial.]

ROBERT ATKINSON'S QUOTE

In July this year, Robert Atkinson referred to the Scott Lithgow workforce as "5,000 deaf men". He catalogues a record of poor productivity, poor delivery and high absenteeism and said:

"(Scott Lithgow) has let the Corporation down. It is not a viable entity in its present form."

SBP1

20 December 1983



WHAT HAPPENS NOW?

All work on the rig will now stop. As the yard anyway closes this week until 4 January for the Christmas holidays, there will be no immediate layoffs. I understand BS will reconsider the question of layoffs in the first week of January.

I also understand that BS will be informing suppliers that they should for the present cease work on contracts related to the Britoil rig.

[If pressed: Looking further ahead, if the contract is ultimately cancelled, then the jobs of up to 2,000 men currently working on the rig are clearly at risk. Beyond the BP rig and the Seabed Operations Vessel already in the yard, there is no other work in prospect.]

SBP1

20 December 1983



(iv) August 1980 - walk out at Kingston Glen over special allowances for difficult and dangerous work. Halted work on BS ESV.

Late Deliveries

	Originally Due	Delivered	Months Late
Britoil Rig	2.84	Not Yet	-
BP Rig	1.83	Not Yet	11
BP Tanker	12.81	3.83	15
BP ESV	4.81	8.82	16
Furness Withy Bulk Carrier	3.78	10.78	7
Furness Withy Bulk Carrier	9.77	4.78	7
Ben Odeco Drill Ship	12.75	3.77	15

[These figures should be treated with care. They do not make allowance for slippage due to delivery dates renegotiated because the customer changed or increased the specifications.]

SBP1

20 December 1983



- Q. Is the cancellation of the Britoil rig not destroying the UK's capability for construction of mobile offshore structures?
- A. No. Within BS there is also Cammell Laird with an established position in the construction of both semi-submersible and jack-up rigs. Harland & Wolff also has suitable facilities for mobile offshore structures. In the private sector, UIE at Clydebank, has an excellent record for jack-ups, while a number of the yards which have traditionally-built fixed offshore structures have the facilities to build mobile structures. Notable among these are Highland Fabricators and McDermott's, who are jointly building a floating production platform for Conoco, and Howard Doris, who have tendered in competition with Cammell Laird for Sun Oil's semi-submersible floating production facility.



Assistance under the Home Credit Scheme

Q1. Was the contract assisted under the Home Credit Scheme?

A1. Yes. It received the standard assistance offered under the Scheme at the time.

Q2. What were the terms of the assistance?

A2. The details are commercially confidential. The terms of assistance generally available under the Scheme in 1981 provided for a guaranteed loan of up to 85% of the contract price, repayable over up to 8½ years from delivery at a fixed interest rate of 8.75%.

Q3. How much has been advanced to the customer under the loan guaranteed by the Department?

A3. 85% of the payments made by the customer to Scott Lithgow towards the price of the rig, in line with the terms of the Home Credit Scheme.

Q4. Will the customer repay the loan guaranteed by the Department?

A4. I have no reason to doubt that it will be repaid if the Department requires it. The timing of any such requirement will depend on when, in legal terms, cancellation can be regarded as having taken place.

Q5. Will there be any loss to the Department?

A5. I have no reason to doubt that the loan will be repaid in full if the Department requires it.



- Q6. Will the loan remain available if Britoil makes alternative arrangements for completion of the rig?
- A6. There is specific provision in the loan documents for the loan to remain in place in certain specified circumstances.
- Q7. Did the Secretary of State give consent to the cancellation?
- A7. Under the terms of the Department's guarantee, the Secretary of State's consent was necessary before the customer could serve notice of cancellation. This consent was granted in the normal way, subject to certain conditions to safeguard the security for the guaranteed loan.
- Q8. Why was consent not withheld?
- A8. It would not be appropriate for the Department to use legal provisions intended to safeguard its guarantee commitment to obstruct proper commercial relations between shipbuilders and their customers.



## SL'S TRACK RECORD

### Employment/Losses

Scott Lithgow has typically accounted for about 8% of total BS employment since 1977. Over the same period it has accounted for 38% of total losses. (£165m to March 1983.)

In 1982/3, Scott Lithgow lost £66m of BS' total loss of £117m - 56%

### Details of Losses

(£m)	77/78 (9 months)	78/79	79/80	80/81	81/82	82/83
Scott Lithgow	24	12	34	14	15	66
BS total	104	50	110	41	20	117

### Strikes

Recent stoppages reported in the press have been:

- (i) July 1983 - walk out by 250 plumbers over termination of an overtime agreement
- (ii) September 1982 - walk out by 300 platers over the sacking of a Shop Steward for doing the FT crossword during working hours. Affected work on BP tanker
- (iii) January 1982 - 3 week dispute at Port Glasgow yards. Halted work on BP ESV



## PRIME MINISTER'S QUESTIONS

### SCOTT LITHGOW: BRITOIL CONTRACT

#### Background

Britoil served notice on 19 December of their intention to cancel this contract for a semi-submersible drilling rig on the grounds - as permitted by the contract - that Scott Lithgow will be unable to deliver within 300 days of the contractual delivery date. Scott Lithgow responded by challenging the validity of the notice, claiming that some fault should be attributed to the US designer, and that the rig can anyway be completed within 300 days of the due date. Scott Lithgow issued a writ on 20 December seeking a declaration that the notice is invalid.

2 Mr Lamont made a statement to the House on 20 December stressing the Government's determination not to intervene. Dr Godman (Greenock and Port Glasgow) has secured an adjournment debate on 22 December.

#### Line to Take

My Hon Friend the Minister of State for Industry made a full statement to the House on Tuesday 20 December. As he stressed then, this is a commercial dispute. It would be quite wrong for the Government to intervene. And since, as the House knows, legal proceedings are in hand, it would be improper for me to comment on the merits of the case. Observe, however, that the call for a strike from 6 January seems designed to ensure that the contract is irrevocably lost.

Dept of Trade and Industry  
21 December 1983

Attached is the Hansard of the exchanges on Mr Lamont's statement yesterday. Particular points he made in the exchanges are as follows:

- (i) Both sides have taken decisions that they judge to be in their best commercial interest. If the Government were to intervene either to urge Britoil and its agents to withdraw its notice or to urge British Shipbuilders to reintroduce the contract the commercial and financial position of one party or the other would be severely prejudiced.
- (ii) The taxpayer has funded huge losses at Scott Lithgow. On this contract the taxpayer has funded losses of over £44 million. A total of £66 million of the losses of £117 million that British Shipbuilders announced last year came from Scott Lithgow.
- (iii) Since 1977 Scott Lithgow has accounted for 8 per cent of British Shipbuilders employment and 38 per cent of their accumulated losses.
- (iv) "The national interest is not to pour good money after bad.
- (v) It is not the Government who have pulled out the plug on Scott Lithgow. It has been the inefficiency, the poor performance, the late deliveries and the massive losses that have not just arisen this year but have gone on and on for many years.
- (vi) "I do not see how it could be remotely described as laissez faire to have funded losses by the yard of £140 million in addition to giving production subsidies of £17 million to Scott Lithgow during the intervention fund.

PRIME MINISTER

Attached is a piece of Questions briefing about a delay in the delivery of the Atlantic Conveyor replacement. You will recall that in order to keep this contract in the United Kingdom Government assistance of almost £18 million had to be given. The projected delivery date is now four months overdue and the cost over-run might be as high as £14.5 million. The Chairman of Trafalgar House, Nigel Broackes, has said that the original contract date in August had been guaranteed by British Shipbuilders, the TUC and British Steel. Another poor advertisement for the shipbuilding industry.

TIM FLESHER

20 January, 1984

PRIME MINISTER

SCOTT LITHGOW

The Scottish TUC are seeking a meeting with you to discuss Scott Lithgow. The arguments for seeing them are:

- (i) there is advantage in being seen to give people a full opportunity to present their case.
- (ii) The STUC saw Mr. Younger before Christmas but have seen no Ministers from DTI. Since that meeting it has become obvious that the issue is not simply one of cancellation of a contract but of closure and the handling of the consequential redundancies.

The arguments against seeing the STUC are:

- (i) DTI have been scrupulous in arguing that the decision to close Scott Lithgow is a decision for BS management. Their Ministers have avoided meetings and public appearances. There is a danger that a meeting with you could give the impression that the BS decision was up for review.
- (ii) This is only one of a number of major redundancies eg Ford, BL, BR.

If you wish to see the STUC, the letter to them should make it clear that there is absolutely no question of BS's decision being over-ruled. The discussion can, therefore, only be about the Government's response to the consequential redundancies and about encouraging a private sector attempt to complete the contract. You will not wish to see the STUC until after Ministers have met on 27 January. Thereafter the diary is crowded but a spot could be found on 1 February.

Do you wish to see the STUC?

AT

Yes - but starting on  
the above understanding  
me

20 January 1984

CONFIDENTIAL

cc Mr. Redwood

MR. TURNBULL

SCOTT LITHGOW AND BEYOND

I am minuting you as a precaution only, in response to George Younger's note of 17 January and Peter Walker's follow up of 19 January.

As you know, it is entirely possible that Scott Lithgow is just the first of a series of forthcoming major contractions in industrial Scotland. The BL Bathgate plant, the BSC Ravenscraig plant, and all the merchant yards of British Shipbuilders will come under scrutiny by Government in the near future.

In these circumstances, it would be unwise to approve Mr. Younger's request (b), viz. £30/£35 million of extra funds for the SDA in hasty response to the Scott Lithgow problem. There will almost certainly be claims for repeat gestures if we make the first, and we should be clear what the total bill might be before we proceed.

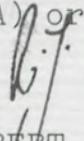
As to Mr. Younger's other requests, we should:

(a) encourage BS to find a third party buyer for Scott Lithgow. A third party may well be based overseas, but we should not put up barriers on that account. We cannot afford to. "Encouragement" with public funds should be a matter of last resort, not first;

(c) examine the Enterprise Zone idea by all means, but without commitment;

(d) recognise that Graham Day's efforts are and should be directed towards identifying whether there is a viable merchant shipbuilding business in the UK. He was not appointed to preserve shipbuilding employment for its own sake.

At the risk of becoming boring on the point, I hope I may again emphasise the importance of getting these industrial issues before E(A) or E(NI) quickly. They do not improve with keeping.

  
ROBERT YOUNG  
20 January 1984

CONFIDENTIAL

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP  
Secretary of State for Scotland  
Scottish Office  
Dover House  
Whitehall  
LONDON  
SW1A 2AU

20 January 1984

*Alan George*

*- write A7*  
I have seen a copy of your minute of 17 January to the Prime Minister about the closure of Scott Lighgow.

I was delighted to hear that there are some prospects of a "phoenix" operation. If something of this kind comes off, not only will some sort of shipbuilding activity continue and jobs be provided for a proportion of the existing workforce, but also (and perhaps more importantly) it will demonstrate confidence in the area's future.

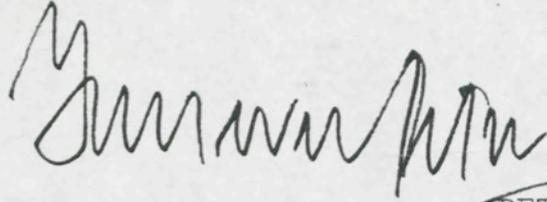
I understand your wish to be able to announce soon a set of proposals to regenerate the area. But it seems to me too early to put any figure on how much money may be required. You will want first to have discussions with the local authorities and with local firms about what should be done and how the costs should be shared. I note that a substantial input from the Scottish Development Agency is likely to be needed. We shall have to look at the implications for the Agency's budget and the scope for offsetting savings when the details are clearer - perhaps in the course of this year's public expenditure survey.

I am afraid that I can give you no encouragement as regards an enterprise zone. In the light of the monitoring evidence to date I should be bound to oppose the creation of any new zones.

Finally, I would be willing to contemplate the offer of some special assistance, if necessary, to help Govan win the CEBG order since it is one of the better BS yards. We shall of course have the opportunity to consider the general question of continuity of employment on the Clyde and elsewhere in British Shipbuilders when we look at Graham Day's strategy plan at E(NI) in mid-February.

CONFIDENTIAL

I am sending copies of this letter to the Prime Minister,  
Norman Tebbit, Peter Walker, Michael Heseltine, Patrick Jenkin  
and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

19 January 1984

Dear John,

SCOTT LITHGOW

The Prime Minister has seen your Secretary of State's minute of 17 January. She thinks that a meeting is necessary to discuss first the proposals for encouraging a "phoenix" operation under which the Britoil rig would be completed under new management; and secondly what Government should do to mitigate the impact of redundancies in the Inverclyde area.

She understands that your Secretary of State has had further discussions with various parties on a phoenix operation and will be writing again on this.

BF1  
This meeting has now been arranged for Wednesday, 25 January at 1600 hours.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), John Kerr (HM Treasury), John Gieve (Chief Secretary's Office, HM Treasury), Michael Reidy (Department of Energy), Richard Mottram (Ministry of Defence), John Ballard (Department of the Environment) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

John Graham, Esq.,  
Scottish Office.

16 Woodlands Terrace  
Glasgow G3

19 January 1984

TELEMESSAGE  
THE RIGHT HON. MARGARET THATCHER M.P.  
PRIME MINISTER  
10 DOWNING STREET  
LONDON  
SW1

R20

THE GENERAL COUNCIL OF THE SCOTTISH T.U.C. SEEKS A PRIORITY MEETING  
WITH YOU TO DISCUSS THE SCOTT LITHGOW SITUATION.

THE CONSEQUENCE OF CLOSURE WOULD BE DISASTROUS.

10,000 JOBS WILL BE LOST IN GREENOCK AND THE VITAL SCOTTISH OFFSHORE  
INDUSTRY WILL SUFFER A SERIOUS BLOW.

JAMES MILNE

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Prime Minister

I have now set up a meeting  
next Wednesday.

PRIME MINISTER

AT  
19/1

SCOTT LITHGOW

*with AT*  
I very much endorse George Younger's views, in his minute of 17 January, on the need to examine the scope for re-establishing the Scott Lithgow operation outside British Shipbuilders under new management.

The UK Continental Shelf is currently at the forefront of offshore technological development and the focus of keen international interest. We should have a spring-board for the promotion of our industrial capability world-wide. The Britoil rig itself was designed precisely to cope with the harsh, deep water conditions towards which our exploration effort will be increasingly directed in the years ahead. The undertaking had a flag-ship status and its total failure would rebound accordingly on the reputation of our generally successful offshore industry.

If Scott Lithgow's rig-building capability disappears completely we shall increase our dependence on foreign builders just as I am endeavouring to expand offshore supply exports to secure the industry against the inevitable ultimate decline in UKCS activity. It is extremely unlikely that, with Scott Lithgow's assets dissipated, any spontaneous alternative would appear in the UK. The rewards of advancing technological frontiers in our own waters would go elsewhere.

At Scott Lithgow itself there are good physical facilities and, to judge by the success of other companies locally, valuable human resources. We have earlier experience from elsewhere of shipworkers' ability to adapt to offshore work when the need is clearly apparent, including Methil and Clydebank in Scotland. But, of course, new management would hold the key.

CONFIDENTIAL



I therefore strongly support George Younger's wish to explore urgently what can be done to save as much as possible from the situation. My Department stands ready to assist in any way it can.

Copies go to the recipients of George Younger's minute.

A handwritten signature in blue ink, appearing to read "O. E. Rosten".

SECRETARY OF STATE FOR ENERGY

19 January 1984

NAT INS  
Shipbuilding  
A 5



20 JAN 1964

SIS MOD invited  
- Wendy Anderson  
will confirm  
NR 19/11



AT

1.

Confirmed  
Wednesday  
25 Jan. at 1600.

I told them  
you will be in  
touch re  
documents. CR

10 DOWNING STREET

From the Principal Private Secretary

Prime Minister

Since sending this minute, Mr Younger has had talks with Britoil and has developed his thinking on a "phoenix" proposal. He will put in a further note. I suggest you hold a meeting as soon as it can be arranged to discuss

(i) phoenix

(ii) remedial measures for Inverclyde

On (i), there are attractions but HMG must avoid putting in the money it has refused to BS.

On (ii) you are on record as showing a willingness to help the local community. Some expenditure seems appropriate but how much?

Agree a meeting, probably next Wednesday, with SS/Scot, SS/TI, SS/Energy, SST, SS/Env?

Yes MF AT 18/11



CONFIDENTIAL

cc RT A

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister

SCOTT LITHGOW

1. I have accepted that decisions about the future of the Britoil rig contract should be left to the commercial judgement of Britoil and British Shipbuilders and that we should not intervene to rescue a yard which has had such a poor record both on cost and delivery in recent years. However, there can be no doubt that the cancellation of the contract will lead, perhaps within a very short period, to the complete closure of Scott Lithgow as a BS yard. Since the yard is still by far the largest employer in the area, the situation which confronts the towns of Greenock and Port Glasgow is extremely grave. The industrial and commercial arguments for non-intervention are compelling. But I cannot sustain indefinitely a position in which the Scottish Office is regarded as doing nothing in any context.

2. Despite its record, the yard contains valuable facilities which are suitable for off-shore work, and elements of the workforce have considerable expertise which was demonstrated in the submarine work which was undertaken over many years to the complete satisfaction of the Navy. As a country we have not done well in the building of semi-submersible rigs for the North Sea. Scott Lithgow is the only yard which has completed one so far and at a time when this market is likely to expand it would be a national misfortune if the loss of the facilities on the lower Clyde were to result in an even larger

share of this market being taken by foreign competition. I believe strongly that what is required is a fresh start outside British Shipbuilders, with new management and a much reduced labour force. I understand that this accords with Graham Day's own view and that he has already had preliminary discussions with a company that may be interested. I hope you will agree that every effort should be made to get such an operation underway, rather as a receiver would if this were a private company. Given the right team and conditions I see no reason why it should not be as successful as UIE have been at Clydebank in similar circumstances. I want to pursue this urgently with Graham Day, in consultation with Norman Tebbit and Peter Walker.

3. Even if a new operation can be found for the yard I would expect the employment to be relatively modest - perhaps about 800 jobs compared with over 4,000 now. Unemployment in the area is already over 17% (20.6% for males) and could rise to around 30% (35% for males). Because the Inverclyde District is relatively isolated with a localised travel to work pattern the effect on the area is bound to be severe and the task of generating new employment opportunities on anything like an appropriate scale will be exceptionally difficult. While criticism of Scott Lithgow is entirely justified, we must not be thought to denigrate the local workforce: companies such as IBM and National Semiconductor have major plants there with outstanding records and none of the difficulties associated with Scott Lithgow. I therefore regard it as essential that we do everything in our power to help regenerate and diversify the local economy.

4. Accordingly, once there is greater acceptance locally that the closure of Scott Lithgow is inevitable - and whether or not some kind of "phoenix" operation based on the yard's assets is feasible - I propose to invite representatives of local interests to discuss with me what remedial measures

might be taken; and I intend to give the Scottish Development Agency the task of leading, co-ordinating and, to a considerable extent, financing the measures which are agreed upon following these consultations. The SDA has built up considerable expertise through tackling the effects of similar closures at, for example the Garnock Valley and Clydebank; and it has already commissioned consultants to examine the prospects for Inverclyde.

5. I shall, of course, be ready to re-order my own priorities and to ask the Agency to do so also in order to help finance such an initiative. But our experience elsewhere in Scotland has demonstrated that the cost of re-generation in an urban area with older industry is substantial. Inverclyde with its restricted area of flat land is no exception. Substantial recovery and clearance in the waterfront area of sites formerly used for docks and shipyards must be undertaken to provide the scope for new activities. The SDA's work at Clydebank in similar circumstances following the closure of Singers has cost approximately £25 million over 5 years and the task at Inverclyde is if anything greater. From the exploratory work we have undertaken so far I estimate that the SDA's budget will require additional Exchequer funds of the order of £30 to £35 million over a period of 3-5 years.

6. Secondly, given Inverclyde's location, I would like to give the area a competitive edge in the effort to attract inward investment. I therefore believe there is a case for an Enterprise Zone in the Greenock/Port Glasgow area and I will shortly set out this case in a letter to colleagues most concerned.

7. Thirdly, I regard it as essential that we demonstrate our confidence in those BS operations on the Clyde which have improved their performance, and it is important to avoid giving the impression that we regard Scott Lithgow as typical of the Clyde as a whole. I have already commented in my

letter of 6 January to Norman Tebbit (about notification of shipbuilding aid to the European Commission) on the need to do everything we can to support Govan as a core yard and in particular to back Graham Day in his efforts to secure for that yard the order for CEEB colliers. He has told me of his confidence in the performance of Ferguson Brothers and John G Kincaid and like him I hope that continuity of workload can be achieved.

8. To summarise I hope that you and colleagues can agree that we should:

- (a) while maintaining our public stance that the future of the Britoil rig is a matter for that company and BS, do everything possible to encourage a "phoenix" operation at the Scott Lithgow yard;
- (b)  provide additional Exchequer funds of the order of £30 million to £35 million to enable the SDA to mount a major recovery initiative in the Inverclyde area;
- (c) examine the case for establishing an Enterprise Zone in Greenock/Port Glasgow; and
- (d) support Graham Day's efforts to secure continuity of employment at the remaining BS operations on the upper and lower Clyde.

I am copying this minute to Norman Tebbit, Nigel Lawson, Peter Walker, Michael Heseltine, Patrick Jenkin and Sir Robert Armstrong.

G.Y.

G.Y.

17 January 1984

Prin Münster Dec '83

Cancellation of Britoils order with  
Scott Lithgow

**CONFIDENTIAL**

cc R.Y.

NBPM

AT

13/1

Prime Minister

SHIPBUILDING: EC NOTIFICATION OF UK AID

I have seen Norman Tebbit's minute of 22 December suggesting early notification of proposals to support both British Shipbuilders and Harland and Wolff Ltd, and Nigel Lawson's minute of 9 January expressing reservations about Norman's proposed approach to the Commission.

2. It is hard to dissent from Geoffrey Howe's views about the difficulties we are likely to encounter in negotiating new aid levels for the UK industry as a whole. Even though the Commission may regard our notification as incomplete at this stage, there would be tactical advantage in submitting it without delay, and I therefore strongly support Norman Tebbit's proposals.

3. Early notifications of new proposals should also, as Norman points out, increase the prospects for securing the Commission's agreement to further extension of the Fund in the period between the end of January and the date when we receive sanction for our full proposals. Further extension will in itself not be easy to achieve, but it will be important to do so as the alternative to a further interim tranche of the Fund after January would, I believe, most likely be advance notification of all individual cases on an ad hoc basis. Notification of each order would not only be a cumbersome and lengthy process, but more importantly it would increase the risk of the Commission discovering the use of soft credit if, as seems likely, that will be necessary to supplement existing Intervention Fund assistance. Notification of cases with a high level of Intervention Fund subsidy would, in the absence of definitive proposals, be unlikely to succeed. Although Nigel Lawson suggests a lower key approach to the Commission, I think that these considerations add to the importance of early submission of our full proposals.

.... /

**CONFIDENTIAL**



4. My officials are in touch with their colleagues about certain aspects of the draft notification, including the volume of Intervention Fund aid for Harland and Wolff on which I shall be bringing forward proposals in due course in the context of considering future strategy for the company.

5. I am copying this minute to E(NI) colleagues, Geoffrey Howe and Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a large, stylized initial 'J' followed by a smaller 'P' and a period.

J.P.

13 January 1984

Nat - Ind:

Shinbuddip Pol

Pt 5

13 JAN 1984



1984

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FILE

W7

10 DOWNING STREET

*From the Private Secretary*

12 January, 1984

HARLAND AND WOLFF: PUBLICATION OF ACCOUNTS

The Prime Minister has seen your letter to me of 11 January and has noted that the accounts of Harland and Wolff for 1982/83 are to be published shortly. While she has noted that the trading position has improved she commented that there is still a long way to go.

I am sending a copy of this letter to Callum McCarthy (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

(A. Turnbull)

D.A. Hill, Esq.,  
Northern Ireland Office

W7

with AT R07



FWE

B/c: B. Young, P. unit

E(NI): HMT Chief Sec  
DOE D. Energy  
SO De. Emp  
DTI CDL  
D.Trans CO

10 DOWNING STREET

12 January, 1984

From the Private Secretary

BF

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

The Prime Minister has seen your Secretary of State's minute of 22 December and the terms of the proposed approach to the European Commission. She is concerned at the delay in bringing the corporate plan for British Shipbuilders (and that for Harland and Wolff) to E(NI). She also feels that what is being proposed represents the wrong sequence of decision taking. The correct approach is to take the fundamental decisions on the future size of merchant shipbuilding in this country first and then seek the subsidy level necessary to sustain the industry at the size decided. The Foreign and Commonwealth Secretary's minute of 5 January makes it clear that the Commission is also likely to look at the question in this way and is unlikely to take any decisions until it is clearer about the future shape of the merchant shipbuilding industry in this country.

The Prime Minister sees great dangers in the manner in which it is intended to approach the Commission. The tactic of bidding up could give the wrong signals both to the shipbuilding industry (and its unions) at home and to Community partners who might be encouraged to follow suit.

She therefore takes the view that an approach to the Commission before a decision in E(NI) is best avoided. If however your Secretary of State considers that some contact with the Commission is essential it should be much more limited and provisional, conducted on bilateral terms with no attempt to mobilise other Community countries.

The Prime Minister hopes that British Shipbuilders corporate plan will be brought to E(NI) at the earliest possible date. She has also noted that this is likely to be the first of a number of major corporate plans or industrial decisions which will come to E(NI) or EA in the next two or three months. The papers on

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CONFIDENTIAL

- 2 -

these issues may well be long and complex. In view of this, the Prime Minister would like them to be circulated, wherever possible, with more than the minimum of one week's notice.

I am copying this letter to the Private Secretaries to members of E(NI), and to Brian Fall (Foreign and Commonwealth Office), Derek Hill (Northern Ireland Office) and Richard Hatfield (Cabinet Office).

(A. Turnbull)

Callum McCarthy, Esq.,  
Department of Trade and Industry

CONFIDENTIAL

cy 11/1



Prime Minister<sup>2</sup>  
But still a long way to  
go. AT 11/1

NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ

Andrew Turnbull Esq  
10 Downing Street  
LONDON  
SW1

11 January 1984

ms

Dear Andrew

HARLAND AND WOLFF: PUBLICATION OF ACCOUNTS

The Prime Minister will wish to be aware that the Harland and Wolff Report and Accounts for 1982/83 are to be published shortly. Copies will be placed in the Library of the House and issued to Party Spokesmen and Northern Ireland MPs (as is customary). Publication had been deferred pending greater certainty about the Blue Star order.

Although the accounts show a higher overall deficit than last year (£42.8m compared with £26.2m) this is largely due to costs of re-organisation and to the bringing forward of anticipated future losses.

Underlying this the accounts show an improved trading position. Loss on work done, which was £31.6m (for 15 month period ended 31 March 1982) has decreased to £19.9m for year ended 31 March 1983. This is a most important measure of the Company's performance during the year and confirms that the improvement noted in 1981/82 has been continued: as a percentage of the selling value of work done, losses have decreased from 52% in 1980, to 32% in 1981/82 and 27% in 1982/83.

Mr Prior remains anxious at the Company's continuing losses and burden on public funds. He is nonetheless encouraged that, despite strongly adverse market conditions, the Company has achieved a marked improvement in its underlying performance, which he hopes can be sustained under the vigorous leadership of its new Chairman and Chief Executive.

The Secretary of State wishes to emphasise, as in the attached press release, that further efforts to cut costs are essential, but also to acknowledge the improvements already achieved.

I am sending a copy of this letter to the Private Secretaries to the Secretary of State for Trade and Industry and to Sir Robert Armstrong.

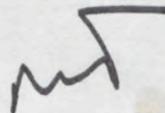
Yours ever  
Derek

DRAFT PRESS STATEMENT

SECRETARY OF STATE PRAISES SHIPYARD BUT URGES FURTHER IMPROVEMENTS

The Secretary of State for Northern Ireland, the Rt Hon James Prior MP, commenting on the 1982/83 Report and Accounts of Harland and Wolff Ltd, praised the underlying improvements in the yard's performance. He said however that he was most concerned at the size of the overall deficit which was a sharp increase on previous years, but he noted that this was largely due to the considerable costs of restructuring and re-organisation within the shipyard and a change in accounting policy. He was pleased to note the improved trading position of the company.

Mr Prior said that both management and the workforce should be commended and encouraged in their strenuous efforts to increase productivity and to cut costs as this represented the only way towards a stable future in very tough market conditions. He emphasised however that these improvements were only the beginning, and not the end, of the road towards stability. Other yards throughout the world were also achieving increased efficiencies and reduced costs and H&W would have to better these if the taxpayer was to be asked to continue support for the yard.



11 JAN 1984

12 11 2 3 4 5  
L B 8 9





10 DOWNING STREET

THE PRIME MINISTER

11 January 1984

Dear Mr. Godman.

Thank you for your letter of 30 <sup>December</sup> January about Scott Lithgow.

I am afraid I cannot accept your view that the Government should intervene; still less is there a case for yet more financial support for Scott Lithgow. This yard has lost £165 million since nationalisation in 1977. Over that period, with 8 per cent of the workforce of British Shipbuilders, it has been responsible for 38 per cent of their losses. You may like to know that the subsidy to Scott Lithgow by the taxpayer has amounted in the last year to around £13,000 per employee. In the shipbuilding world, orders are scarce and customers can only be won and retained by building ships and rigs to a price and on time. Regrettably in both these respects Scott Lithgow has a poor record.

As I said in my letter of 23 December, I do very much appreciate the consequences that cancellation, should it happen, will have on the local community. George Younger has made it absolutely clear that in the event of redundancies the resources of the Government and the Scottish Development Agency will be used to the full to mitigate the immediate impact.

Finally, I am sure that you will be pleased that the unions concerned called off the disastrous strike which was due to begin last week. We must now hope that the British shipbuilding industry

/ will now

DS

will now begin the adoption of the kind of efficient working practices which will enable it to compete successfully in the world markets.

Yours sincerely  
Raymond Stedman

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Dr. Norman A. Godman, M.P.

PRIME MINISTER

Shipbuilding - EC Notification of UK Shipbuilding Aid

You have already seen Mr. Tebbit's proposals. Since then replies have come in from the Foreign Secretary and the Secretary of State for Scotland, both of whom endorse Mr. Tebbit's proposals. Lord Cockfield, however, has warned against the danger of allowing the tail to wag the dog, with notification to the Commission influencing our policy on the future of British shipbuilders.

The Chancellor has now minuted, expressing disquiet on much the same lines as yourself. Agree I minute Mr. Tebbit as follows:

- (i) expressing your concern at the delay in bringing the corporate plan for British Shipbuilders to E(NI).
- (ii) Asking that the proper sequence should be to take the fundamental policy decisions first and then to decide the subsidy levels necessary to sustain those decisions.
- (iii) Expressing concern at the tactic of bidding up in our approach to the Commission which could give the wrong signals both to the shipbuilding industry at home and to Community partners who might be encouraged to follow suit.
- (iv) Suggesting that if contact with the Commission is thought to be essential, it should be much more limited and provisional, conducted on strictly bilateral terms with no attempt to mobilise other Community countries.

I spoke to Lord Cockfield yesterday and mentioned to him that you wanted him to pay particular attention to the corporate plan and other major industrial decisions which will be coming forward to E(NI) and E(A) in the next two or three months. He suggested

/ that it would

that it would be desirable for the papers on these issues, which are often very long and complex, to be circulated with more than the minimum of one week's notice. Agree I incorporate this suggestion in the letter?

AT Yes please mb

11 January 1984

u No



Chancellor of the Duchy of Lancaster

Z RPS

PRIME MINISTER

SHIPBUILDING - NOTIFICATION OF UK AID

I have only just seen a copy of Norman Tebbit's minute to you of 22 December 1983.

with AT 1

While I agree that in the light of the probability of protracted negotiations, we would be well advised to start now, it is equally important that we do not allow the proposals we put to the EC which no one expects to be accepted as they stand, unduly to influence the decisions we ourselves take about the future of British Shipbuilders.

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

A.C.

A C

9 January 1984

NAT IND : Shipbuilding  
Pt 5

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1981 JAN 1984

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ce NO



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

PRIME MINISTER

**SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID**

Norman Tebbit sent me a copy of his minute of 22 December about notification to the EC of our proposals for aid to shipbuilding.

2. It is unfortunate that the question of a formal approach to the European Commission about the intensity of subsidy for UK shipbuilding has come up for consideration before we have had an opportunity to consider among ourselves the strategy for merchant shipbuilding in this country.

3. I do not want to pre-empt our future discussions, but even if we were to decide on a subsidy level of as much as 35 per cent per ship built (equivalent to 45 per cent after normal credit facilities have been made available), I suspect we would not do so without coupling it with a stringent programme for the reduction of such heavily loss-making activities. In these circumstances I am not happy about Norman's proposed approach to the Commission. It seems to me to run the risk of being interpreted as an open-ended request to suspend the present degressivity policy and to replace it for an unspecified period with subsidy levels exceeding even those of the mid-1970s.

4. I think we need to ask ourselves whether this is the lead we really wish to give to our European partners. It would also be highly embarrassing if it became known at home that we were taking this kind of position in Brussels. (In this connection I note too the suggestion in paragraph 8 of Norman's minute that we shall need to be prepared to mount a considerable Ministerial and inter-governmental campaign).

5. This all highlights the need for an early discussion of future policy for merchant shipbuilding among ourselves and I was pleased to see that Norman hopes to be in a position to put options to us by the end of January. In the meantime I would prefer, if possible, to avoid any approach to the Commission



and to deal with individual orders for ships on an ad hoc basis.

6. If, however, it were felt that some formal approach to the Commission has to be made, I would hope this could be much shorter and more low-key than what is at present proposed. We could make it clear that we were still formulating our strategy for rationalisation and that in the meantime we could not rule out the possibility of high levels of subsidy being needed in individual cases in order to obtain new orders against the current severe competition from the Far East. It would be essentially an interim statement rather than a fully-fledged proposal. I recognise that this may not be readily acceptable to the Commission. But, as Norman himself recognises, the present draft proposal is unlikely to find favour immediately either and I myself feel that a lower key approach would serve to keep open our options for the time being, while helping to reduce the amount of flank we expose.

7. I am sending copies of this minute to Norman Tebbit, and to other E(NI) colleagues, Geoffrey Howe, Jim Prior and Sir Robert Armstrong.

(N.L.)

9 January 1984

NAT IND : Shipbuilding Pt 5



RECEIVED  
MAY 12 1968  
U.S. DEPARTMENT OF COMMERCE  
OFFICE OF THE SECRETARY

COMMERCIAL

RESTRICTED

File

6 January 1984

cc Mr. Turnbull (for information)

MR. OWEN

BRITISH SHIPBUILDERS' PAY NEGOTIATIONS

I spoke to Colette Bowe at DTI this afternoon to see whether last night's settlement really was as portrayed in the press. The following points emerged:

1. BS management have conceded nothing. They succeeded by offering the unions a small face saver. Incredibly, it really did take the union negotiators until 5 January to realize that management were (a) determined and (b) in a strong position.
2. Graham Day, the new Chairman, really did distance himself from the discussions. The mainspring of management activity was Philip Hares, the Deputy Chairman, although Maurice Phelps, the Industrial Relations Director had more of the limelight.
3. DTI take pleasure in the fact that they stayed - and were seen to stay - well out of it. The two Normans turned down any number of invitations to comment or be interviewed.
4. Yard union representatives are thoroughly disenchanted with their national negotiators and will predictably tend towards local level negotiations in the belief that they can do better. If there are difficulties in making the productivity details stick at yard level, the yards concerned will quite simply nominate themselves for early closure.

I offered the view (which I still hold) that a strike of some duration would have been an even better outcome, in that it would have precipitated necessary closures early, perhaps at the expense of "orderliness". Ms Bowe agrees with that, but neither of us sees how more fuel could have been thrown on the fire (or by whom) and the actual outcome still leaves BS in a very strong position.

On the whole, the press has portrayed fairly the negotiations and the issues at stake. The one reservation I have is the "jobs saved/industry rescued" headline on today's Daily Mail. Job losses in merchant and offshore are still inevitable, strike or no strike.

CF.



NEW ST. ANDREWS HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

CONFIDENTIAL

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
1 Victoria Street  
LONDON  
SW1W 0ET

6 January 1984

*Dear Secretary of State,*

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

AT? Thank you for copying to me your minute of 22 December to the Prime Minister.

I strongly support your proposals. Without increased Intervention Fund assistance even those yards, which have improved their performance will be unable to win orders in the face of fierce Far East competition. I therefore agree that the formal notification should be submitted to Brussels in advance of the proposed E(NI) discussion. It is clearly essential that the negotiations on the proposed new support regime should be pursued as quickly and vigorously as possible, although I appreciate that the task of securing agreement will not be an easy one.

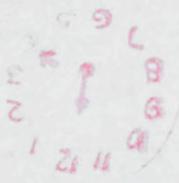
As you recognise, it is also essential that in the meantime we should do all that we can to help BS obtain orders for the 'core' yards on a case-by-case basis. I have in mind particularly the CEEGB colliers order which I know Graham Day would like to place at Govan. Particularly in view of the difficulties at the Lower Clyde, I regard it as essential that we do all that we can to demonstrate our support for Govan which, unlike Scott Lithgow, has done a great deal to improve its performance in recent years.

I am copying this letter to the Prime Minister and the other recipients of your minute.

*Yours sincerely,*

*John S. Graham*

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



6- JAN 1961

CCNO

CONFIDENTIAL



PM/84/2

PRIME MINISTER

Shipbuilding: EC Notification of UK Shipbuilding Aid

1. I have seen Norman Tebbit's minute of 22 December about the handling of our notification to the European Commission of a new support regime for British Shipbuilders. I am grateful for the opportunity to comment on what promises to be possibly the most difficult of our aid negotiations with the Commission in 1984.

2. On timing, I agree that the notification should be submitted to the Commission without further delay; they have been expecting it for some time and are bound to suspect that we have something to hide if it does not go in very soon. Moreover, given the inevitably complicated and protracted nature of these negotiations, there are obvious advantages in getting them started as soon as possible without waiting for a fuller picture of BS's future to emerge from the E(NI) discussions. That said, I think we must recognise that the notification as it currently stands will be considered incomplete by the Commission since it does not contain any details of the future restructuring we envisage, only an assurance that major restructuring is planned. The Commission will argue that they will need to assess whether the capacity and manpower reductions in the pipeline are adequate counterpart for the proposed aid. In submitting the notification to the Commission, therefore, we shall need to explain the reasons for the omissions, and provide assurances that more details on the restructuring of the industry will be forthcoming later (a natural opportunity will arise within a couple of months under the Commission's normal procedures for handling state aid cases).

CONFIDENTIAL



3. On the terms of the notification, I am content with the broad thrust of the draft attached to Norman Tebbit's minute, although my officials will be in touch with the DTI about some of the details. I accept the tactical case for putting in a high opening bid for aid volume and intensity, provided it is clearly understood that Commission approval of what amounts to more than double the volume and intensity of the current Intervention Funds is almost certainly not attainable, even in the present crisis conditions facing the Community shipbuilding industry as a whole.

4. Norman Tebbit's minute did not refer to the issue of clearance for the financing of BS's losses (past and future), which remains unresolved. The Commission have not yet closed the Article 93(2) procedure which they opened earlier this year in respect of BS's 1982/83 losses; and they have made it clear that there can be no approval of a new aid regime until the question of loss financing is settled.

5. For all these reasons, I entirely agree with Norman Tebbit that it will be well into 1984 before final clearance is obtained, and that a major and sustained effort will be required to achieve this. We can expect considerable pressure from BS to secure EC approval of the new regime almost as soon as it is agreed domestically. I hope they can be brought to understand that this is just not on, and that in the interim they will have to make do with IF aid at the present level. We are agreed that soft credit may be used on a case by case basis to supplement IF aid, but it is important that this is done with particular discretion. Were it to become the norm rather than the exception, the risk of trouble with the Commission would increase significantly.

CONFIDENTIAL



6. I am copying this minute to Norman Tebbit and other members of E(NI); to Jim Prior and to Sir Robert Armstrong.

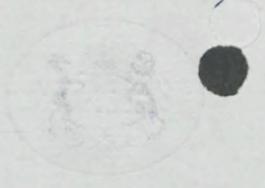
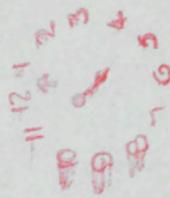
A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
5 January 1984

CONFIDENTIAL

1-5 JAN 1984



CONFIDENTIAL

PRIME MINISTER

SHIPBUILDING

Mr. Tebbit's minute of 22 December states that discussion of British shipbuilders Corporate Plan in E(NI) is likely to be delayed. Nevertheless, he wishes to begin negotiations with the Commission on the size of the Intervention Fund and the rate of subsidy.

A number of questions remain to be answered:-

(i) does it make sense, and is it really necessary, to discuss the level of aid with the Commission before discussion of the Corporate Plan?  
Does it make sense to do any of this if there is a strike going on?

(ii) Would it be better to seek an ad hoc extension of the present arrangements while the more fundamental issues are being discussed?

(iii) Why is it so urgent to start negotiations with the Commission if these are likely to be protracted?

(iv) Is it right to increase the rate of subsidy for shipbuilding and to encourage Community partners to do the same?

*redundant* (v) Does Mr. Tebbit really intend raising the rate of subsidy to 35 per cent (nearly double the present rate) or does this figure contain a large margin of negotiation? If so, what figure does he really have in mind?

/Contrary

CONFIDENTIAL

Contrary to what is stated in paragraph 3, the draft letter to the Commission is not agreed inter-departmentally. The Treasury have yet to respond and will not do so until next week. I suggest that at this stage you merely take note of these papers which I will put back to you when we have a Treasury view.

Agree?

Yes <sup>AT</sup> mt.

4 January 1984

cc: Mr. Young

Dr. Norman A. Godman, M.P.  
Member of Parliament for Greenock & Port Glasgow



HOUSE OF COMMONS  
LONDON SW1A 0AA

cf Rps

The Prime Minister,  
10 Downing Street,  
LONDON.

R5

30th December 1983

Dear Prime Minister,

Thank you for your letter of 23rd December concerning the Britoil contract at Scott Lithgow.

It is a matter of deep regret that your Government has chosen not to intervene in this important matter. Scott Lithgow has an importance that reaches far beyond the Lower Clyde, and it is essential that the Company maintains a position in the deep water oil rigs market. It is my view, therefore, that the Government is making a dreadful mistake in refusing to intervene.

May I point out to you that the two other vessels under construction at the yard will both be completed in the early part of 1984 and if Britoil goes ahead with its decision to cancel, then that will mean the yard, which employs 4,000 people, will have no work whatsoever. Employment consequences for the area would be disastrous.

Finally, I would like to say that it is my sincere hope that a strike will not take place in the New Year and that B.S. and the Union negotiators will hammer out an agreement in the near future.

Yours sincerely,  
N. A. Godman

PM Dec 83

Godman meeting

MR. TURNBULL

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

Mr. Tebbit's minute of 22 December is potentially a very costly proposal which should not slip through as a minor tactic.

As to timing, there is no need to notify a specific figure to the EC now. Although the present regime of EC shipbuilding aids is due to expire at the end of January, we know (and Mr. Tebbit's paper confirms) that our application would not be processed before then.

In these circumstances we can and should review the British Shipbuilders and Harland Wolff corporate plans before notifying a specific aid figure for either. E(NI) was due to take these plans in mid-November, but there is now no date scheduled - an increasingly unsatisfactory state of affairs.

The amount of aid to be notified should derive directly from the strategy Government wishes to pursue towards merchant shipbuilding - and there are weighty issues at stake. Even though the aid does not have to be spent, a request for the approval of £120 million over two years sends a somewhat encouraging signal back to British Shipbuilders and Harland Wolff. Ahead of our reviewing the corporate plans, and with an all-out strike at British Shipbuilders pending, we should be doing no such thing.

We recommend: (i) that the Prime Minister should ask DTI and NIO to bring forward the British Shipbuilders and Harland and Wolff corporate plans to E(NI) as a matter of some urgency - preferably by mid-January; (ii) that in the meanwhile DTI advise the EC that formal notification of further aid to UK shipbuilding will be delayed until February.

ROBERT YOUNG  
23 December 1983

*Andrew - I have read all the DTI*

*papers. I really am appalled they should have been put to me in this form - all words and no much else*



10 DOWNING STREET

THE PRIME MINISTER

23 December, 1983

*Dear Sir William,*

Thank you for your letter of 15 December about the developments at Scott Lithgow. It must be a cause of great sadness to you, as it is to me, to witness them. We live in a competitive world and this is particularly true of shipbuilding. Customers can only be won and retained by building ships and rigs to budget and to time. In both these respects Scott Lithgow's record since nationalisation has been extremely poor. It has lost £165 million - 38% of the total losses of British Shipbuilders, although the company accounts for only 8% of the employment of the Group.

The Government has taken the view that it would be wrong to intervene in what is essentially a commercial dispute between Britoil and British Shipbuilders. To do so would prejudice the position of one side or the other and would represent the kind of intervention which in the past has contributed to current problems. To do so would inevitably require a further injection of tax payers' money which, given the past record, cannot be justified. I fully appreciate, however, the consequences that cancellation of the Britoil contract, should it take place, will have on the local community. George Younger has already made clear that, in the event of cancellation and subsequent redundancies, the resources of the Government, including the Scottish Development Agency, will be used to maximum effect to mitigate the immediate impact.

/ I agree

*SF*

*FILE* *HL*

*cc: DTI*  
*SO.*

I agree with you that we must look to the future,  
emphasising enterprise and the development of products which  
customers want and will pay for.

Every good wish to you both.

Yours sincerely

Raymond D. Hunter

---

Sir William Lithgow



FILE LPO  
cc: DTI  
MA (22/12)

10 DOWNING STREET

THE PRIME MINISTER

23 December 1983

*Mr. M. Gardner*

Thank you for your letter of 19 December about the Britoil contract at Scott Lithgow.

Norman Lamont made it clear in the House on 20 December that we regard this as a commercial matter between the various parties, and that we do not propose to intervene. I understand that you also had a discussion on Scott Lithgow with Norman later that day.

I would, of course, be very concerned about the employment consequences if this contract were cancelled (I say "if" because, as you know, British Shipbuilders has issued a writ contesting the validity of the cancellation notice). George Younger has, however, said that he will do all he can to alleviate the consequences for the local community.

Even if the contract is cancelled this will not precipitate the yard's immediate closure: as you may know, there are two other vessels in the yard, neither of which will be completed until next year. At this stage, therefore, and in view of the meeting that you have had with Norman Lamont, I do not think a meeting between us could add a great deal to what has already been said. Nevertheless, if you would still like to discuss the matter with me, I should be pleased to do so.

/The only

SH

The only other point I would make is that I hope that you will reinforce to your constituents the point that participation by the workers of Scott Lithgow in the strike that has been called in the New Year would, in the light of recent events, be disastrous.

Yours sincerely  
Raymond H. H. H.

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Dr. Norman A. Godman, M.P.



10 DOWNING STREET

THE PRIME MINISTER

23 December, 1983

*Dear Mr. [unclear],*

Thank you for your teletmessage of 16 December about the problems facing Scott Lithgow and the possible impact on the Greenock and Port Glasgow areas.

As you will know, matters have moved on since you wrote. Britoil have issued a notice of cancellation of the oil rig being built at Scott Lithgow. Scott Lithgow for its part has challenged the validity of the cancellation notice and is taking legal action.

But I cannot, I am afraid, accept that there is a case for Government intervention to retain this particular contract. As Norman Lamont set out in his statement to the House of Commons on Tuesday, 20 December, this is a commercial dispute between the two parties. The fact that one is a nationalised industry and that the other is 48 per cent Government owned is irrelevant. If we were to try to intervene, either to urge Britoil to withdraw its notice of cancellation or to urge BS to withdraw its writ and renegotiate the contract, we would be bound to prejudice the commercial and financial position of one party or another. The ground would be cut from under both managements' feet. It is precisely this sort of

/ill-thought

SH

ill-thought out intervention in the commercial matters of nationalised industries that has contributed to the legacy of outdated and inefficient state-owned industries we are grappling with today.

Still less is there a case for more financial support for Scott Lithgow. This yard has lost £165m. since nationalisation in 1977. Over that period it has, with 8 per cent of the workforce of British Shipbuilders, been responsible for 38 per cent of their losses. What is perhaps extraordinary is that successive Governments have been prepared to provide so much support for so long.

Scott Lithgow must face up to the realities of the commercial world. Customers can only be won and retained by building ships to budget and to time. In both these respects Scott Lithgow has a very poor record. It is a matter of great regret that the workforce at the yard has not accepted the agreement on new working practices. I find it incredible that workers in an industry so hard pressed should be contemplating a strike. I assume that as General Secretary of the STUC you will be doing all in your power to dissuade them from this course.

I fully appreciate, however, the consequences that cancellation, should it take place, will have on the local community. George Younger has already made clear that, in the event of cancellation and subsequent redundancies, the resources of the Government will be used to maximum effect to ameliorate the immediate impact.

Yours sincerely  
Raymond Deakin

James Milne, Esq.



JU282

PRIME MINISTER

CONFIDENTIAL

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NO

*First we must make the fundamental decision - about how many yards we want to build (esp. 1, or 2) We have to take this decision at the beginning of our 2nd term*

SHIPBUILDING - EC NOTIFICATION OF UK SHIPBUILDING AID

1 I had originally envisaged putting a paper to E(NI) this month on new strategy for BS following its change of chairmanship. I now find that I need a little longer to work out with Mr Day a credible range of options, and it will thus be towards the end of January before an E(NI) discussion can usefully take place. However, I am anxious not to delay notification to the EC Commission of a new support regime since initial soundings have indicated that the negotiation to secure its agreement will be prolonged. You will recall our decision last July to take soundings about our intention to increase shipbuilding support levels.

*? Please just re-use terms*

2 An early notification would bring forward the start of substantive negotiations and strengthen our case for a further interim extension of the Intervention Fund (IF) beyond end-January 1984; Commission agreement to our proposals for enhanced aid is unlikely to be secured before then. Moreover early notification would facilitate moves to bring to bear pressure by member states collectively for a temporary relaxation of the rule against aid increases. I hope therefore that we can notify as soon as possible.

*should we be encouraging other countries to raise their bids?*



... 3 I envisage notifying in terms of the attached draft, which closely resembles a draft agreed inter-departmentally among officials. If you are content with its broad thrust, officials can pursue further any additional amendments that might be needed.

?

On what basis?

4 On the substance of the proposals, I envisage opening negotiations on the basis of an intensity of up to 35% - Mr Day's requested figure. The Commission is unlikely to agree to such an increase, but this bid may help to set a benchmark for the very exceptional cases in the core yards. On the amount of support ("volume") our bid needs to be compatible with up to 35% intensity.

5 At present Mr Day sees the need for an IF volume of the order of £35m for 84/5 and £41m for 85/6. This compares with £40m in 1982/3 and £45m in 1981/2, at a lower intensity. I propose to open the negotiations with a bid of £100m for two years, partly as a negotiating tactic and partly to accommodate the needs of the private sector. For Harland and Wolff the bid would be £20m for the two years. Experience shows that it is essential to build in a substantial negotiating margin in our initial bid.

Naturally we would not be committed to spend up to the figure finally approved by the EC. Moreover by the time negotiations reached an advanced stage we should have a firm idea of the aid levels that would be compatible with the future we envisage for BS.

Why should we bid up or a negotiating tactic. We overbid to be bidding down.

The fact that the IF was approved would lead to spending up to it.

Whatever happened to Norman Lamont's assertion that...

the public interest is not to spend food money after the fact.



8 To persuade the Commission, we shall need to exert considerable pressure on them bilaterally, probably at Ministerial as well as official level. And as I have already mentioned, we shall need also to mount collective pressure on the Commission with like-minded member states, a process which has already begun. Even so the Commission might well insist on clearance by the Council of any significant enhancement of the UK regime and on obtaining beforehand a Council steer on the Fifth Directive's future.

7 Thus the timing of a Commission decision on our proposed regime is not in our hands. However hard we press it could be quite a way into 1984 before the issue is resolved. In the meantime we shall have to rely, as now, on the use of IF at the present level supplemented by various forms of soft credit on a case-by-case basis.

8 I should be grateful to know whether you and other E(NI) colleagues are content that I should proceed on this basis. No

9 I am copying this minute to E(NI) colleagues, Geoffrey Howe, Jim Prior and Sir Robert Armstrong.

NT  
N T

22 December 1983

DRAFT LETTER

E Noel Esq  
Secretary General  
Commission of the European Communities  
Berlaymont  
200 rue de la Loi  
1044 BRUSSELS  
BELGIUM

UK SHIPBUILDING AID REGIME

1. My authorities have asked me to notify the Commission of the regime for shipbuilding they propose to introduce.

2. The UK industry has been hit particularly hard by the sharp deterioration of the world market and the poor order situation. The UK industry now faces a crisis and the risk of disorderly collapse with serious social consequences. As an illustration of the scarcity of orders, British Shipbuilders' order book at end October 1983 was 346,000 cgrt compared to 483,000 cgrt at end-1982. Of the present (end-October) order book only 71,000 cgrt represents orders on which work has not begun compared to 153,000 cgrt at end-1982. Harland and Wolff's order book at the end of August amounted to 64,266 cgrt compared to 92,532 cgrt at the end of 1982. Work has already commenced on all of these orders.

3. In view of the market crisis and the industry's uncertain prospects the Government is calling for major efforts to improve the industry's competitiveness. Much has already been done since our last aid notification in June this year. In British Shipbuilders as a whole 3,967 (including 2,677, 12% of merchant employment) redundancies were called for in July 1983 and a further 2,098 (including 430, 2% of merchant employment) in October 1983; in addition some 4,350 jobs (including 1,560, 7% of merchant employment) are at risk between October 1983 and March 1984. If all these prospective job reductions take place, between July 1983 and March 1984 4,677 merchant jobs (ie 21% of the merchant division employment at June 1983) will have been lost. The new Chairman (Mr Graham Day) has been given a tough remit - to do whatever is necessary to bring about a radical improvement in efficiency and a return to profitability.

*So has  
very other  
country. Our  
share of  
new orders  
has gone down*

The Government and Mr Day are currently considering the steps necessary to achieve these aims. The details of the new strategy will be progressively emerging in the next few weeks, within the agreed objective of moving rapidly into a core of cost-effective yards with a substantial contraction in capacity.

If this is not done quickly there is a serious risk that some of these good yards may be lost as well as the less productive yards which it is planned to close. The success of the strategy, however, will turn crucially on the provision of the regime of support set out in this letter.

4. [The Government has already approved a new strategy for Harland and Wolff prepared by its new Chairman.] This is aimed chiefly at a significant improvement in efficiency through cost-cutting and more effective use of management and technology. Significant capacity reduction is difficult since building takes place in a single dock, but between March and July 1983 manning was reduced by a further 750. The main objective of Harland and Wolff's new strategy is for the company to increase cost-effectiveness. Building costs are to be reduced by a productivity improvement programme - mainly the application of new technology and improved manning and control - and a cut in material costs. Harland and Wolff will also be switching the emphasis of its marketing away from large unsophisticated tonnage to more complex vessels where Far East competition should be less intense.

Leaving how many? There are no spare yards in the dock.

5. The industry's performance however cannot be transformed overnight - time is needed for the industry to make these necessary changes leading to a definitive

solution of the problems confronting it. The UK Government also considers it essential to maintain its proper contribution to a healthy and competitive ship-building industry within the Community. To this end and to assist the industry to obtain new orders, additional aid will be needed for the next two years by which time the market should begin to pick up.

- But we may not get the orders.

We have been lucky 2 1/2 years. We were writing this and it tells them.

*may eventually  
have to close*  
  
*work  
on  
strike  
or  
lock  
out  
orders.*

6. A disorderly collapse would have grave and disruptive social consequences - regions where unemployment is already severe, ie Northern Ireland, the Clyde and the North East would be particularly hard hit; despite efforts by the Government via its Regional policies to renew the infrastructure and to provide a broader based, more stable pattern of alternative employment in these areas where shipbuilding and other traditional, heavy industries are in serious decline. The problem is further complicated by manpower reductions that will be taking place in some of BS' other activities.

7. The UK Government continues to support the Community principle of degressivity, as our shipbuilding policy for restructuring and aid has amply demonstrated over the last four years. But with the continuation of the crisis and its serious present consequences for the UK shipbuilding industry we believe that to be realistic our and Community policy must be flexible enough to reflect the conditions of the industry and the state of the market. It is not realistic to insist on continuing degressivity at a time when demand and prices have plummeted and Far Eastern yards are quoting prices which are sometimes below even their costs according to the Commission's own annual report on the industry. As the Commission knows, this view is shared by most other member states. Insistence on degressivity in present circumstances would mean virtually no new orders; a precipitate and disorderly capacity contraction of the Community's industry; abandoning the field to the Japanese and other Far Eastern countries and the EC industry's relegation to the status of a marginal producer. This outcome would conflict with UK and Community policy and would be unacceptable on social and political grounds.

8. With this said however the UK Government fully intends to ensure that the quantum of shipbuilding aid in the UK should resume as soon as possible the downward trend it has followed in recent years.

Competition within the Community

9. The UK is mindful of the need to ensure that when yards in different member states are pursuing the same order prospect competition among them should not be distorted by inequitable differential in available aids. The reality of the present situation however is that Far Eastern suppliers dominate the market and that in the overwhelming majority of cases they, rather than other EC yards, constitute the competition Community yards have to overcome.

*- And they will*

*continue to do so.*

Industrial policy implications

10. The new regime does not imply an intention to sustain the industry at a particular size regardless of cost. It is fundamental to the UK Government's general approach that the size of any industry must be dictated primarily by its ability to compete in the open market without Government aids. This applies to shipbuilding as it does to any other industry. The Government is also anxious to contain public expenditure and therefore to reduce the burden of shipbuilding aids on the Exchequer. However the pursuit of these objectives must be tempered by the need to avert a precipitate worsening of unemployment, particularly in regions where it is already a serious problem.

*but never  
to particular  
cases*

11. The UK can well understand that the Commission might be concerned about the possibility that the provision of additional aid would discourage necessary restructuring and adjustment to market conditions; but, as already indicated, our plans are for continuing major restructuring with the aim of achieving viability. It is also noteworthy that, far from having been insulated from market forces, the UK industry has contracted more than that of any other Member State: 54% between 1975 and end 1982 (see Table 1).

*its labour product*

*are worse than that of other member states.*

Structural adjustment

12. In 1979 British Shipbuilders embarked on a major programme of restructuring which, inter-alia, resulted in the manpower contraction referred to in Paragraph 11. above and the closure of a total of 9 yards and of 36 out of 66 merchant berths. In general terms the very considerable fall in capacity that this represents is reflected in the fact that BS yards before nationalisation in 1977 were producing an average 623,000 cgrt annually, whereas BS' estimated current capacity is around 350,000 cgrt, slightly above the present order-book level of 344,000 cgrt.

13. By the end of that period losses had reduced considerably, and British

Shipbuilders were able to secure a reasonable volume of orders despite a progressive reduction in the amount and intensity of the Intervention Fund (Table 2). At that point, with a reasonably buoyant world demand, the situation appeared to call for a period of stabilisation during which the Corporation would be able to consolidate the gains already achieved and prepare for further improvements in competitiveness.

14. However, as conditions began to worsen, once again BS resumed their restructuring measures, reducing their merchant manpower by a further 2730 (13.7%) to 17170 by end-April 1983. Such restructuring unavoidably places an extra financial burden on the Corporation since during its course it has to bear the costs of under-utilisation of production facilities, the costs of eventual closure or dismantling of facilities, together with certain workforce redundancy costs under the Employment Protection (Consolidation) Act 1978.

15. In addition to structural adjustment in shipbuilding itself, BS have taken the firm decision to dispose of such of their shiprepair capacity as is saleable and to terminate the remainder.

16. So far as Harland and Wolff is concerned, as explained above, major reductions in plant capacity are not feasible. The company has however been implementing a programme designed to reduce other facilities (eg steel preparation and outfit shops) in line with actual and prospective utilisation. New merchant-building employment has reduced from 5,370 in 1982 to the present level of 4,200 (a reduction of 22%) and overheads have been significantly reduced inter alia by a 35% contraction in the size of the site.

*Still too many for the possible rewards.*

Form of additional aid

17. As it presents itself to the industry the problem is essentially one of price. Far Eastern yards in general determine the world price, owing to their dominant share of the market. As the Commission knows, in the last few months Far Eastern prices from Japan and Korea have dropped sharply. Our industry tells us that cost/price gaps of 35% and above are not uncommon.

*12. 10/15*

18. In these circumstances the current Intervention Fund intensity - 15% plus 2% Shipbuilders Relief (18% plus 2% Shipbuilders Relief for H & W vessels of 100,000 dwt and over) - is quite inadequate, given that its purpose is essen-

tially to help meet Far Eastern competition. If the UK industry is to be able to secure a reasonable amount of work in present circumstances, new measures are urgently needed to help it bridge the large cost/price gap that has emerged in recent months. To meet the needs of the situation an increase of the IF intensity of up to 35% is required. Because of the nature of the problem facing the industry and the need for a solution that would have immediate effect, the UK believes that only direct aid would be effective. Moreover direct support has the advantages for the UK Government of being transparent and easily controlled.

Thus less direct and slower acting measures designed to assist modernisation and

restructuring would not be appropriate in the particular circumstances, though they may have a place in the longer term.

19. In consequence, the amount of Intervention Fund also needs to be increased.

For July 1982/1983 it was £40m for BS and the private sector and £10m for H & W: we envisage a figure of /£100m/ for BS and the private sector and £20m for H & W to cover the next two years.

As a Community Study we are in a  
sharp position to help pressure to bear on  
these countries re their shipbuilding price policies

20. As regards the volume of Intervention Fund support it is relevant to note that, taking account of UK domestic inflation since 1977/78 when the Intervention Fund started, the volume of IF shows a substantially steeper decline than is apparent from the actual amounts at current prices. The figures are given in Table 2.

Features of British Shipbuilders' new strategy

21. The programme of capacity adjustment referred to above will underpin the new strategy whose main objective is to move rapidly to a defensible core of cost-effective yards. Based upon a fundamental reassessment of the nature of the shipbuilding market and of those particular sectors in which BS production should best concentrate, BS plans to rationalise its physical production facilities as well as its manpower and engineering resources. This rationalisation will entail the elimination of duplicated facilities, and the identification of and concentration of work in the minimum number of most productive berths. These production berths will be served by the optimum number of similarly rationalised manufacturing, processing and assembly shops.

*Why has it not done so far ago?*

22. These plans are to be based on a fundamental re-assessment of the nature of the shipbuilding market and of the particular sectors of the market on which the Corporation should focus. Essentially this means concentrating on the types of vessels on which Far Eastern competition is least severe. This approach is, of course, entirely in line with that advocated in the Commission's recent Paper on a policy for the Community's shipbuilding industries.

23. Within the core yards major productivity improvements are scheduled; these include the continued development and implementation of a common core technology. Capital investment will be directed towards further improvements in performance and productivity, including a substantial investment in Computer-Aided Design and Manufacture.

*which*

*Let more capital investment?*

24. In depth research is now being put in hand to ensure that the new strategy and its implementation reflects a realistic assessment of the market for the Corporation's products. The results of the market research currently under way will also assist the Corporation in achieving its targetted sales in to be identified product areas related to specific facilities.

*Andrew - this is just wrong  
It is the sort of thing  
that could have been written  
during the heyday of Binney  
and*

Conclusion

*what plan?*

25. The UK Government believes that <sup>nothing</sup> short of this <sup>planned</sup> regime of aid during restructuring will permit the proper handling of the serious and immediate problems facing the UK shipbuilding industry. The UK Government remains firmly committed to the principle of degressivity of shipbuilding aids, but believes that the present desperate situation of the shipbuilding market compels a moratorium on this policy within the European Community. The Commission will no doubt recall that at the 18 October 1983 Multilateral meeting on shipbuilding the majority of Member States supported the UK proposal for a temporary (2 year) suspension of the Fifth Directive requirement that aids must be degressive. The DG IV representative at that meeting indicated that the Commission would take note of Member States opinions and would urgently consider the matter further.

26. For the reasons indicated above the UK Government is anxious to institute the new aid regime at the earliest possible time, and desirably from 1 February 1984, immediately following the expiry of the present interim IF arrangement. In this connection the Government stands ready promptly to supply the Commission with any further information they might require.

*The Govt is not in a position to do so. The head of this Govt has not yet had a chance to get the Disposal plan, nor a paper to it on the essential decisions that have to be taken.*

*and*

TABLE 1.

EMPLOYMENT IN NEW MERCHANT SHIPBUILDING IN THE COMMUNITY (End of year)							Percentage Contractio
	1975	1978	1979	1980	1981	1982	1975-1982
Belgium	7467	6614	6258	6523	6119	5.031	32.6
Denmark	16630	12000	9900	11400	11350	11.8 00	29.0
France	32500	25300	23000	22200	22200	22.000	32.3
Germany	46839	31113	27369	24784	26521	27.600	41.1
Greece	.	.	.	.	3393	3.696	-
Ireland	869	840	750	750	762	882	-
Italy	25000	20000	19000	18000	16.500	13.750	45
Netherlands	22662	17540	14540	13100	13100	13.100	42.2
United Kingdom	54550	41050	31200	24800	25345	25.000	54.1
Sub-total	206517	154457	132017	121551	124897	119163	
less Greece							
Total					125290**)	127850	

Source: EC Commission Report on Shipbuilding in the Community at 1/1/83.

TABLE 2INTERVENTION FUND TRANCHES

	1977/8	1978/9	1979/80	1980/1	1981/2	1982/3
Intensity (%) <sup>(1)</sup>	30	30	25	25	20	17 *
Volume at Current Prices (£m) <sup>(3)</sup>	65	85	65	55	45	40
Volume at Constant (1977/8) Prices <sup>(2)</sup> (£m)	65	77.2	50.3	37.3	27.6	23.2

NOTES

\* 20% for H & W ships over 100,000 dwt

(1) Including Shipbuilders Relief at 2%

(2) Volume figures adjusted to take account of the increases in the general level of prices, taking the average 1977/8 price level as a base.

(3) GB yards only. Volume for H & W is :  
15 (1977-79) 25 ('79-'81) 10 ('81-'82) 10 ('82-'83).

Source: DTI



1983





JU307

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215 .....

(Switchboard) 215 7877

21 December 1983

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

*Dear Tim,*

*GF  
me h/2.*

You requested advice on whether the Prime Minister should meet Dr Norman Godman MP to discuss the cancellation of Britoil's contract at Scott Lithgow.

2 As you know, Mr Lamont made a Parliamentary statement on Britoil and Scott Lithgow yesterday. He also had a private meeting with Dr Godman yesterday evening. Dr Godman is due to raise 'the future of Scott Lithgow' in tomorrow's adjournment debate, to which Mr Butcher will be replying.

3 You are also aware that the cancellation of this contract - which is anyway now the subject of litigation between BS and Lloyds Leasing, the legal owners of the rig - does not precipitate immediate closure.

4 In view of all this, our advice is that the Prime Minister does not see Dr Godman at this time. I think, however, that you should log the possibility of a future meeting, when the closure of the yard is announced.

... 5 I attach a draft reply.

*Yours ever,*

*Ruth*

RUTH THOMPSON  
Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO NORMAN GODMAN MP

Thank you for your letter of 19 December about the Britoil contract at Scott Lithgow.

Norman Lamont made it clear in the House on 20 December that we regard this as a commercial matter between the various parties, and that we do not propose to intervene.

I understand that you also had a discussion on Scott Lithgow with Norman later that day.

I would, of course, be <sup>very</sup> concerned about the employment consequences if this contract were cancelled (I say "if" because, as you know, British Shipbuilders has issued a writ contesting the validity of the cancellation notice). George Younger has, however, said that he will do all he can to alleviate the consequences for the local community.

Even if the contract is cancelled this will not precipitate the yard's immediate closure: as you may know, there are two other vessels in the yard, neither of which will be completed until next year.

At this stage, therefore, and in view of the meeting that you have had with Norman Lamont, I do not think a meeting between us <sup>c</sup>ould add a great deal to what has already been said. Nevertheless, if you would still like to discuss the matter with me, I should be pleased to do so. ~~Perhaps you could contact~~  
The only other point I would make is that I hope that you will reinforce to your constituents the point that <sup>by the members of</sup> Scott Lithgow's participation in the strike that has been called in the New Year would, in the light of recent events, be disastrous.   
Scott Lithgow

AM for meeting with Goldman <sup>Mr</sup>@ Scott Litzgow  
Dec. 1983

21 DEC 1983

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

Thank you for your letter of 19 December about the contract at  
Scott Litzgow.

As I mentioned in my letter of 19 December, I am not  
this as a contractual matter between the various parties, and that we  
do not propose to intervene.

I understand that you also had a discussion on Scott Litzgow with  
Journal-Liter that day.

I would, of course, be concerned about the employees' consequences if  
this contract were cancelled (I say "if" because, as you know, British  
Embroideries has issued a writ restraining the validity of the cancellation  
action). Justice Young has, however, said that he will do what he can to  
eliminate the consequences for the local community.

Even if the contract is cancelled this will not terminate the yard's  
contract elsewhere; even now, there are two other vessels in the  
yard, neither of which will be completed until next year.

At this stage, therefore, and in view of the meeting that you have had  
with Journal-Liter, I do not think a meeting between us would add a great  
deal to what has already been said.

The only other point I would make is that I hope that you will continue  
to your satisfaction the point that Scott Litzgow's participation in the  
strike that has been called in the new year would, in the light of recent  
events, be disastrous.

me

*file*



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186  
GTN 215) 5186  
(Switchboard) 215 7877

*From the Minister of State for Industry*

Norman Lamont MP

Charles Marshall Esq  
PS/Lord Privy Seal  
Privy Council Office  
68 Whitehall  
LONDON  
SW1

20 December 1983

*Dear Charles*

I am attaching a copy of the statement Mr Lamont will be making on the Britoil contract at Scott Lithgow this afternoon.

I am copying this letter to David Barclay and the private secretaries to the Chancellor, the Secretaries of State for Defence, Scotland and Energy, the Chancellor of the Duchy of Lancaster, the Chief Whip and to Bernard Ingham.

*Yours*  
*John Alty*

JOHN ALTY  
Private Secretary

*agreed by BS*

DRAFT STATEMENT ON BRITOIL

Mr Speaker, with permission I will make a statement about the contract between Britoil and British Shipbuilders.

In December 1981 Scott Lithgow contracted with Britoil to produce a semi-submersible drilling rig. The contract value was £88.6 million, and the contractual delivery date was April 1984. Construction began in February 1982.

By March 1983, BS had provided for losses of £43.8 million on the rig. The then Chairman, Sir Robert Atkinson, warned that performance and losses at Scott Lithgow were unacceptable.

On 31 October 1983, Britoil were sufficiently concerned about progress on the contract to issue through its agents a notice requiring Scott Lithgow to demonstrate within 30 days that the rig could be completed by February 1985.

Scott Lithgow responded to Britoil by arguing that despite the undoubted delays on the contract hitherto completion would be possible within the terms of the contract.

However, on 19 December a notice of cancellation was served on behalf of Britoil on the basis that Scott Lithgow had not demonstrated that the rig could be delivered by February 1985.

BS have responded to the cancellation notice by disputing its validity.

While BS and Britoil are considering the next step in this negotiation, all work on the rig will be stopped. BS are instructing suppliers to suspend work on contracts relating to the rig. Up to 2,000 of the workforce are involved in construction of the rig.

The remainder of the workforce - approx 2,250 men - are employed on two other contracts: one for BP and one for the Ministry of Defence. It is BS' intention that these contracts will continue.

The potential consequences for employment in an already hard pressed area could be severe, and naturally the Government would greatly regret this. However, as the workforce of Scott Lithgow has known all along, the offshore industry is highly competitive. Customers want what they have contracted to buy both in terms of delivery and of price. Scott Lithgow so far appears to have been unable to satisfy Britoil that it can fulfil its obligations on this contract.

DTI

20 December 1983



10 DOWNING STREET

*From the Private Secretary*

20 December, 1983

Caroline Stephens has passed to me your letter of 15 December on the problems of British Shipbuilders on the Lower Clyde. In view of the importance of this subject, I have placed it before the Prime Minister and a reply will be sent to you in due course.

ANDREW TURNBULL

Sir William Lithgow

Re: phin dig

ms

2

PRIME MINISTER

Scott Lithgow/Britoil

I attended the first half of Mr. Lamont's statement. Though he emphasised that strictly he was speaking about the cancellation of the Britoil contract and not about closure, no one in the House (and probably not even himself) was misled by that.

In the part of the discussion that I heard, there was very little support from any part of the House. Labour and Liberals criticised the Government for leaving this decision to the commercial interests of Britoil and British Shipbuilders. It was argued that this was carrying laissez faire to unreasonable lengths. A number of Members on the Conservative side, in particular Mrs. McCurley, expressed serious constituency concern.

Mr. Lamont was alone in defending the taxpayer interest, pointing out that since 1977 Scott Lithgow's losses had amounted to £165 million, 38 per cent of the BS total, although Scott Lithgow accounted for only 8 per cent of employment in the group. Far from being laissez faire, this represented a long history of Government support.

You have received a number of letters on this issue, a sample of which is attached. I am seeking advice from DTI on a reply.

AT

ANDREW TURNBULL

20 December, 1983



File  
with AK

107

10 DOWNING STREET

*From the Private Secretary*

20 December, 1983

SCOTT LITHGOW

BF

The Prime Minister has received the attached teletmessage from Mr. James Milne, General Secretary of the Scottish TUC, and the attached letters from the Moderator of the General Assembly of the Church of Scotland and Sir William Lithgow, all expressing concern about the possible closure of Scott Lithgow. I would be grateful if you would provide a draft reply for the Prime Minister to send to these communications. Since this issue is very topical, could this be done as soon as possible.

(A.Turnbull)

John Alty, Esq.,  
Department of Trade and Industry

JK



✓  
BGF

10 DOWNING STREET

*From the Private Secretary*

20 December 1983

We spoke about the request by Dr. Norman Godman, MP, for a meeting with the Prime Minister about the cancellation of Britoil's oil rig order with Scott Lithgow. Dr. Godman's letter, a copy of which is attached, has now arrived.

I should be grateful for urgent advice on whether the Prime Minister should agree to Dr. Godman's request in the light of her undertaking to meet Members of Parliament in whose constituencies significant factory or other closures are likely to take place. It may be that at this stage we should hold in reserve the possibility of a meeting with the Prime Minister and if you agree you might like to consider whether it would be appropriate for Dr. Godman to meet one of your Ministers. I should add that I have no doubt that the Prime Minister would wish to agree to Dr. Godman's request if it became clear that Scott Lithgow are likely to close.

Could I have a draft reply as soon as possible.

RF

Miss Ruth Thomspson  
Department of Trade and Industry.

Dr. Norman A. Godman, M.P.  
Member of Parliament for Greenock & Port Glasgow



HOUSE OF COMMONS  
LONDON SW1A 0AA

NG/JC

19 December 1983

R20

Ack'd 20/12  
CJA

Dear Mrs Thatcher,

It was announced an hour ago that Britoil has cancelled the contract with Scott Lithgow for a semi-submersible drilling rig.

The cancellation of this order puts at risk some 4000 jobs at Scott Lithgow, and economists at Strathclyde University have predicted that in addition up to 4000 jobs in service and ancillary industries may be lost as a result of this. As the rate of male unemployment in my constituency of Greenock and Port Glasgow is already running at some 21%, I am sure you would agree that the effects of redundancies on this sort of scale would be devastating to the local community.

Bearing in mind the statement you made some time ago concerning your willingness to meet backbenchers who have serious constituency problems, I wondered if perhaps you would be so good as to agree to meet me in the near future to discuss the current situation at Scott Lithgow. It would perhaps be useful if Mr Donald Dewar could also be present at such a meeting, in view of the larger consequences for the Scottish economy of the Britoil decision.

I readily acknowledge that your schedule is a very full one but would very much appreciate the chance to discuss this important matter with you, at your earliest convenience.

Yours sincerely,

*Norman A. Godman*

Rt. Hon. Margaret Thatcher, MP  
House of Commons

CONFIDENTIAL

NBPM AT 16/12 JNO



THE MINISTER OF STATE

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ

Direct Line 01-211 3290  
Switchboard 01-211 3000

Norman Lamont Esq MP  
Minister of State for Industry  
Department of Trade & Industry  
1 Victoria Street  
LONDON SW1

16 December 1983

BRITTOIL CONTRACT AT SCOTT LITHGOW

Thank you for your letter of 2 December.

I am naturally disappointed that you do not agree that it is essential that the rig should be built. I remain of the view that, if and when the prospect of it being completed at Scott Lithgow finally disappears, we must urgently consider alternative ways of enabling Britoil to acquire this key vessel. This may involve public funds. So I would be grateful if you could keep me closely informed of developments.

Copies of this letter go to the Prime Minister, Michael Heseltine, George Younger, Peter Rees and Sir Robert Armstrong.

Your ear,  
Alick

ALICK BUCHANAN-SMITH

CONFIDENTIAL

16 DEC 1983



NAT. IND.  
Ripbuilding  
N.J.

16 Woodlands Terrace  
Glasgow G3 6DF

*Ackd. 20/12*

16 December 1983

TELEMESSAGE  
MRS M THATCHER MP PRIME MINISTER  
10 DOWNING STREET  
LONDON  
SW1

I URGE GOVERNMENT INTERVENTION TO RESOLVE THE DEADLOCK WHICH EXISTS BETWEEN BRITOIL AND BRITISH SHIPBUILDERS OVER THE CONTRACT AT SCOTT LITHGOWS. THE FUTURE OF THIS CONTRACT IS VITAL TO THE ENTIRE POPULATION OF INVERCLYDE BUT PERHAPS EVEN MORE IMPORTANT TO THE FUTURE REPUTATION OF BRITISH SHIPBUILDERS AND INDEED THE U.K. OFFSHORE SUPPLY INDUSTRY. IT IS NONSENSE TO SUGGEST THAT THE GOVERNMENT HAS NO ROLL IN NEGOTIATIONS BETWEEN A NATIONALISED INDUSTRY AND A COMPANY WHICH IS 48 PERCENT STATE OWNED IN AN INDUSTRY OF VITAL STRATEGIC IMPORTANCE TO BRITAIN.

JAMES MILNE.  
GENERAL SECRETARY STUC.

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Sir William Lithgow  
Telephone Langbank (0475-54) 692  
(after hours Langbank 389)  
Telex 779801

→ Mr Turnbull  
P.O. Box 2,  
Port Glasgow,  
Renfrewshire.

PA14 5JH

Miss C.M. Stephens,  
Personal Assistant to The Prime Minister,  
No. 10 Downing Street,  
LONDON SW1.

15th December, 1983.

Dear Miss Stephens,

I enclose herewith a letter to the Prime Minister prompted specifically by the problems of British Shipbuilders on the Lower Clyde. In it, I seek to reassure her that this, like many industrial areas, can help itself given the right encouragement in a low key. Otherwise I am not seeking to offer any specific advice. You may feel that the Prime Minister's boxes are burdened enough at the present time, in which case please hold this letter back against a time when you judge it may be appropriate for the Prime Minister to have some background briefing.

My Regards and Christmas Greetings,

Yours sincerely  
William Whitely

Sir William Lithgow  
Telephone Langbank (0475-54) 692  
(after hours Langbank 389)  
Telex 779801

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

PA14 5JH

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister,  
No.10 Downing Street,  
LONDON SW1.

15th December, 1983.

Dear Prime Minister,

When I last reported to you in Opposition, I explained that Scott Lithgow would resist Nationalisation to the last ditch, but not be buried in it; that would be too destructive of the Lower Clyde community. The fiasco of Nationalisation later broke an innovative team that won through years when inflation turned fixed prices, demanded by a World market, into a nightmare; years when Government engrandised industrial duds, but publicly ridiculed all alike for the benefit of foreign competitors. I left Scott Lithgow in 1978, other colleagues subsequently, preferring not to be discredited by State management methods.

Most of us here accept our share of blame for mistakes made. Our community must however get on with the future; that will be doubly difficult if political acrimony leaves us quarantined as the Upper Reaches were after U.C.S. When I called on him a few weeks before the final debacle, I found Mr. Heath apparently unaware of what was likely to happen; his Government's handling of that situation went far to destroy the credibility of its policies.

In today's realism, and with goodwill, I am confident home grown prosperity can be re-established. There remains a great future in sophisticated ocean engineering for which the Lower Reaches has excellent resources. Whether British Shipbuilders could achieve a "Jaguar" leap out of the pit is unlikely though. Even the response of an offshore constructor customer of mine, asked by a Minister whether his company might be interested in part of Scott Lithgow, was that he would have liked the facilities but not the men. Most of these men though are every bit as good as those he has. The Benn compensation formula has left Lithgows with no capital base for major activities, but the rapid expansion of our electronics related business in Greenock is only held back by the lack of an adequate factory to let.

Local people here are not returning the sniper fire in a battle which reflects little more credit on Britoil than British Shipbuilders; a proud community does not want to become a Beirut. It was soon recognised that Nationalisation was a disaster, but it is not easy to maintain mutual respect between a community that voted for it and a Government that opposed it. I realise how thankless the task of Government is, but sponsoring Ministers should acknowledge that, from the outset, grave and expensive errors were made by the Department and

Ministerial Appointees, as well as on the job. You have told me how you can be isolated in No.10. Briefs are not always faithful to the whole truth.

Unemployment may be a failure of organisation. The catalyst of successful enterprise is confidence. With good products and technology, front line industry will win back markets which have allowed to be overrun. Economic recovery that makes the pastures of the South lusher and the moors of the North bleaker is not what we have striven for. All strength to your leadership.

I have asked Caroline Stephens to hold this letter back if she judges that this is not an appropriate time to burden you with it.

Mary Claire joins me in our best wishes to you both for Christmas and the New Year.

*Yours very sincerely*  
*Bill Higgs*



Prime Minister  
To Mr AT 9/12

6

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP  
Secretary of State  
Northern Ireland Office  
Whitehall  
LONDON  
SW1P 3AJ

7 December 1983

Alan Jim

HARLAND AND WOLFF: CORPORATE PLAN

The E(NI) meeting scheduled for December 6 to discuss British Shipbuilders and Harland and Wolff has now been postponed until some time in the New Year. Had we met, I was going to suggest that we postpone an immediate decision on Harland and Wolff's corporate plan, in order to allow time for a further option to be developed for consideration by the Committee. I believe you may wish to consider using this enforced postponement for the same purpose.

Official level discussion has shown that the Plan's assumptions, even on Mr Parker's own figuring, imply only a very modest reduction in the annual financing requirement for the yard over the next three financial years. Moreover, it is also agreed between our officials that the Plan is based on optimistic assumptions about the timing and level of orders, including the hope that Harland's will almost double its market share. Although there is little doubt that the new Chairman is making important management and productivity improvements, the fact is that however successful he is on this front, the level of subsidy is primarily determined by factors outside his control. These include world ship prices, world demand, and world over-capacity.

For example, only a three month slippage in the timing of orders results in a subsidy for 1984-85 of about the same level as the current year (£42m). A failure to meet the ambitious targets for new orders would mean that the subsidies for future years were higher still. Our experience with the Blue Star order, which took over one year and four references to E(NI) to finalise, is fresh in our minds. It is hard not to share the conclusion of PA consultants (whose review of the Parker Plan we are to consider) that, on any realistic prospect, Harland's subsidy requirement will continue at the levels of recent years.

This is, I believe, unacceptable. The earlier Officials' Report on the possible closure of the yard showed that, in direct public expenditure terms, closure (at about £88m if carried out straight away) costs about the same as the equivalent of two years of subsidy. Even when lost tax revenue and social security are taken into account, closure is much the cheaper option (with a net present value of about £200m for closure, compared with about £850m for continuing support). In terms of national resources, closure would prevent a present annual drain of £20m of lost national output.

If the yard is to remain open, we should surely insist on some prospect of a reduced call on public funds. The Parker Plan does not offer this prospect.

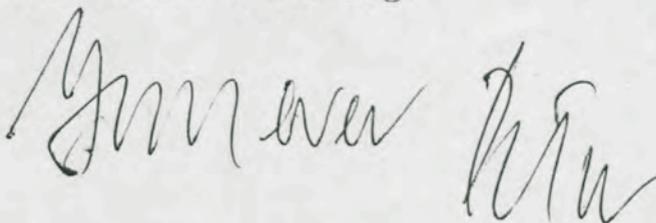
I think, therefore, that we should commission a study of the scope for a cheaper alternative strategy based on a substantially smaller yard - this study might be carried out either by management or consultants. We would need to know the overall cost of such a strategy, together with the subsidy level it would imply.

The delay helps us in another respect. As you know, we have already agreed that Harland and Wolff should not be able to secure ship orders on terms more generous than those available to British Shipbuilders. I would expect that, by the time we meet, we shall be better informed about the range of possible future subsidy levels for BS. This should allow us to see more clearly how our BS strategy impinges on Harlands. The forecast subsidy requirements for Harlands under both the Parker Plan and the revised plan I am suggesting should, of course, be modified to take account of what is then known about BS subsidy levels.

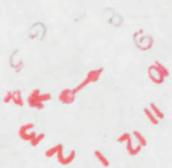
My proposal means that we should be in a position to compare, when we meet, three possible solutions for Harlands: the Parker Plan; a revised plan based on a smaller yard; and immediate closure. If the Parker Plan were then approved, I think it should be with a review point of March 1985, the date when we shall be considering the level of support for Harlands in 1985-86. We should also decide when we meet in the New Year, that if by whatever means further improvements have not been secured by March 1985 leading to subsidies, for 1985-86 and later years, lower than forecast in the Parker Plan, we should close the yard at that time.

I hope you can agree that we should so proceed, and that work on a "smaller yard" option should accordingly be put in hand meanwhile.

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



PETER REES



-9 DEC 1983

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AS NO.



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5186  
SWITCHBOARD 01-215 7877

NBM  
AT 2/12

From the Minister of State for Industry

Norman Lamont MP

Rt Hon Alick Buchanan-Smith MP  
Minister of State for Energy  
Thames House South  
Millbank  
LONDON  
SW1P 4QJ

2 December 1983

*Dear Alick*

BRITTOIL CONTRACT AT SCOTT LITHGOW

Thank you for your letter of 24 November.

I appreciate your concern that any decision on the future of this contract should take account of the effect on the image of our offshore supply industry and the strategic value to the UK of the rig concerned.

However I cannot accept your suggestion that come what may we must find ways of completing the rig. As the Prime Minister has made clear through her Private Secretary's letter of 10 November, the right approach is to allow British Shipbuilders to exercise its commercial judgement in negotiations with Britoil. Britoil will themselves be taking full account of the value of the rig as a major exploration unit in seeking to renegotiate the contract. If Britoil decide that they prefer to cancel rather than settle on terms acceptable to BS, then it is up to them to seek other ways of completing it if they wish. No doubt they will explore fully all the UK possibilities, but I fear that it may well be quite unrealistic to assume either that another contractor would take over the work on acceptable terms elsewhere or still less that anyone would wish to take on the Scott Lithgow yard itself for this purpose.

Copies go to the Prime Minister, Michael Heseltine, George Younger, Peter Rees and Sir Robert Armstrong.

*Yours faithfully*  
*Norman*

NORMAN LAMONT

CONFIDENTIAL

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CONFIDENTIAL



*file to*

10 DOWNING STREET

*From the Private Secretary*

30 November 1983

The Prime Minister has seen Mr. Lamont's latest report on the monthly financial results of the ship-repair Division of British Shipbuilders. She agrees that, as BS is now moving out of ship repair, monthly reports are no longer necessary, although she would welcome the report at the end of the year which he suggested.

ANDREW TURNBULL

John Alty, Esq.,  
Mr. Lamont's Office,  
Department of Trade and Industry.

CONFIDENTIAL

CONFIDENTIAL

~~cc NO~~



THE MINISTER OF STATE

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ

Direct Line 01-211 3290  
Switchboard 01-211 3000

NBPM  
AF 25/11

Norman Lamont Esq MP  
Minister of State for Industry  
Department of Trade & Industry  
1 Victoria Street  
LONDON  
SW1

24 November 1983

*Dear Norman,*

BRITTOIL CONTRACT AT SCOTT LITHGOW

I have seen a copy of Peter Rees' letter of 7 November about this contract. My main pre-occupations continue to be the adverse effect on the international image of the UK offshore supplier industry and the loss to UK exploration drilling capability of a significant unit.

I hope that, in reaching your decision, proper weight will be given to the international image implications. Beyond that, however, and regarding the rig, there are some practical considerations to be taken into account before a final decision is taken. These are:-

- a) Before a final decision is taken to close the yard it should be clearly established that the rig can in fact be built elsewhere in the UK, or alternatively, that we can divest BS of ownership of the yard and complete the rig at the present yard but under new management.
- b) I regard it as implicit in Peter's letter that, if it proves necessary, it will be possible to find money to enable the rig to be completed elsewhere or under new management.

Frankly I would not regard as satisfactory an outcome which would lose both the yard and the rig.

I am sending a copy of this letter to the Prime Minister, Michael Heseltine, George Younger, Peter Rees and Sir Robert Armstrong.

*Your aw  
Alick*

ALICK BUCHANAN-SMITH

NAT IND. Shipbuilding  
pts

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ce/NO



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5186  
SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

Prime Minister  
Agree X?

AT 24/11

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

Yes  
not

23 November 1983

*Dear Prime Minister*

I have now received the latest monthly financial results of the ship-repair Division of British Shipbuilders. The trading position is:-

Period	Trading Profit (loss)	Forecast to End of Year Profit (loss)	Previous Forecast
6 (27 August-30 Sept)	(285)	(2872)	(270)

This compares with a trading loss of £435,000 for the previous month. The large change in the forecast loss is due to the closures of Grangemouth Dockyard Ltd and Tyne Shiprepair Ltd (TSL), which will result in extraordinary redundancy costs. In accordance with BS' policy to move out of shiprepair, the Corporation announced publicly last month the decision to close or dispose of Grangemouth and TSL by 31 December 1983. In the event Grangemouth has already been closed while TSL is due to be closed by the end of the year. Workers at TSL voted to reject a management takeover scheme which could have saved 850 of the 1176 jobs, but it remains possible that second thoughts will prevail.

Privatisation of Falmouth is considered by BS to be a sensitive issue within the industry and, therefore, BS intend to wait till nearly the end of the year before announcing their plan. Preparation for the sale is, however, well in hand.

In view of these decisions to close yards and to get out of ship-repair, I would suggest, if it is acceptable to you that these monthly reports probably no longer serve a purpose. I would, of course, let you know the results at the year end and how progress has gone.

*Yours  
Norman*

NORMAN LAMONT

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CONFIDENTIAL



NBAM  
AT 18/11

~~CO~~ NO

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP  
Secretary of State for Northern Ireland  
Northern Ireland Office  
Whitehall  
LONDON  
SW1P 3AJ

18 November 1983

*Sec Secretary of State*

HARLAND AND WOLFF: BLUE STAR LINE ORDER

Thank you for your letter of 10 November.

Although E(NI) last July expressed its dislike of the terms, then on offer, and insisted that they were not to be repeated, I agree with you that there is little alternative but to accept the further deterioration - if that will secure this deal. On the assumption that the new terms are sufficient, I am prepared to agree that you should authorise the company to settle.

I am copying this letter to the recipients of yours.

*yours sincerely*

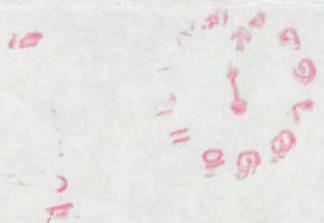
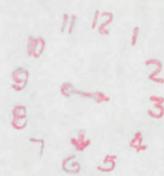
for PETER REES

*(approved by the Chief Secretary & signed in his absence)*

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Nat Ind Shipbuilding  
P+S

18 NOV 1983





*File No*

10 DOWNING STREET

*From the Private Secretary*

10 November 1983

BRITOil CONTRACT AT SCOTT LITHGOW

The Prime Minister has seen the Minister of State's letter to Peter Rees of 28 October and also the subsequent letters from the Secretary of State for Scotland, the Chief Secretary, and the Minister of State, Department of Energy. She takes the view that the right approach is to allow British Shipbuilders to exercise its commercial judgement. If, after further negotiation with Britoil, BS feels that cancellation is the best course, it should be allowed to proceed.

I am copying this letter to John Gieve (Chief Secretary's Office), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), Ian Fitzpatrick (Office of the Minister of State, Department of Energy), and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

John Alty, Esq.,  
Office of the Minister of State (Mr. Lamont),  
Department of Trade and Industry.

*CT.*

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22NO



Northern Ireland Office  
Stormont Castle  
Belfast BT4 3ST

BR  
with HMT  
response  
AT 10/11

Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON

10 November 1983

*Handwritten signature*

HARLAND AND WOLFF LTD: BLUE STAR LINE ORDER

In July E(NI) colleagues agreed that I should authorise Harland & Wolff Ltd (H&W) to take orders for three refrigerated cargo ships to be leased by the Blue Star Line and that I should clear terms for the remaining vessel with colleagues. The average subsidy implied for the three ships amounted to 46.5% of selling price.

Building contracts have now been signed for the first two ships. For the third ship, however, it subsequently emerged that the lessors, Investors in Industry (III), and Blue Star could not come to terms on the basis described to Ministers and III sought a level of subsidy of over 50%; the bank consortium offering terms for the fourth ship sought over 55%. I made it clear that I could not contemplate such proposals for either vessel and I insisted on improvements. H&W have therefore been engaged in intensive re-negotiations. This involved a rejection of the bank consortium's terms so that they have withdrawn leaving H&W negotiating with III for the financing of both ships.

The terms now proposed for ships 3 and 4 are set out in Annex A; they show a very marked improvement over those until recently requested by III while remaining more expensive than the level agreed for the third ship last July and involving, at a nil net cost to government, an extension in the indemnity arrangements sought by III

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from H&W (details in Annex B). The improvement arises partly from a favourable shift in III's position. But H&W have themselves been able to reduce their costs on all four ships by some £1m by securing lower than estimated prices from component suppliers; these savings have reduced the subsidy level agreed last July for the first two ships. The Department of Economic Development have retained PA Consulting Services who have verified that these savings either have been or can be secured in materials purchases.

I believe that H&W should now be authorised to clinch the order for the remaining 2 ships on the terms outlined. The total subsidy for all four vessels, taking account of the improvements secured on ships 1 and 2, would now be £31.32m - less than £1m more than the sum would have been if the final ship had been contracted on the terms colleagues accepted last July for the third ship. The average subsidy, compared with the level agreed for three vessels, would rise by 0.7%. There would be no impact on the agreed EFL for 1983/84.

In the absence of other firm order prospects (though H&W are energetically seeking orders and the recently announced licensing agreement with the Japanese company IHI is welcome, though it does not in itself constitute new orders) I am firmly of the view that the full 4-ship order is the minimum necessary to enable the new leadership at H&W to pursue their efficiency drive effectively. The full order would also enable the Government to avoid the human and financial costs associated with either a 2 or 3 ship order. These would include early lay-offs of up to 1,000 men, an additional cash requirement of up to £7.3m on top of the external financing already agreed for the Company in 1983-84, and extra cash costs in 1984-85. In light of the very strong case for maintaining employment at H&W on social and political grounds, I am sure colleagues will agree that the alternatives to taking the full order for four ships at the minimal additional subsidy required are unacceptable.

H&W must press ahead quickly with the work on the third and fourth ships if they are to ensure maximum savings on construction costs.



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Therefore, if you and colleagues are content I intend to authorise the company to settle the orders on the terms described within the next week. I would be grateful for views by close of play on 15 November.

A copy of this letter goes to the Prime Minister, other E(NI) colleagues, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Brown', written in a cursive style. The signature is positioned in the center of the page.

HARLAND AND WOLFF LIMITED  
BLUE STAR LINE ORDER

	SHIP 3		SHIP 4	
	£m	% of Price	£m	% of Price
1. Construction Cost - Note 1	20.1		19.2	
2. Contract Price	17.4		16.2	
3. Intervention Fund - Note 1	2.36	13.6	2.67	16.5
4. Shipbuilders' Relief	0.35	2.0	0.32	2.0
5. Interest Subsidy on S. 10 loans (NPV)	1.54	8.9	1.53	9.4
6. Soft Credit (NPV) - Note 2	1.71	9.8	1.48	9.1
7. Interest Indemnity (NPV)	1.25	7.2	1.10	6.8
8. Interest Free Loans	1.39	8.0	0.97	6.0
TOTAL SUBSIDY (3-8)	8.60	49.5	8.07	49.8

NOTES:

1. These items reflect the reduction in material costs of £250,000 per vessel described at paragraph 4 of the memorandum. So far as ships 1 and 2 are concerned, the effect of the material savings is to reduce the estimated construction cost per vessel to £19.45m; the intervention fund aid per vessel to £2.70m (16.5% of contract price) and the total subsidy to £7.325m per vessel (44.7% of contract price). Taken with the subsidy levels for ships 3 and 4 shown above, this gives a total subsidy for the four ships of £31.32m; 47.2% of total contract price. In comparison, Ministers approved a subsidy level of 46.5% for 3 ships in July.

2. The soft credit terms follow lines previously agreed. Interest charges would be subsidised on the difference between commercial lending rates and 4.56%, and the loans would have a life of 15 years, including what amounts to an initial 5-year moratorium.

HARLAND AND WOLFF LIMITED  
BLUE STAR LINE ORDER

HARLAND AND WOLFF INDEMNITIES

1. Terms approved by Ministers in July 1983 for the third ship (then referred to as ship no 4) included the offering by H&W to III of an indemnity of last resort against liabilities which might accrue on the early termination of the leasing agreement. In effect, the indemnity is against cash shortfalls being suffered by III in the event of the value of its second charge on the vessel and recourse against the assets of Frederick Leyland/Blue Star being insufficient to cover its exposure. For the third ship the guarantee was expected to have a theoretical maximum of £7.29m (of which £3.79m would immediately be repaid to Government as tax leaving a net outlay of £3.5m) and for the fourth ship it would be £5.2m - net £2.5m. An examination of the risk revealed that an unlikely concatenation of events would be needed to require any payment under this indemnity.
  
2. The submission to Ministers also recognised that, in the event of an early termination of the leasing agreements, the interest free loans advanced by H&W to III (see Annex A) would be repaid at a discounted value ie III would not be required to pay back the full amount of the loans. Lawyers acting for III now believe that the amounts by which the loan repayments would be reduced might be regarded by the Inland Revenue as receipts in the hands of III and, therefore, taxable, and III have sought an indemnity against this tax liability should it arise. H&W and its lawyers have produced a possible solution to meet the difficulty. This is being discussed but it is thought unlikely that III will agree that it fully meets their concerns and so

be prepared to relax their request for an indemnity. It should be noted that, in the event of this indemnity having to be met, the net cost to government would be nil, since any monies paid by H&W to III would be collected by the Inland Revenue.

Nest Ind,  
Ship building,  
p45

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11 21 11 00

CONFIDENTIAL

Note.  
Mentioned to Prime Minister  
that she had not indicated  
her views. She said she took  
the line that BS should exercise  
its commercial judgement.

AT 10/11

PRIME MINISTER

SCOTT LITHGOW/BRITOIL CONTRACT

There is a dispute between colleagues on the way forward:-

- (i) Norman Lamont and the Chief Secretary conclude that BS should be allowed to terminate the contract and close Scott Lithgow if they conclude it is in their commercial interest;
- (ii) George Younger wants to urge BS to renegotiate, on Scottish employment grounds;
- (iii) Alick Buchanan-Smith wants to do the same to protect the name of the offshore supplies industry (being 500 days late still leaves a reputation to be salvaged);
- (iv) Policy Unit strongly support DTI and Treasury.

The right approach seems to be to allow BS to negotiate with Britoil. If, even on the new terms, BS thinks that cancellation and closure are the right course, it should be allowed to proceed with government backing.

Agree?

AT

9 November, 1983

CONFIDENTIAL

(CONFIDENTIAL)



CENO

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP  
Minister of State for Industry  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1H 0ET

7 November 1983

Dear Minister

*with AT*

Thank you for your letter of 28 October about the Britoil Contract and Scott Lithgow. You will have seen George Younger's letter of 1 November and Alick Buchanan-Smith's letter of 3 November.

The new figures for the relative costs of terminating or completing the Britoil contract only give part of the picture as I understand it. The fact is that SL have lost £32 million on the BP rig on a selling price of £78 million; and, even if one believes the new figures, will lose £66 million on the Britoil rig on a contracted selling price of £90 million. These are staggering losses.

BS top management consider the SL's credibility is damaged beyond repair and that SL will not take any further orders. I must say this judgement seems to me to be crucial (as well as right).

We are not therefore talking about whether SL could have a future. It does not have one. The issue for BS management is whether to close now or wait until the Britoil rig is finished in 1986 or whenever.

What chance is there of the rig being finished within the present estimates of time and cost in these circumstances? In my view it must be very little. As the workers perceive that no further orders are likely to be taken - which they must do sooner or later - they will have every incentive to spin the work out and hang on in the hope that the next general election will bail them out.

We shall be in an intolerable position, not dissimilar in many ways from the position we found ourselves in on Ravenscraig before the last election. I do believe most strongly that if the yard has to be closed, it needs to be done earlier than later, when it may well become impossible.

(CONFIDENTIAL)

CONFIDENTIAL

I am also concerned that if, in spite of the enormous losses, the decision is taken to continue with the work at SL, the Government's position on BS and indeed all the loss-making nationalised industries will be widely misconstrued. We are all agreed that Mr Day's task is to take firm action to put BS to rights and to take it early on. It would be a major set-back if any contrary impression were to gain currency and the effect on BS management itself could be devastating.

As regards the public expenditure implications, I cannot of course deny that a saving of £67 million this year would be helpful. But I suspect that these savings will prove to be illusory. We have been budgetting for some time now for the full £106 million cost of closure to arise this year. If the contract were continued, I believe there would be substantially higher costs in future years, starting in 1984-85, and rising as the effects of the "last ship" problem come through. If we could adequately take these into account I doubt whether continuation would appear nearly such a feasible course. I am satisfied that if BS do decide to cut their losses now through termination this would be justifiable commercially, in the light of the losses already incurred and the risk of further unquantifiable loss.

I can understand Alick's concern that the Britoil rig should be finished. Your letter did not deal with this. However you wrote to him on 13 October, and I understand that officials consider that there may be ways of getting the rig completed elsewhere in the UK, and that discussions should be held as soon as is practicable in the renegotiation timetable.

To conclude, I do not suggest that the Government should seek to press BS in any way against its best commercial judgement. The final decision must clearly rest with them. However I think it is important that Mr Day be left in no doubt that we would be prepared to back him on a decision to terminate. I recognise that this will not be easy for George Younger. Nor is it of course the easiest option from an expenditure point of view. But I believe it would be on balance the right choice. I am anxious that we should not underestimate the difficulties we shall be storing up, if we steer BS towards finishing the contract.

I am sending a copy of this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger and Sir Robert Armstrong

Yours sincerely

J. St. Gerin

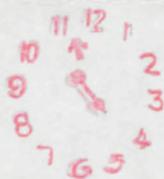
J. PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

NAT ~~ms~~  
Ship building

7 NOV 1983





**CONFIDENTIAL**

DEPARTMENT OF ENERGY  
THAMES HOUSE SOUTH  
MILLBANK  
LONDON SW1P 4QJ

Direct Line 01-211 3290  
Switchboard 01-211 3000

*lec NO*  
*2ppm*

THE MINISTER OF STATE

Norman Lamont Esq MP  
Minister of State for Industry  
Department of Trade and Industry  
1 Victoria Street  
London SW1

3 November 1983

*Dear Norman,*

BRITTOIL CONTRACT AT SCOTT LITHGOW

Thank you for sending me a copy of your letter of 28 October to Peter Rees. Peter Walker explained the importance of the Britoil rig in his letter of 27 September and the need to try and save the order.

If Britoil are prepared to negotiate with BS then I, like George Younger believe it would be a mistake not to steer BS into this course of action. My measures for coming to this conclusion are as follows.

Firstly, the damage to the British offshore supplies industry caused by a major contractor renegeing on a contract would be devastating - more particularly at this time when Peter is in the middle of a major export drive to China in support of the UK offshore industry. Failures like this are impossible to explain away to overseas buyers and reflect badly on all.

Secondly, Britoil require a heavy duty rig for their long term exploration needs. If they do not complete the one at Scott Lithgow then there is a very strong possibility that they would build one in a Korean shipyard. The industrial and political impacts of such an outcome of the affair do not need elaboration.

The recently concluded discussion between BS management and their unions agreed to improve working practices. Could not BS be prevailed upon to bring these agreements into operation on the Britoil contract and reduce the delivery period?

Whilst I appreciate that the final decision must rest with you based on all the facts at your disposal I believe that re-negotiation of the contract would cause the least damage to all concerned.

I am copying this letter to the Prime Minister, Peter Rees, Michael Heseltine, George Younger and Sir Robert Armstrong.

*Your ever,*  
*Alick*

ALICK BUCHANAN-SMITH

Nett. Ind: Phytobulding P5

--4 NOV 1983

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

MR. TURNBULL

cc Mr. Mount

SCOTT LITHGOW AND THE BRITTOIL RIG

There is an overwhelming case in favour of Norman Lamont's proposal to leave British Shipbuilders and Britoil to negotiate a solution which satisfies the commercial judgement of both parties.

The following aide-memoire of argument may help:

1. Instructing BS to keep the Britoil order alive sends the worst possible signal to the Scott Lithgow management and workforce, who have brought the problem on their own heads. Worse still, the same signal will be picked up by the rest of the BS workforce, who are already fighting Graham Day's survival plan. And, worse again, what will the rest of industry conclude if Government condones such an appalling performance by bailing it out?
2. BS' intention for Scott Lithgow is in any event to run it down as soon as possible to a small fabrication facility. The Britoil problem may influence BS's timing, but not their intent.
3. The current year cost of cancellation (put at £106 million) may not in the event be much greater than that of renegotiation (put at £39 million). The largest part of the £67 million difference is a progress payment of £45 million due in December 1983, which Britoil are almost certain to want to defer, since corresponding progress on the rig has not been made.

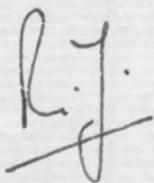
Conversely, the renegotiation costs are minimum estimates. They could well go higher once the BP rig and the MoD's Seabed Operations Vessel are complete, leaving the Britoil rig to succumb to the "last ship syndrome".

4. Britoil's negotiating spectrum runs from contract cancellation through to the most minor modification. It is quite unreasonable to deny BS the tactical use of the same spectrum. To do so would predictably result in a needlessly expensive settlement.

5. Mr. Younger's concern about unemployment on Clydeside is understandable, but he must acknowledge that keeping Scott Lithgow

/artificially alive

artificially alive is a highly inefficient form of regional policy. His recommendation would ossify the local labour market, and would actually make it more difficult for the IBM success story to be repeated. In Scotland, shipbuilding, steelmaking and coal mining are all in structural decline, so where would the special cases stop? We must not have a re-run of Ravenscraig.



ROBERT YOUNG  
2 November 1983



*cc No*

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON

November 1983

*Dear Peter,*

BRITTOIL CONTRACT AT SCOTT LITHGOW

I have seen a copy of Norman Lamont's letter of 28 October to you about the above contract. *with AT*

I accept that there is something to be said for simply urging BS to use their commercial judgement in deciding whether to renegotiate or cancel. But the issues here are of immense importance - not merely in terms of public expenditure but of the effects on the local community. It is clear from Norman's letter that Graham Day is looking for a steer from Government. I do not think we can duck this request: and I am clear that we should advise in favour of renegotiation.

I accept that Scott Lithgow's performance on cost and delivery has been appalling and that it cannot be defended. It is true that the yard has been trying to undertake a series of very complex orders demanding exceptional technical expertise. But however excusable the delay on BP's "Iolair" may have been as an exceptionally sophisticated prototype there has been a most disappointing failure to redeem the situation since. British Shipbuilders having decided to withdraw this yard from merchant shipbuilding in 1979 to concentrate on offshore work have failed to bring about the change successfully and until recently they have not supplied the leadership which was necessary to get the workforce to respond. It is tempting therefore to write the whole place off, but particularly in the light of the changed situation described in Norman's letter I believe that that would be a mistake. In coming to this conclusion I am influenced by the following:

- i. BS have at last, since the early summer, got much stronger management in the yard. The new Chairman and Chief Executive have impressed me with their determination to redeem the yard's reputation on the Britoil contract and Britoil themselves believe that

the new management has brought about a marked improvement. I believe they should be given a chance.

- ii. It is ridiculous that the country with the largest offshore oil industry in Europe has not taken more advantage of the opportunities to construct semi-submersible rigs. Scott Lithgow and Cammell Laird are the only yards in this market and it would be a tragedy to hand it over to foreign competition.
- iii. Norman's letter demonstrates that the cost of cancellation for British Shipbuilders is nearly £30m more than renegotiation with £106m falling in the current year. Even these figures assume a benefit of £15m from re-sale of materials in 1984-85 which it seems to me must be open to question.
- iv. The community of Greenock and Port Glasgow, despite the outstanding success of IBM and National Semiconductor, still remains more heavily dependent upon shipbuilding than any other community in Great Britain. It is difficult therefore to exaggerate the scale of the disaster if the shipyard closes completely. Total unemployment in the Greenock area is already (September '83) 17.5%, with male unemployment 19.9%: if Scott Lithgow were to close these figures would rise to about 27% and 35%.

What has so far failed to happen and what is so urgently required is the kind of change in attitudes and efficiency which have already been demonstrated at Govan on the Upper Clyde (now one of British Shipbuilders best yards) and in UIE at Clydebank. I believe that the new management are capable of bringing this about, and that we should support them, at least to the extent of encouraging BS to think in terms of renegotiation rather than cancellation. They would in their turn have to make it clear to the workforce that further support is conditional upon acceptance of the survival plan including the total elimination of any remaining restrictive practices.

In my view this is the right course of action. It would make it possible for valuable facilities for the offshore oil industry to be retained, and could ensure the completion of the three important contracts for BP, Britoil and the Ministry of Defence SOV, all of which would be at risk, in varying degrees, if the yard were to shut down now.

If, despite these considerations, BS were to decide to go for cancellation and closure with our support, or at least tacit acceptance, I really do not see how we could defend this in the House and in the country particularly when it became known that the higher cost option had been chosen.

I am copying this letter to the Prime Minister, Michael Heseltine, Peter Walker, Norman Lamont and Sir Robert Armstrong.

Yours was,

Cunze

NAT IND Shipbuilding P75

22 NOV. 1983

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CONFIDENTIAL

*Not ind.  
Shipbuilding*

*File  
AT*

*1 Mr Young PU  
You may like to see this*  
Ref. No: IN(83) 11

*2 Back to me  
→ AT*

*AT - many  
thanks.  
PJ  
31/10.*

BRIEF FOR DEBATE ON  
BRITISH SHIPBUILDERS  
(BORROWING POWERS) BILL

ON

Tuesday 1st NOVEMBER 1983

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Conservative Research Department,  
32 Smith Square,  
London SW1  
Tel. 222 9000 x 2526

Enquiries on this brief to:  
RICHARD EHRMAN

## THE BILL

British Shipbuilders, like all nationalised industries, looks to the Treasury for external finance which it usually receives in the form of loans and public dividend capital. Under the 1977 Aircraft and Shipbuilding Industries Act, which created the corporation, the original limit for this finance was £200 million. This was increased, in stages, to £800 million by July of this year. This Bill will enable the Secretary of State to increase this again, initially to £1000 million and eventually, with the further consent of the Treasury and the House, to £1200 million. The Bill is necessary because of British Shipbuilders' continuing difficulties and the continued deterioration of its markets.

### 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 1950s and 1960s. In the UK the slide has been especially marked. Our share of the world market fell from nearly 40 per cent in 1926 to 20 per cent in 1956 and just 3 per cent today. 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 £800 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.

The Government has made clear its commitment to the industry, but it has also emphasised that the ultimate size and shape of the industry must depend on its competitiveness. Productivity is still below pre-nationalisation levels, so there is considerable room for improvement.

### 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 March 1983, 91 million tonnes of shipping were lying idle, up from 55.3 million tonnes nine months earlier. 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 former Chairman of BS, warned before his retirement that the corporation is "fighting for it's life". His successor is Mr Graham Day, one-time head of Harland & Woolf in Belfast. He is now preparing a new corporate plan: British Shipbuilders now faces severe competition in world markets at a time when world shipbuilding capacity is reckoned to be 40 per cent greater than is required.

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. The Navy has recently announced that it will be ordering up to 12 of the new Type 23 frigate, designed by Yarrow, over the next decade at a cost of approximately £100 million each. The first orders are expected next year. In its 1983 Manifesto the Government said it would return parts of BS to the private sector and in July Mr Norman Lamont confirmed that the warship yards, which made a profit of £54.75 million in 1982-3, are indeed the most likely candidate. (Hansard, 28th July 1983, W/A Col. 576-7).

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 bad in all the large yards, particularly Austin Pickersgill (Tyneside), Govan (Clyde) and Smiths Docks (Middlesbrough). Sunderland Shipbuilders has been on strike for a month, and as a result has lost a vital order for a barge conversion for use in the Falklands to Harland and Woolf in Belfast. Three of the small yards, Goole (Humberside), Clelands (Wallsend) and Henry Robb (Leith) will run out of work in about a month's time and face closure, and the loss of approximately 1150 jobs in total, if no more can be found.

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. The troubles of Scott Lithgow on the Clyde have recently received considerable publicity. In 1982-3 losses and provisions on its orders totaled an unprecedented £73 million. This was due largely to late delivery and delays on current work. Sir Robert Atkinson dubbed the workforce "5000 deaf men" and said that no one could remember when the yard had last delivered an order on time. Because of this the current orders are in danger of cancellation. Cammell Laird, the other main offshore yard, recently announced 650 redundancies.

Ship Repairing: The slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year. This division has now been put up for sale. Redheads, on the Tyne is being bought by its workforce, whom BS had made redundant. Tyne Ship Repair is the object of a proposed management buy-out which could save 850 out of the 1100 jobs involved. However, its workforce has recently voted against this, despite the fact that the alternative would probably be closure.

### 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
Italy	100	92.3	99.4
UK	29.5	35.8	47.4

(Source: European Parliament Written Answers 1/10/82)

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 B.

#### Manpower

BS' workforce has been reduced from 87,500 at nationalisation in 1977 to under 60,000 today. 3967 jobs were lost during July, August and September this year and over 2000 more will go by the end of the year. The breakdown of these latest redundancies is as follows:

The Tyne

Wallsend Slipway 82

The Tees

Smith's Dock 150

The Clyde

Scott Lithgow 734  
Govan 280  
J G Kircard 50  
Barclay Curle 56

The Mersey

Cammell Laird 650

The Solent

Vospers 68

In addition 1150 jobs are at risk at Clelands, Henry Robb and Goole if no orders are found soon (see above).

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 benefited from it to the tune of £82 million.

fm	1978	1979	1980	1981	1982	1983 -
Feb to April	-	4.7	15.5	20.1	14.4	28.0

BS Finances

- BS Financial Results:

	fm					
Year to April	1978	1979	1980	1981	1982	1983
Turnover	497	842	813	899.3	1025.6	1092.5
Trading Loss	104.5	49.4	109.9	41.4	19.8	117.5
Intervention Fund	19.3	10.6	31.2	38.9	46.1	43.8
Capital Expenditure	20.1	27.4	18.6	16.7	36.8	43.2

- Under this Government BS has received over £840 million in public support.

£582 million in public dividend capital  
£177 million from the intervention fund  
£82 million in special redundancy payments

- 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.

#### The British Shipbuilders Act 1983

The Government is committed to the promotion of private ownership in the shipbuilding industry. This Act removed the previous statutory obstacles to the introduction of private capital, and provided enabling powers for the Secretary of State for Industry to direct British Shipbuilders to dispose of particular assets or subsidiaries. BS is now no longer obliged to carry on the full range of activities specified in the 1977 Act that nationalised it; it can discontinue unprofitable work and dispose of profitable yards when appropriate. The Act gives the Secretary of State powers to restrict foreign shareholdings in any yards that are sold, and gives him other powers to safeguard assets or activities which are important to our national security. Before giving any general direction to BS the Act also requires that the Secretary of State must be satisfied that it will further the national interest. The recent move to sell the repair yards and the announcement that private investment will be sought for the warship yards, are a result of this Act.

#### 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.

The Government believes that, however unjust the original arrangements, it would be wrong to amend the terms now because people have sold shares on the basis of the 1977 Act. Many of the companies involved have decided to settle for the compensation received, but some of the previous owners bought seven cases against the Government, concerning the amounts they received, 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.

#### Labour Policy

Labour said in their recent Manifesto that they intended to ensure that British Shipbuilders remained a wholly nationalised concern,

and intended to create a state owned shipping organisation to act as its customer. Labour would have introduced protectionism in shipping "to protect our shipping and jobs from unfair competition" and promised to provide BS with a "new financial basis and adequate resources for investment". In short, Labour proposed 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 would have particularly harmful effects on international trade and the viable jobs that depend on it. Labour said nothing about the fundamental problems that make our yards uncompetitive or how they would have tackled them.

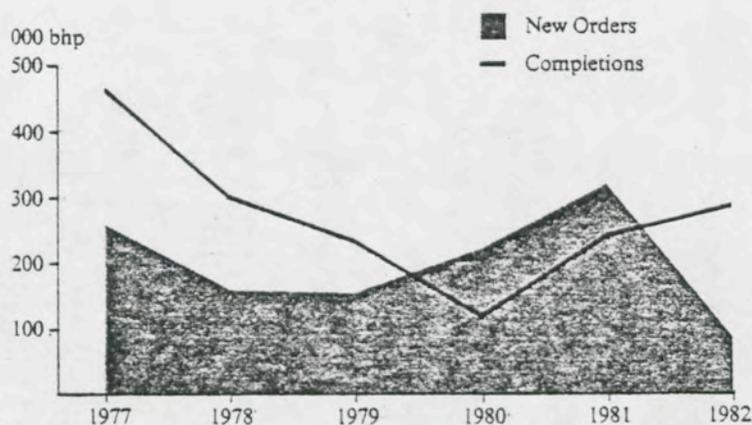
/APPENDIX A

STATISTICS

Statistics

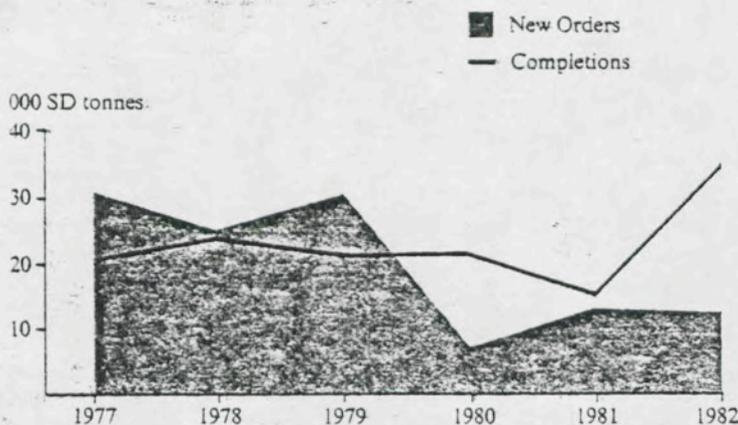
BS Production

Enginebuilding



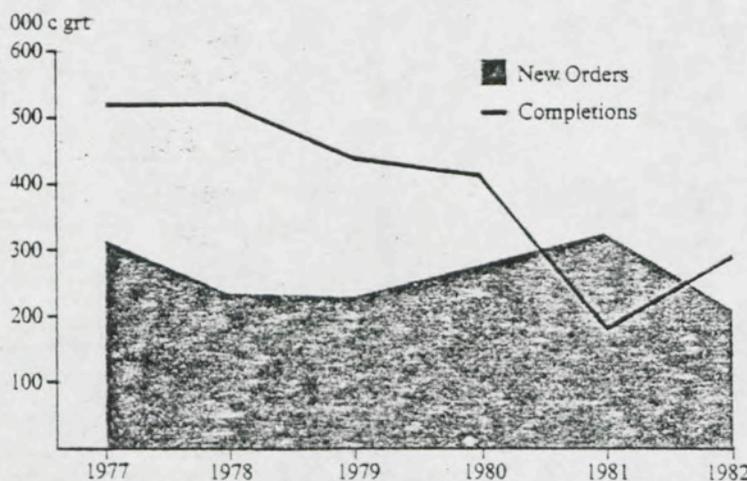
	bhp	
	New Orders	Completions
1977	271,300	462,400
1978	150,000	284,200
1979	153,200	220,300
1980	210,025	106,500
1981	311,500	233,925
1982	99,400	282,960

Warshipbuilding



	SD tonnes	
	New Orders	Completions
1977	30,525	20,221
1978	25,679	25,062
1979	31,448	22,605
1980	6,151	22,900
1981	14,641	15,379
1982	13,400	35,951

Merchant Shipbuilding

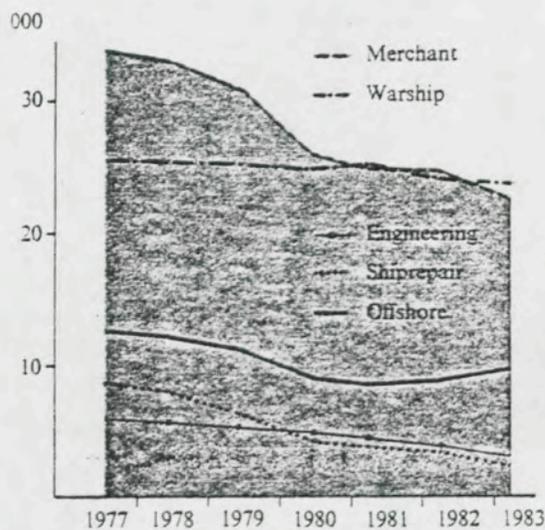


	c grt	
	New Orders	Completions
1977	320,499	532,023
1978	245,974	533,097
1979	245,878	455,141
1980	287,387	422,581
1981	335,475	188,521
1982	205,597	298,538

Statistics

BS Employment

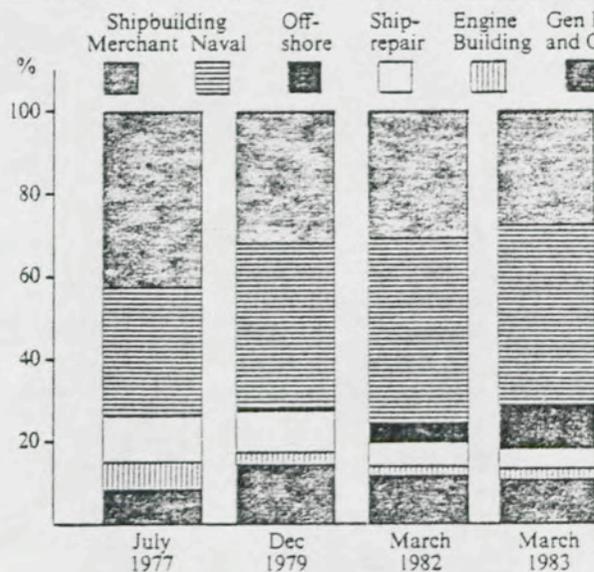
Employment by Division



Division	July 1977	June 1979	March 1981	March 1982	March 1983
Merchant	34,245	31,103	24,963	24,658	22,573
Warship	25,778	25,557	25,207	24,514	23,845
Engineering	6,027	5,670	4,560	4,123	3,192
Shiprepair	8,681	6,537	4,111	3,628	2,652
Offshore	12,703	11,377	8,794	8,918	9,421
Corporation	—	—	136	275	662
HQ	35	228	204	204	238
<b>Total</b>	<b>87,469</b>	<b>80,472</b>	<b>67,975</b>	<b>66,320</b>	<b>62,583</b>

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

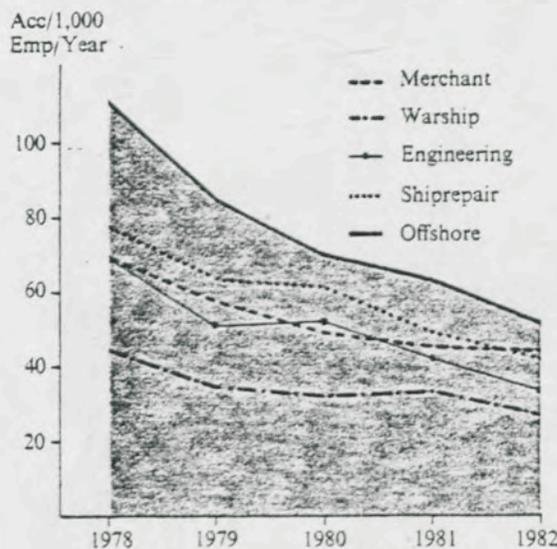
Employment by Activity



Activity	July 1977	Dec 1979	March 1982	March 1983
Merchant SB	44.3	32.5	30.2	27.8
Naval SB*	30.2	40.3	44.9	43.8
Offshore	0.3	1.1	4.8	11.2
Shiprepair	10.1	8.5	6.7	4.7
Eng Bldg	7.1	3.1	2.5	2.1
Gen Eng	8.0	14.5	10.9	10.4
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\*Includes Naval Auxiliaries

Accidents by Division

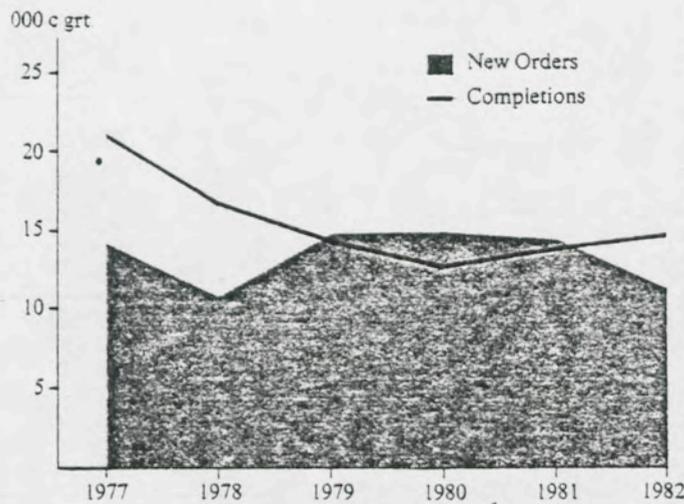


Division	Incidence Rate per 1,000 Employees per year				
	1978	1979	1980	1981	1982
Merchant	69.9	58.1	49.5	48.2	44.3
Warship	45.5	35.5	32.6	33.2	27.2
Engineering	69.9	51.3	52.7	42.6	34.9
Shiprepair	77.9	64.2	62.8	49.1	42.5
Offshore	111.3	85.8	70.7	64.1	52.4
<b>All Divisions</b>	<b>71.3</b>	<b>55.2</b>	<b>48.0</b>	<b>45.1</b>	<b>39.3</b>

Statistics

World Merchant Shipbuilding

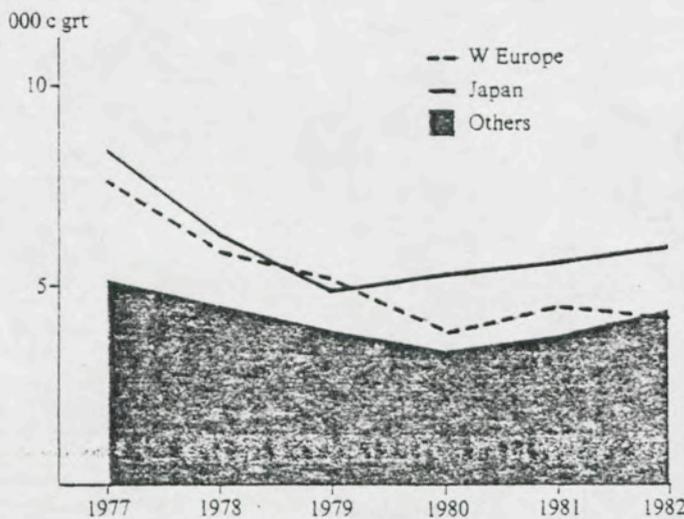
World New Orders/  
Completions



	000 c grt	
	New Orders	Completions
1977	14,040	21,181
1978	10,796	16,546
1979	14,207	14,077
1980	14,357	12,635
1981	14,053	13,840
1982	11,372	14,426

Source: Lloyds Register of Shipping—  
EC Contract

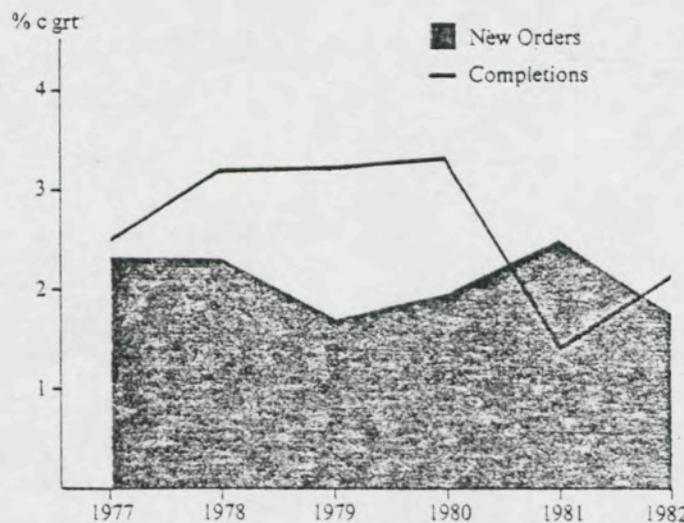
Regional Output



	000 c grt			
	W Eur	Japan	Others	Total
1977	7,654	3,358	5,169	21,181
1978	5,332	6,120	4,594	16,546
1979	5,107	4,975	3,995	14,077
1980	3,931	5,207	3,497	12,635
1981	4,451	5,580	3,809	13,840
1982	4,279	5,818	4,329	14,426

Source: Lloyds Register of Shipping—  
EC Contract

BS Market Share

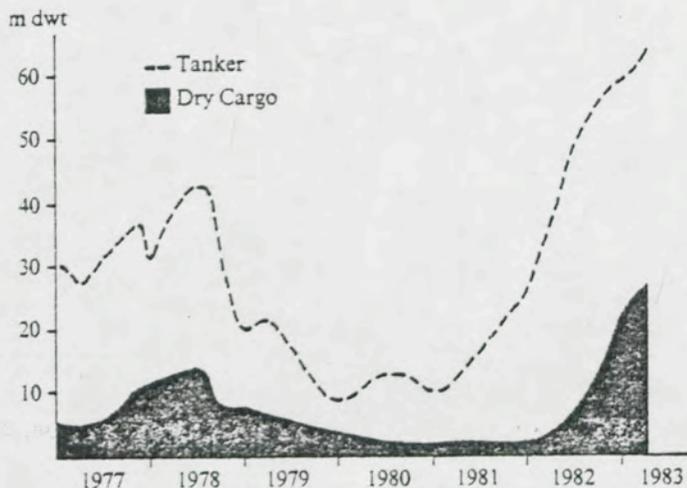


	% c grt	
	New Orders	Completions
1977	2.3	2.5
1978	2.3	3.2
1979	1.7	3.2
1980	2.0	3.3
1981	2.5	1.4
1982	1.8	2.1

Statistics

Market Environment

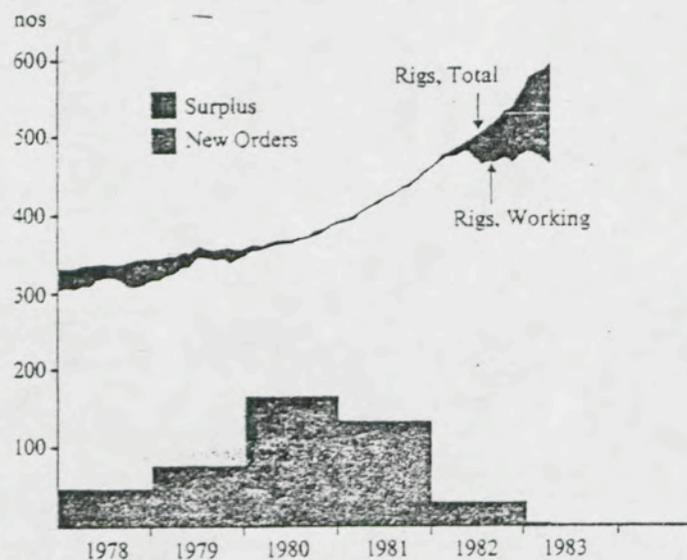
World Laid-up Tonnage



m dwt			
World Fleet laid-up due to lack of Employment			
	Tankers	Cargo	Total
June 1977	31.1	6.0	37.1
June 1978	43.5	13.5	57.0
June 1979	16.5	4.9	21.4
June 1980	12.5	2.2	14.7
June 1981	15.4	1.9	17.3
June 1982	49.2	6.1	55.3
Mar 1983	63.8	27.2	91.0

Source: GCBS

Offshore Oil Rig Utilisation/ New Orders

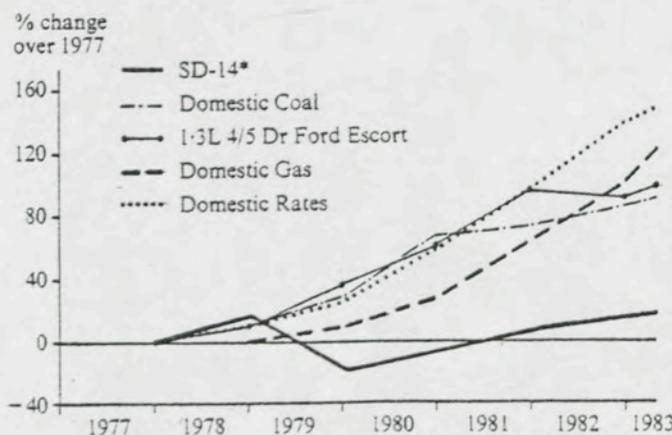


nos			
	Rigs Total	Rigs Working	New Orders
Dec 1977	331	304	43e
Dec 1978	342	310	49e
Dec 1979	354	343	79e
Dec 1980	386	386	164
Dec 1981	452	451	133
Dec 1982	553	472	31
Mar 1983	581	468	4

Source: Offshore Rig Data Services, Shipstats.  
e = estimate

NB. Utilisation figures only include Rigs customarily offered on the world charter market.

Relative prices of an SD-14 and other UK commodities



% change over 1977					
	SD-14*	Coal	Escort	Gas	Rates
Dec 1978	16	10	10	0	10
Dec 1979	-18	27	36	8	25
Dec 1980	-7	66	60	26	56
Dec 1981	6	72	94	62	94
Dec 1982	15	86	90	99	137
Apr 1983	17	90	98	119	147

Source: NCB, Northern Gas, Sunderland Civic Centre, Ford Motor Co.

\*The SD-14 is a standard 15,000 dwt Merchant Ship built by British Shipbuilders. The prices upon which the index is based relate to delivery dates and therefore do not reflect the major decline in contract prices during 1982/83.

APPENDIX B

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 priod 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

Conservative Research Dept  
32 Smith Square LONDON SW1

RE/CR  
28.10.83



DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET  
 TELEPHONE DIRECT LINE 01-215 5186  
 SWITCHBOARD 01-215 7877

CC NO

From the Minister of State for Industry

Norman Lamont MP

Rt Hon Peter Rees QC MP  
 Chief Secretary  
 HM Treasury  
 Parliament Street  
 London SW1

①  
Prime Minister  
 Agree to Norman Lamont's proposals, subject to colleagues? SL's record hardly entitles it to strong public support.

AT 28/10

28 October 1983

Treasury admin please

Dear Peter

BRITOIL CONTRACT AT SCOTT LITHGOW (SL)

Cecil Parkinson wrote to George Younger on 14 September about this contract.

Cecil warned that, if Britoil went ahead and sought to cancel the contract, as seemed likely at that time, SL would probably close early next year.

Britoil have now offered to re-negotiate the contract in a way that is, on the face of it, much less financially onerous than their previous proposal.

What they are now proposing is a re-negotiation that would require payment by results, plus damages for late delivery at a daily rate of £17,000 from the contract delivery date (adjusted for force majeure) until whenever delivery takes place. - This could go on for years

BS have informed us that the cash implications of re-negotiation, as against the cancellation option, are as follows:-

	83/4	84/5	85/6	86/7	Total 83/4-86/7
Re-negotiation	39	21	6		66
Cancellation	106	-15 (resale of materials)			91

I am writing now to seek your view about how I should respond to this information.

.../...



The underlying 'strategic' considerations remain the same. SL has performed appallingly badly. This rig was originally due for delivery in April 1984. The above figures for negotiation assume that the delivery will take place in June 1986 - more than two years late. They make no allowance for further slippage due to the fact that this would be the last vessel in the yard, so the re-negotiation costs are very much minimum estimates.

SL's poor performance is not confined to this contract. The BP rig now being built in the yard will be delivered at least a year late, and BS expect to lose £32m on it, against a selling price of £78m.

SL's market credibility is damaged beyond repair. The Britoil rig, even if completed on re-negotiation, would be the last order SL takes - which means that we would, if the contract were re-negotiated, be postponing closure to 1986 or even 1987.

In terms of BS' strategy, therefore, there is a strong case for their seeking to extricate themselves from SL now, in recognition of the fact that the yard has no realistic future.

On the other hand, the costs of this course of action are appalling. The additional cash need in 1983/4 would amount to £106m, and, as you know, we have already agreed to E(NI) earlier this year, that BS' cash needs in other parts of its business will be greater than expected. (I am writing to you separately about the EFL consequences of this for 1983/4.)

BS' own inclination is to proceed with cancellation, although they recognise the extremely serious cash consequences of this. However, they have avoided stating this, and are clearly looking for a steer about how their negotiation should proceed.

My view is that the right way forward in this difficult situation is for us to make it clear that the BS board must now negotiate to a solution that is in the Corporation's best commercial interest, as they see it. We should, however, recognise that this could mean that BS would need anything up to £106m extra cash in the current year.

However, I believe that this may eventually be the cheapest way out. And it avoids our getting into a similar situation in 1986/7.

I recognise Peter Walker's concern (expressed in his letter of 27 September to Cecil Parkinson) about the completion of the BP rig. and the need to seek ways of trying to get the Britoil rig completed elsewhere. And I have noted Michael Heseltine's concern about the SOV that SL are building for MoD (his letter of 4 October).



We shall take what steps we can to safeguard these interests, if BS do move towards cancellation.

For the present, however, I am seeking your agreement to:

- my telling the Chairman of BS that he is free to negotiate with Britoil according to what appears to BS to be their commercial interest;
- accepting that whatever happens on Britoil will mean that BS will incur extra cash costs this year;
- accepting that these extra cash costs could, if the contract was cancelled, amount to £106m in 1983/4.

I should be glad of your views as soon as possible, as events are moving rapidly. Whatever happens, Britoil are likely very shortly to issue a '30-day notice', requiring BS to demonstrate ability to complete the rig by the contractual drop dead date (February 1985). The issuing of this notice does not preclude either the re-negotiation or the cancellation option.

As you and other colleagues will readily appreciate, there would be considerable highly adverse comment if this contract were cancelled. We should be perceived as having 'allowed' BS and Britoil between them to precipitate the closure of a BS yard. I do not think that the possibility of this sort of reaction should deflect us: but it is right for me to warn you and colleagues of the strength of public reaction, if the Britoil contract is cancelled and, as a result, Scott Lithgow has to close.

I am copying this letter to the Prime Minister, Michael Heseltine, Peter Walker, George Younger and Sir Robert Armstrong.

*Jan*  
*Norman*

Norman Lamont

NAT IND  
Shipbuilding  
A 5

28 OCT 1983

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CONFIDENTIAL



JH 985

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

28 October 1983

The Rt Hon Tom King MP  
Secretary of State for Employment  
Caxton House  
London SW1H 9NF

cc: NO  
Prime Minister (2)

AT 28/10

*D. Tom.*

You will be aware that BS has been in negotiation with its unions - the Shipbuilding Negotiation Committee (SNC) of the CSEU - for some time over pay and redundancies.

2 BS' settlement date is 1 April, and the management offered a zero national pay increase from 1 April this year. This was accompanied by the warning that 9,000 jobs were 'at risk' in BS during 1983/84.

3 The unions did not accept the pay offer, but have been holding their fire, so far, while awaiting the arrival of a new Chairman, and watching the progress of the redundancy programme. 3,675 of the 9,000 jobs 'at risk' were declared as firm redundancies in early July, and a large part of these have been secured through voluntary redundancies.

4 The next tranche, 3,400, was announced on 12 October. As the scope for voluntary redundancies seems to be nearly exhausted, many of these will have to be compulsory.

5 The 12 October redundancy announcement was coupled, by the new Chairman Mr Day, with a reiteration of the zero national pay offer. The SNC have spent the last two weeks consulting at shipyard level on the pay offer and the redundancy programme, and meet on 28 October to decide their response.

6 They are due to convey their response to the BS management on 2 November. The indications are that the SNC will recommend industrial action right across the Corporation (although this is not quite a certainty). Some yards may jump the gun and take action before the SNC/BS meeting on the 2nd.

7 Although a strike call is not inevitable, and although the response to such a call is not predictable, I thought it right to warn you, and colleagues, of the possibilities.

8 My Department will be monitoring the situation, and will keep



you informed of developments, especially of any wider impact of the strike.

9 Copies go to E(NI) colleagues, Michael Heseltine, Jim Prior and Sir Robert Armstrong.

*J* —  
*Norman*

NORMAN TEBBIT

28 Oct. 1983





Prime Minister (4)  
AT 19/10 1450

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5186  
SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

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

19 October 1983

*Dear Prime Minister*

British Shipbuilders have now sent me the financial results of their Shiprepair Division for the period 30 July to 26 August and the trading position is:

Period	Trading Profit (Loss)	Forecast to End of Year Profit (Loss)	Previous Forecast
5 (30 July - 26 Aug)	£(435,000)	£(270,000)	£231,000

*Getting worse; forecast before that was £ 464.00*

This compares with a trading loss of £130,000 for the previous month. The losses incurred are solely due to the poor performance of Tyne Shiprepair Limited and Grangemouth Dockyard Limited - both, according to the Corporation, have continued to suffer from lack of adequate workload and poor prices. Falmouth and Vosper, on the other hand, remain profitable and are expected to achieve this year's target profit levels of £796,000 and £261,000 respectively.

Under the new Chairman, BS have now decided to move out of shiprepair as quickly as possible. They have announced their intention to sell, or failing that to close, both Tyne Shiprepair and Grangemouth. Action will follow on Falmouth and Vosper. Falmouth, in particular, understandably has a substantial list of possible buyers and BS are in touch with a merchant bank about arrangements for sale. As regards Vosper no decision can be taken until the middle of next year because of the terms of their very worthwhile current contract for the Saudi royal yacht.

*John*  
*Norman*

NORMAN LAMONT



SECRET

NDPM AT 19/10  
cf no 5  
DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5186  
SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

COPY NO 2 OF 16

The Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
London SW1

18 October 1983

*Dear Michael*

Thank you for your letter of 4 October to Cecil Parkinson.

BS are still in discussion with Britoil about the oil rig contract, and the likely future developments at Scott Lithgow will not be clear for a little while yet.

I understand your concern about the SOV that the yard are building for the Navy, and I am happy for your officials to be associated with mine in discussion on the future of the yard, insofar as this concerns the MOD ship.

I am copying this letter to the recipients of yours.

*Norman Lamont*

NORMAN LAMONT

SECRET

Nest Ind.  
Shipbuilding  
PAS

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COPY No. ....15.....

NBPM

AT 17/10

4



JF4494  
Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

13 October 1983

SECRET

The Rt Hon Peter Walker MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1P 3QJ

*Dear Peter,*

Thank you for your letter of 27 September about Scott Lithgow.

2 Of course I understand your concern about the BP rig and the Sun Oil floating production facility, as well as the loss of the Britoil rig. I cannot, however, offer any assurance about the timing of the news that the contract may be terminated, although I hope that this can be delayed for the reasons you outline. I understand that the timing of Sun Oil's decision depends in part on your Department's approval of the development of the Balmoral Field. It will clearly be helpful if this can be given as soon as possible.

3 Like you, I am not optimistic about the suggestions which you have made for saving the Britoil rig. I have, of course, also to consider both the costs which might arise if such courses were followed and the effect which they might have on the strategy which we are developing with Graham Day for the future of BS. While time remains available, however, of course we must explore all the options and I will ask officials of this Department to arrange urgent discussions with the Offshore Supplies Office. I should however emphasize that that BS' contractual position with Britoil must not be jeopardised, and I would therefore be grateful if OSO would refrain from approaching any other parties at present.

A I...



SECRET

4 I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Michael Heseltine, George Younger and Sir Robert Armstrong.

*Yours*

*Ever,  
Leah*

Not Ind  
Ship building  
p25



17 OCT 1983



10/10

NISPM

BT 10/10

10 OCT 1983

01

The Rt Hon Cecil Parkinson MP  
Secretary of State for Trade & Industry  
Department of Trade & Industry  
1/19 Victoria Street  
LONDON  
SW1H 0ET

7 October 1983

*R. Cecil*

BRISITH SHIPBUILDERS - BORROWING LIMITS

Thank you for sending me a copy of your letter of 30 September to Nigel Lawson.

I am content with your proposals, but I would be grateful for your reaction to my letter of 27 September. As I said in that letter, the future viability of some parts of British Shipbuilders gives cause for concern, and the timing of announcements is crucial. I trust therefore that the figures in your Annex relating to the Britoil contract do not imply that you regard that contract as now being beyond recall.

Copies go to colleagues on E(NI), John Biffen and John Wakeham

*Peter Walker*

PETER WALKER

Next Ind  
Shipbuilders  
Pt 5



EST. 1907

✓ CNO



NBPM

AT 7/10

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Cecil Parkinson MP  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1E 6RB

889: T30 T

7 October 1983

*Dear Secretary of State*

BRITISH SHIPBUILDERS BORROWING LIMITS

Thank you for your letter of 30 September to the Chancellor which has been passed to me for reply.

You propose to increase British Shipbuilders borrowing limit.

I am content that this should be raised to £1 billion now with provision for revisions of £100 million to a maximum £1.2 billion by order subject to affirmative resolution.

I am copying this letter to the recipients of yours.

*Yours sincerely*

*Ta. Giein*

for PETER REES

[Approved by the Chief Secretary]

Not ind

Shipbuilding A5

- 7 OCT 1983

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PRIVY COUNCIL OFFICE  
WHITEHALL LONDON SW1A 2AT

122 NO

NBPM

AT

6/10

6 October 1983

Dear Cecil

BRITISH SHIPBUILDERS: BORROWING LIMITS

I have seen your letter of 30 September to Nigel Lawson and endorse your proposal to increase the borrowing limits of British Shipbuilders in increments of £200 million rather than £100 million. We certainly do not want to have another shipbuilding Bill in the next Session.

Could I add that it is very important that the Bill comes to L Committee on 19 October. I hope therefore that your current discussions on the level of limits will not prejudice that timetable.

Copies go to members of E(NI) and John Wakeham.

JOHN BIFFEN

The Rt Hon Cecil Parkinson MP  
Department of Trade and Industry

Not Encl : Singbandy Pt 5

16 OCT 1983





✓ NO

3

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 26/3/3

4th October 1983

Prime Minister <sup>⑤</sup>To note a complication on  
Scott Lithgow

AT 5/10

Dear Cecil

Thank you for sending me a copy of your letter of 14th September to George Younger concerning the future of Scott Lithgow. I do not dissent from your view that Mr Graham Day should be allowed to exercise his commercial judgement on the Britoil contract.

The implications of early closure of Scott Lithgow for the Royal Navy's Seabed Operations Vessel (SOV) would need careful examination. The ship is currently planned to complete in August 1984, although we are seeking to negotiate an advance on this date with the shipyard. I note British Shipbuilders' view that, if necessary, they would have no difficulty in completing the ship in another yard. But there could be some problems. First, it may not be possible to move the SOV from SL without encountering problems with the workforce there or at the yard to which it were transferred. Secondly, even if it proves possible to move the ship, I find it difficult to believe that this could be achieved without delay and dislocation given the need to build up a new management team to complete the work.

If a transfer should prove necessary, we would expect BS to assume full liability for all additional costs that would arise in connection with the move. These are likely to include not only the

The Rt Hon Cecil Parkinson MP



delay and dislocation costs to the vessel itself, but also the consequential costs the MOD would incur as a result of the need, for example, to extend the charter of a suitable alternative relief vessel. We should also need assurances that the ship would be completed satisfactorily and to the same conditions of contract as those we currently have with SL.

I should, therefore, be grateful if my officials could be closely associated with any forthcoming discussions your Department might be holding with British Shipbuilders on the future of SL. The issues that could arise for the SOV are complex and the negotiations likely to be time-consuming.

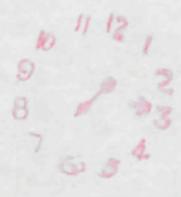
I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, George Younger, Peter Walker and Sir Robert Armstrong.

Yours  
LHW  
A handwritten signature in dark ink, appearing to be "Michael Heseltine".

Michael Heseltine

Nok End Shipbuilding  
P.S.

5 OCT 1988



CONFIDENTIAL

MR. TURNBULL

BRITISH SHIPBUILDERS - BORROWING LIMITS

While Government is battling to bring public expenditure under control, it is quite extraordinary that DTI should propose to increase BS's borrowing limit by 50% to £1200 million. (Cecil Parkinson to Nigel Lawson on 30 September.)

DTI's argument is weak because it assumes that BS should go on trading as disastrously as in the past. In fact, they are under orders to return the warship yards to the private sector, reduce excess capacity in the merchant and offshore divisions, sell or close the shiprepair and engineering activities, and generally improve the performance of the business. By these means BS should reduce their claims on the Exchequer, not ask to add £500 million to the £700 million they have already borrowed.

The timing is also weak. Later this year the new Chairman of BS is due to produce his strategy for reducing BS' merchant and offshore business to a "viable core". Redundancies in shipyards are expensive, so there may be a case for earmarking finance for such costs once their extent is known. There may even be a case for earmarking termination costs for the Britoil rig if and when BS and Britoil negotiate termination. But there is no case for authorising now such a huge increase in borrowing limits for largely unspecified purposes.

The Treasury should have no difficulty in rebutting DTI's case, but if the Prime Minister is called upon to adjudicate she should firmly dismiss it.

R.Y.

Note  
Spoke to N Owen. Did not send to PM as I felt raising of borrowing limit did not necessarily imply softening on BS. Agreed, however, that Policy Unit should be alert to any danger signals.

AT 5/10

ROBERT YOUNG  
3 October 1983

CONFIDENTIAL



cc NSD

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

JF4368

Secretary of State for Trade and Industry

30 September 1983

Prime Minister (2)

AT 30/9

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

MS

BRITISH SHIPBUILDERS : BORROWING LIMITS

As you know Cabinet has agreed a slot in the 1983/4 Parliamentary timetable for an essential Bill to increase British Shipbuilders' (BS) Borrowing Limits.

2 We last raised BS' Borrowing Limit just before the Recess, by Order, to £800m, the maximum under the present legislation. BS borrowing now stands at £682m. I shall be writing separately on the revision of this year's EFL which E(NI) agreed we should discuss in the Autumn; as you well know, it was agreed at E(NI) that we should take a firm line on BS, and I have made this abundantly clear to Graham Day. But it is also clear that whatever we might wish, their funding requirements in late 83/4 and early 84/5 will be increased - by of the order of £100m - by Scott Lithgow/Britoil problems. Given the operational headroom they need to be absolutely certain of staying within the limit, which our recent experience has demonstrated is some £100m, we need to introduce legislation as soon as possible, and I propose to do so on 24 October.

3 The form of the legislation is simple and uncontroversial: the only policy question is by how much we should raise the Limits. In the past we have always raised them by £100m, with provision for a further £100m by Order, subject to affirmative resolution. However to do so on this occasion would not take us far forward. Since Graham Day is still working on a new Corporate Plan it is impossible to be at all precise about future



funding requirements. But we must assume that BS will be seeking annual EFLs for the PES period of £100-£150m albeit on a declining path. The broad picture is summarised in the attached Annex. One can clearly see that a £125m EFL for 1985/6, plus the £100m cost of Scott Lithgow, plus the rest of this year's funding could take us over £950m in 1984/5, which would mean legislating again for new Limits next session.

4 This would clearly be unacceptable, embarrassing and a waste of valuable Parliamentary time. I believe we should be aiming to give BS Limits which take us to 1986/7 before further primary legislation is needed. To do so we will have on this occasion to raise the limit by £200m (to £1bn) with provision for a further £200m (to £1.2bn) by Order. On the last occasion we avoided such large increments, in view of likely Parliamentary concern at the extent of funding envisaged. But the climate is now very different. The vast losses of last year are public knowledge and we have pledged ourselves to extra "crisis aid". A substantial increase in the Borrowing Limits - which must of course be carefully presented as a technical measure permitting, but not committing, such expenditure - would be fully in line with our stance of support for the rationalisation of the industry.

5 The initial raising of the Limit by £200m by virtue of the passage of the Bill itself, is readily defensible. But I believe it would be wrong to ask Parliament for an unconstrained power to raise the Limit further by Order by up to £200m, albeit subject to affirmative resolution. Instead, I propose to frame the legislation to give powers to raise the Limit by up to a maximum of £100m by any single Order, up to a total of £200m. I would be grateful if you and colleagues could let me know by Wednesday, 5 October if you are content that I proceed on this basis.

6 Copies go to colleagues on E(NI), John Biffen and John Wakeham.

*Yours* *Earl*  
*Reed*

Encl

CONFIDENTIAL

ANNEX

ESTIMATE OF BS BORROWING REQUIREMENTS

	<u>Annual</u>	<u>Cumulative</u>
Actual borrowing at 31.3.83	597	597
Notional further borrowing in 1983/4 (subject to agreement on revised EFL)	140	737
Notional borrowing in 1984/5	125	862
Provision for Britoil contract (falling in .83/4 and/or 84/5)	100	962
Notional borrowing in 1985/6	110	1072
Notional borrowing in 1986/7	110	1182

SBP1  
22 September 1983

Not ind : Shepbuilding Hwy. R 5.

2A  
~~CC NO~~

(4)

Prime Minister

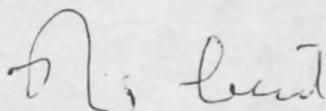
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MS 27/9

The Rt Hon Cecil Parkinson MP  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
London SW1H 0ET

ml

27 September 1983



Thank you for sending me a copy of your letter of 14 September to George Younger about the troubles affecting British Shipbuilders' operations in Scotland. There are aspects about the Scott Lithgow situation which gives me cause for concern.

My first anxiety is about timing. If the closure of Scott Lithgow is seen to be inevitable as early as mid-October it may affect BP's prospects of getting their rig out. Unless the mating process is completed and the rig became mobile before then union action may prevent BP getting access to it. I assume that proper account will be taken of that. Beyond that, however, I am concerned about the effect on Cammell Laird's chances of winning the order for Sun Oil's floating production facility for the Balmoral field. If an announcement of the cancellation of the Britoil rig was made just as Sun were receiving or evaluating bids they might well wonder what the future of British Shipbuilders Offshore Division (BSO) actually was, and, furthermore, whether they could risk placing an order there without a Government guarantee that the structure would be completed. Since, presumably, no such guarantee would be forthcoming this could effectively deprive Cammell Laird of the order and this, in turn, would throw further doubt on BSO's survival. Troublesome and unsatisfactory though BSO have been so far, we do not wish to lose their semi-submersible construction capability. An announcement before the end of November might well trigger those unacceptable consequences and I hope very much that you can delay it till then.

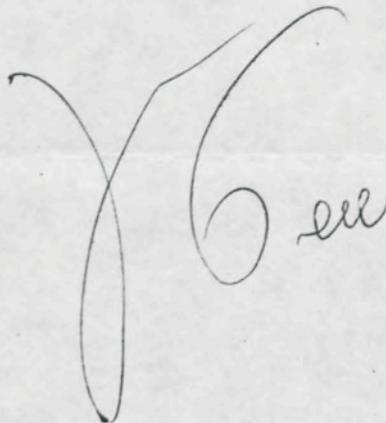
I am bound to say that I do not like losing the Britoil rig. The weakness of the UK drilling fleet is having an increasingly damaging effect on the UK content of North Sea procurement. Our steady advances in the service, equipment and construction sectors are in large part negated by our weaknesses in the marine phase. The Britoil rig - the most technologically advanced of its type - would have been a valuable addition to the fleet.

Is it really too late, I wonder, to try and save it? Two thoughts occur to me:-

- (i) Britoil and their partners might be persuaded to complete the construction, using another, but this time a tried and proven, contractor who would be given an advantageous lease on all or part of Scott Lithgow's site; or
- (ii) another drilling contractor might be persuaded to take on the rig and complete it provided that Britoil maintained the conditions of the charter - ie 6 $\frac{1}{2}$  years at enhanced day rates.

I am not overly optimistic that either of these options would work but, if, as I hope, the fate of the Britoil rig (and hence of Scott Lithgow) is not made public till end-November that gives us a little time and I would be glad to ask my Offshore Supplies Office urgently to explore the possibilities with the parties concerned if you think it would be useful.

I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Michael Heseltine, George Younger and Sir Robert Armstrong.



PETER WALKER

NAT IND : Ship building  
Pt 5

27 SEP 1983





Prime Minister (4)

ms 20/9

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5186  
SWITCHBOARD 01-215 7877

From the Minister of State for Industry

Norman Lamont MP

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

19 September 1983

*Dear Prime Minister*

I have now received British Shipbuilders' figures on shiprepair for the period 2 July to 29 July and the trading position is:

Period	Trading Profit (loss)	Forecast to End of Year Profit (Loss)	Previous Forecast
4			
(2-29 July)	(£130,000)	£231,000	£464,000

The trading loss of the shiprepair division as a whole remains the same as in the previous month. Within this overall picture, however, Falmouth and Vosper have made profits and are forecast to show end of year profits in excess of £800,000 and £260,000 respectively. However, there seem to be no real prospects in the foreseeable future for commercial viability of Tyne Shiprepair Limited and Grangemouth Dockyard Ltd in their present forms - both are unable to obtain sufficient volume of work.

I am expecting the early receipt of BS' new Chairman's plan for the privatisation of their shiprepair activity. I shall keep you informed of progress on this.

*Mr Day plans to move quickly on this.*

*Yours*

*Norman*

NORMAN LAMONT





SECRET

prescribed 30 day notice later this month, and the news is likely to break, and work stop on the Britoil rig, in early or mid-October.

5 Thus the almost total closure of SL is likely to occur much earlier than we had thought. ('Almost total', because BS may wish to retain some technical staff at the yard, as part of the 'core' offshore capability). 2,150 jobs have already been declared to be 'at risk' at SL during 1983/84, of which some 700 have already become firm redundancies. The cancellation of the Britoil rig could lead to a further 2,000 redundancies or thereabouts over the next few months. Thus in total around 4,000 have lost, or will lose, their jobs.

6 The cash consequences of Britoil cancelling its rig would be that £44.3m of stage payment due in December 1983 would be foregone and some £10m would need to be paid in redundancy costs. In addition BS would have to pay back previous stage payments, totalling £45.3m (including interest) plus £7m damages. The estimated costs of cancelling the Britoil contract and of re-negotiating it, are set out at Annex A.

7 I well appreciate the immense impact that cancellation of the Britoil rig will have at SL and on Clydeside more generally. Nevertheless I strongly take the view that we should not intervene to challenge the commercial judgement of BS's new Chairman, Mr Graham Day, on this issue, strong though the pressures may be. We have collectively already recognised that SL will need to close; there is little to be gained, and perhaps a good deal to be lost, by paying for a two or three year postponement of sentence. Nigel Lawson, with whom I have discussed this issue, agrees with this line.

8 Unfortunately, the problem does not stop there, and there is a real risk that Clydeside could soon be facing not only the closure of SL but also the loss of most of its merchant ship-building capacity, as work runs out at Govan, Ferguson and Kincaid.

9 Govan is, in Mr Day's view, BS' best merchant yard. Its closure (it runs out of work in March 1984) would not only mean the loss of one of the very few potentially 'core' yards at BS; it would also have industrial relations and other consequences which would be extremely grave, and would be likely to extend beyond Clydeside and spill over into the whole of BS.

10 Mr Graham Day put to us a proposal to secure a contract for a Canadian order which would provide work not only for Govan but also for Kincaid, Ferguson and Sunderland (Wearside). The details of this proposal are set out at Annex B. Graham Day was clearly unhappy about putting forward a request for subsidy levels of this order (58% to 67%), but could see no satisfactory alternative possibilities for Govan.



SECRET

11 After careful consideration, I have decided that the level of subsidy needed to have any hope of gaining this contract is unacceptable. Nigel Lawson agrees.

12 However, there is an alternative. The CEGB is proposing to order 2 (certainly) or 3 (probably) colliers early in the New Year. Govan has already indicated a desire to tender for these ships. CEGB will be going out to tender, and there will be competition from the Far East. But the price-cost gap that might need to be bridged by a combination of existing support measures (acceptable to the EC) and additional support is likely to be much lower than on the alternative Govan contract. The subsidy involved is likely to be substantial and we shall need to negotiate hard with BS, and the CEGB. Details are at Annex C.

13 Norman Lamont has spoken to Giles Shaw about whether the timing of the order could be brought forward, so as to reduce the gap between the end of Govan's existing workload and the start of work on the CEGB ships. Officials of the DTI have also spoken to CEGB officials.

14 I understand that the CEGB are prepared to consider placing the order with BS, providing we are prepared to go most of the way towards bridging the price-cost gap. This would probably cost in the region of £3.5 million to £4.4 million per ship.

15 I understand that the CEGB are also prepared to accelerate the tendering process and the placing of the order, so that work on the ships could be brought forward to start in about June/July 1984. This would mean that Govan had a spell with little or no work in the yard, when labour and overheads would have to be carried - at a cost we estimate to be around £7 million.

16 This is not an ideal solution to the problem of Govan. It is expensive, although not as expensive as the alternative Canadian contract; and the yard would have an "idle" spell in the spring of next year. Nonetheless, I believe that it offers the best way forward both in terms of the strategy for BS that we have asked Mr Day to develop; and in terms of securing an outcome that recognises the consequences for Clydeside of what I now believe to be the inevitable and early closure of Scott Lithgow.

17 The basis on which we hope to secure this order for Govan will have some presentational difficulties, notably with the European Commission. But support is - and we should be able to present it as - an essential element in the slimming down and efficient restructuring of BS that we have instructed Mr Day to tackle.



SECRET

18 In summary: events at Scott Lithgow are now moving towards an early closure, probably in early 1984. I have considered whether we should agree that BS should be allowed to bid for a contract for Govan that would involve subsidies of 58% to 67%, but have decided that we should not make subsidy at such a rate available. We will have to consider what support we should make available for the CEGB to place an order at Govan later this year. I thought you should be aware of all these developments.

19 I am copying this letter to the Prime Minister, Geoffrey Howe, Nigel Lawson, Peter Walker and Sir Robert Armstrong. A copy also goes to Michael Heseltine as an MOD SOV vessel is now being completed at SL, but I understand that BS would see no difficulty in completing the SOV in another year if it became necessary.

20 Finally I should stress that apart from the obvious political sensitivities it is essential that the commercial confidentiality of BS's proposed tactics with Britoil should be carefully protected. I should be grateful therefore if this matter could be handled by you and copy recipients strictly on a "need to know" basis.

*Yours Ever,*  
*Paul*

COMMERCIAL IN CONFIDENCE  
CONFIDENTIALBritoil contract at Scott Lithgow1 Cash costs of cancellation

	£m
Foregone instalment payment (due December 1983)	44
Repayment of monies already received and interest	45
Damages	7
Extra redundancy costs	10
	<hr/>
	106

The repayment of monies already received and damages (£52 million in total) could possibly be made to fall in 1984/85.

2 Cash costs to renegotiate

The costs set out below are the costs that BS would incur if they re-negotiated the contract on the lines that Britoil is likely to request. They include:

- i hire of rig: \$22 million per year (say £15 million). This would be for two years, if Britoil's delivery date expectations are right (March 1986); 1 year if SL's are (January 1985);
- ii extra supervision costs (ODECO): £1½ million per year: either 1 or 2 years, as above;
- iii BS to meet Britoil's extra financing costs due to late delivery: £7-8 million for the first year, and £4 million thereafter;

These costs add up as follows:



1984/5	£m	1985/6	
15		15	
1½		1½	
8		4	
<hr/>		<hr/>	
24½		20½	

on Britoil's (more realistic) delivery scenario

3 In addition SL would have to accept that stage payments should be related to actual progress. At present, SL have received 2 payments: £4.431 million in December 1981 and £35.448 million in December 1982. The contract value is £88.622 million, so SL have had about half. They have built only about one quarter of the rig. On a pro-rata basis, they would therefore receive:

0	in 1983/84)	
say £10m	in 1984/5)	on Britoil's
and £38m	in 1985/6)	delivery scenario

OR

0	in 1983/4)	
	)	on SL's delivery scenario
£48m	in 1984/5)	

This is a re-phasing of cash, which would not have an impact on the loss position of the contract.

4 Britoil would also seek to renegotiate a realistic delivery and drop dead date, with increased damages payment.

5 The estimated costs of renegotiation, as set out above, arise only from changes in the Britoil contract. They do not take into account further losses due to poor performance on the contract, or due to slippage arising because of the "last ship" syndrome. Given SL's track record, there is a high probability that substantial further losses would be incurred for this sort of reason - it should be noted that with only one quarter of the rig constructed, losses of £44 million have already had to be provided for.



6 The BS Chairman, Mr Day, takes the view that, while he has reasonable confidence in the estimated costs of cancellation, he has no confidence whatsoever in those for renegotiation. The auditors have for many years been unable to confirm the estimates of the costs of completing contracts at SL and have expressed particular reservations about the 1982/3 accounts. There is therefore, in his view, no reason to suppose that the present estimates of the cost of completing this contract are any more realistic. The Chairman also sees a high risk arising from the "last ship" problem. He therefore takes the view that the costs associated with renegotiating the contract and trying to complete it may therefore be substantially in excess of the figure quoted above.

Department of Trade and Industry

14 September 1983

CONFIDENTIAL

GOVAN - CANADIAN TRANSPORT CONTRACT

1. British Shipbuilders (BS) are seeking Government assistance above standard levels to help them win an order for three open bulk carriers. The deal involves the purchase of the ships by a finance company, as yet unspecified, which would lease them (without UK tax allowances) to two Norwegian ship operators, Lorentzen and Jahre (L and J). They, in turn, would charter them for eight years to a Canadian company, Canadian Transport (CT), for service in the forest products trade between Vancouver and the UK/Continent. The ships are to a new design, prepared particularly for this trade and specified by CT to shipowners and shipbuilders world-wide for this contract. There are some known prospects for further orders to the same design but the market is specialised and limited.

2. 38 tenders were received by CT. These have been reduced to a short list including, in addition to L and J, two other Norwegian owners, one US, one Japanese and two Hong Kong (one London-based). Another tender by two UK shipowners is now understood not to be acceptable to CT. The competing tenders are based on construction, all to the same new design, in Korean, Japanese or Yugoslav yards. L and J have, however, indicated to BS their willingness to build at Govan if the Japanese bid to them can be matched. There is no EEC shipowning or shipbuilding competition left in the running.

3. The Board of CT is to take a final decision on Friday 16 September. There appears to be no flexibility in this timing and a decision on the assistance available to BS is therefore extremely urgent.

Support Required

4. The CT charter will be in US dollars and BS' quotation also has to be in US dollars. The vessels would be built at Govan, with significant sub-contracting to Ferguson and Sunderland. The engines would be built at Kincaid. Delivery would be in May, September and December 1985.

5. The construction cost is estimated at \$33 million per ship. To match the price offered by the Japanese, which L and J have revealed to BS, BS believe that the highest price acceptable to L and J would be \$22 million per ship, including the cost of pre-delivery finance with an NPV of approximately \$1.3 million. Excluding exchange risks and premia on selling forward, therefore, a direct subsidy of \$12.3 million per ship (55% of contract price) would be required, as against the current rate of Intervention Fund (IF) plus Shipbuilder's Relief (SR) of 17%. The total cost

to Government of this deal is set out as Alternative A in the attached Table.

6. Presentationally, it would be a little easier to defend in the EEC (although it would still be objectionable) a deal under which the Overt breach of IF rules involved in Alternative A was avoided. This would be possible by adopting a price of \$28.2 million per ship and allowing BS to offer an interest free loan to L and J or their lessor, in which Government would not be directly involved. BS have calculated that a loan of approximately 50% of contract price for eight years from contract signature would have equivalent effect to Alternative A. This arrangement is set out as Alternative B in the attached Table, which shows a higher total cost but with a smaller amount in exceptional form, both absolutely and as a proportion of contract price.

TABLE

Cost to Government

US \$

Alternative A

Construction Cost	99,000,000		
Less: <u>Normal Aids</u>		IF@15%	9,900,000
		SR*@ 2%	1,320,000
<u>Exceptional Aid</u>		Additional Subsidy	<u>21,780,000</u>
Total Direct Aids	33,000,000		33,000,000
Selling Price	66,000,000		
<u>Additional Aids</u>		<u>Normal Home</u>	
		Credit (11.14% NPV)	7,352,400
		<u>Exceptional Pre-Delivery</u>	
		Interest (5.9% NPV)	3,894,000
<u>Total Aids</u>		Normal (28.14%)	18,572,400
		Exceptional (38.9%)	25,674,000
			<u>44,246,400</u>
			= 67.04%
			<u><u>        </u></u>

\* Shipbuilders Relief

\$

Alternative B

Construction Cost	99,000,000		
Less: <u>Normal Aids</u>		IF @ 15%	12,692,308
		SR* @ 2%	<u>1,692,308</u>
<u>Total Direct Aids</u>	<u>14,384,616</u>		14,384,616
Selling Price	84,615,384		
Additional Aids		<u>Normal Home</u>	
		Credit (11.14% NPV)	9,426,154
		<u>Exceptional Interest</u>	
		Free Loan (30.0% NPV)	25,373,936
<u>Total Aids</u>		Normal (28.14%)	23,810,770
		Exceptional (30.0%)	25,373,936
			<hr/>
			49,184,706
			= 58.1%

\* Shipbuilders Relief



## CONFIDENTIAL &amp; COMMERCIAL IN CONFIDENCE

CEGB order for 3x20,000 dwt colliers

1. On the CEGB's present plans, tenders would be invited in early November for submission at the end of December, leading to the placing of a contract in January. This would not allow construction to commence before July/August 1984, about four months after current orders at Govan are completed.

2. The CEGB has agreed to discuss with its consultants the possibility of shortening this timetable both by issuing the invitation to tender sooner and by allowing a shorter period for their submission. The scope is limited because this is already a tight programme but it seems that there might be some chance of cutting out up to a month. On this basis, it is just possible that the CEGB might be in a position to place the contract before Christmas, which might enable Govan to start construction in June, leaving no more than three months hiatus.

3. CEGB will, of course, be looking for the best deal available. In particular, they will be considering either chartering the vessels from an operator or owning them themselves and engaging an operator to manage them. They are likely to invite charter tenders from about six operators. This means that the range of shipyards tendering to construct the ships could be wide, although the CEGB do intend to ensure that, within the UK, it is BS centrally (and Harland and Wolff) which is invited to tender, rather than individual BS yards. It will, therefore, be within the control of BS to concentrate their tender onto Govan. It is, however, clear that it will be necessary to support the Govan tender to the level of Far Eastern competition.

4. The CEGB has already obtained indicative prices from both BS and Japan. BS's quotation, allowing for Intervention Fund at 13 per cent and Shipbuilders' Relief at 2 per cent, was £10.6 million. (This compares with BS' indications to us, on the same basis, of £10 million with a medium-speed engine, which would not be built by BS, and £10.75 million with a BS slow-speed engine.) The Japanese quotation was £9 million. Subject to any lower prices which might be offered from the Far East, therefore, an additional subsidy of £1-2 million would be likely to be needed to make the Govan price competitive. This would mean total assistance per ship as follows:

		<u>Medium speed</u>	<u>Slow speed</u>
Construction cost	£	11,500,000	12,362,500
Contract price		9,000,000	9,000,000
Intervention Fund (13%)		1,170,000	1,170,000
Shipbuilders' Relief (2%)		180,000	180,000
Normal Home Credit (11.14%)		1,002,600	1,002,600
Additional subsidy		1,150,000 (12.8%)	2,012,500 (22.4%)



CONFIDENTIAL & COMMERCIAL IN CONFIDENCE

5. In addition to these support costs, the gap of some 3 months between the end of Govan's current order-book and the start of construction on the CEGB order would cost of the order of £7 million in unrecovered labour and overheads involved in keeping the yard operational with no work.

Department of Trade and Industry

13 September 1983

Next Ind  
Ship building  
pt 5

15 SEP 1983



CONFIDENTIAL

240



Foreign and Commonwealth Office

London SW1A 2AH

9 August 1983

*Request at*

*12/8*

*PL request*

*W...*

Dear Caroline,

British Shipbuilders Nationalisation Compensation

*- will request if required*

Your letter of 22 July was marked as copied to me but we did not in fact see it until it was drawn to our attention separately through other correspondence.

The view here is that your letter may be over-optimistic as to the cases going to the Court and the likely outcome if they do. We have been told by the Secretary of the European Commission for Human Rights that we should not rule out the possibility that the matter will be referred to the Court; the Commission has so far taken no decision. And if reference is made to the Court, the outcome is unpredictable, since the Court is in no way bound to follow the Commission's view, although there is a reasonable prospect that it will do so.

There is no question of disagreement with your view that we should make no proposals for a friendly settlement, but I understand that it is for the FCO as agent in the cases to tell the Commission formally of HMG's position. We have already done so orally. I am copying this letter to the Private Secretaries in No 10, Treasury, Dept of the Environment and the Law Officers Department.

*Yours ever*

(J E Holmes)  
Private Secretary

*John Holmes*

Miss Varley  
Dept of Trade and Industry

Nat. Ind = Shipbuilding Pt 5

10 AUG 1983



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Ind,  
Ship

Prime Minister 2

LM  
8/8



DEPARTMENT OF TRADE AND INDUSTRY

Room 1103 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148  
Telegrams Advantage London SW1  
Telephone Direct Line 01-212 5902  
Switchboard 01-212 7676

From the  
Minister of State  
Norman Lamont MP

*ML*

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

5 August 1983

*Dear Prime Minister*

I now have British Shipbuilders' figures on shiprepair for the period 28 May to 1 July. The trading position is:

	Trading Profit (loss)	Forecast to End of Year Profit (loss)	Previous Forecast
Period 3 (28 May to 1 July)	(£130,000)	£464,000	£1 million

This compares with a trading loss of £649,000 for the previous two months.

Within this overall picture, Falmouth continue to be profitable and have indeed substantially increased their profit level (£94,000 this month). Although Vosper have made a small loss, present trends suggest that the company, like Falmouth, may achieve their budgeted profit target for the year. However, there remains doubt about the commercial viability of both Tyne Shiprepairers and Grangemouth Dockyard Limited.

I recently discussed with the BS Chairman-designate, Mr Graham Day, the question of privatisation of BS' shiprepair activities. Mr Day intends to take active steps to dispose of BS' shiprepair operations soon after he takes over on 1 September. I will keep you in touch with progress on this.

*Yours  
Norman*

NORMAN LAMONT

*Natural  
Ships*



DEPARTMENT OF TRADE AND INDUSTRY

Room 1103 Ashdown House 123 Victoria Street SW1E 6RB  
Telex 8813148  
Telegrams Advantage London SW1  
Telephone Direct Line 01-212 5902  
Switchboard 01-212 7676

*o.c. H  
L.R.*

From the  
Minister of State  
PS/Norman Lamont MP

John Kerr Esq  
Private Secretary to the  
Chancellor of the Exchequer  
H M Treasury  
Parliament St  
London SW1

28 July 1983

*Dear John*

BRITISH SHIPBUILDERS: STATEMENT

As agreed at E(NI) this morning I attach a final draft of the statement Mr Lamont will be making this afternoon on BS.

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

*Yours  
John Alty*

JOHN ALTY  
Private Secretary



## STATEMENT ON BRITISH SHIPBUILDERS

Mr Speaker, with permission I will make a statement about British Shipbuilders.

As the House knows British Shipbuilders has requested special help from the government, to get orders in the recession.

We have had a number of discussions of this request with British Shipbuilders. As I told the House on 18 July, we need to have a clear strategic view of British Shipbuilders' situation. Too often in the past we have rushed into short term measures. The Chairman-Designate, Mr Graham Day, has been asked to formulate a plan for the long term future of the business.

I have told the present Chairman, Sir Robert Atkinson, that, while plans for the future of BS are being formulated, we are prepared to give consideration to specific requests for assistance on a case-by-case basis within international rules.

The Government have applied to the European Commission for approval to an interim extension for Intervention Fund support until 31 October. Present Intervention Fund arrangements expire during July.



It is, however, also apparent that, in the present market situation, the present rate of Intervention Fund support is not sufficient to secure orders for BS. The Government have therefore decided as an additional measure to have urgent talks with the European Commission, with a view to securing approval for making an increased rate of Intervention Fund support available for a temporary period.

These measures are justified by the very depressed state of the market. In 1982, world new orders fell by 20%, and BS took the lowest level of new orders that it has ever recorded.

Nonetheless, the very poor results that BS announced yesterday reflect not the current lack of orders, but losses incurred on orders in earlier years.

Of the £117 million loss announced yesterday, a substantial amount is attributable to losses on four large contracts.

This is a very disappointing set of results. The four individual contracts on which particularly large losses have been made during 1982/83 reflect very poor performance at some of the Corporation's major yards.

As I have already made clear, however, some parts of BS are profitable. The Government remains firmly committed to privatising British Shipbuilders' activities as soon as possible, and wherever possible.



The support that BS had had from the Government comes to it at the expense of other industries. BS must understand that it is operating in a fiercely competitive market, and that it cannot be insulated from this. The performance of BS, as revealed by its very poor results for 1982/83, has got to improve if the Corporation is to survive.

28 JUL 1983

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CONFIDENTIAL

P.01081

PRIME MINISTER

Harland and Wolff

(E(NI)(83)16)

BACKGROUND

HA9A  
HA9B

There has been extended Ministerial and official consideration of the affairs of Harland and Wolff over the past 18 months. E(NI)(82)2nd Meeting considered the company's strategy; E(NI)(82)8th Meeting considered favourable terms to secure an order from the Blue Star Line; the terms of the order were further discussed in correspondence between Ministers shortly before the Election; there have been extensive discussions between the departments concerned, leading up to the production of a substantial report by officials on the company's future.

HA9C

2. The Secretary of State for Northern Ireland's memorandum (E(NI)(83)16), to which the report by officials is attached as Annex 3, reports considerable improvements in the company's planning and management. It recommends:

- i. that no final decisions about the company's future should be taken now; the new Corporate Plan should be considered in the autumn;
- ii. that a further marginal improvement should be conceded on the terms of the Blue Star Order; and
- iii. that funding of £42.2 million should be agreed for 1983-84, with a possible addition of a further £3.1 million.

3. Mr Prior says (paragraph 11) that he does "not think that closure is an option we can responsibly consider at this time". The Blue Star order for three or four ships is the only way of keeping the yard open. If the Sub-Committee wishes to avoid closure now, the revised terms for the order will have to be accepted, along with the proposed 1983-84 funding.

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MAIN ISSUES

Strategy

4. In March 1982 (E(NI)(82)2nd Meeting, Item 1), Ministers accepted that there was no commercial or economic justification for keeping the company open. The Sub-Committee, however, agreed that immediate closure was ruled out because of its effects on the Northern Irish economy and because of Harland and Wolff's symbolic importance to the Protestant community; instead the Government should permit and encourage reductions in operations and employment at Harland and Wolff and should seek improvements in efficiency.
5. Annex 3 to E(NI)(83)16 confirms the economic and financial case for closure. Closure would be substantially cheaper than continued support, both in terms of public expenditure and national output forgone; the quicker the closure, the greater the saving. Harland and Wolff's own 1983 Corporate Plan identifies scope for reducing costs and improving efficiency; but it seems to offer little realistic hope that Harland and Wolff can become viable in the foreseeable future. The Plan's underlying objective is to become cost-competitive in European - not world - terms; it envisages that Government support will be reduced, not made unnecessary; PA Management Consultants say that it will require "a very significant and imaginative level of support funding" for years ahead".
6. The main questions which the Sub-Committee will wish to consider are as follows:
- i. Do Ministers share Mr Prior's view that the Government should rule out closure now? Depending on the outcome of the Sub-Committee's discussion of British Shipbuilders, some Ministers may argue that it is no more unthinkable to close Harland and Wolff than to close some of BS's yards in areas of high unemployment - particularly Scott Lithgow, which is of about the same size as Harland and Wolff and is in an area with similar levels of unemployment. Mr Prior is likely to argue that there is a vital political difference between BS and Harland and Wolff, and in particular that closing the latter would wreck the Government's Northern Ireland Initiative.
  - ii. If closure now is ruled out, should the Government consider strategy in the autumn, as Mr Prior proposes?

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iii. If so, is there any guidance which E(NI) wishes to give the Secretary of State now for him to take into account when putting proposals to the Sub-Committee in the autumn? For example:

- Can the objective of reducing Government support be made more precise? Is the target in the Corporate Plan (reducing support funding to below £10 million - but excluding capital expenditure and exceptional items) appropriate? If so, what should the target date be?
- Does the Sub-Committee wish to consider different possible strategies for Harland and Wolff? Should they include complete closure?
- Do Department of Trade and Industry Ministers have any initial comments on Harland and Wolff's "preferred product strategy" - a move away from large tankers and bulk carriers towards ships of generally medium size and sophistication? What will the Japanese and Korean opposition be like in this sector?

Blue Star Order

7. The prospective order is for three or four refrigerated cargo vessels. Two or three ships would be purchased by consortia of banks and other financial institutions; one by Investors in Industry. The ships would be leased to the Blue Star Line. The revised proposals which Mr Prior now puts before the Sub-Committee differ in two respects from those for which he obtained agreement in May:

- i. The support required to obtain the order has risen slightly, to 46.4 per cent of the contract price (45.5 per cent on the terms proposed in May, 41.1 per cent in the original proposals last September).
- ii. Over and above this assistance Harland and Wolff would contribute to Blue Star's leasing payments for four years to make up for the recent fall in charter rates; there would be recovery arrangements under which, if charter rates rise sufficiently over the rest of the fifteen year lease, Blue Star will repay sums whose net present value is equivalent to the lease support payments - ie if all goes well, this part of the deal involves no net public expenditure over time. (These lease support

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payments replace an earlier proposal that the Government should guarantee the lessors against non-payment of the lease).

The detailed financing arrangements for the third of the possible four ships are still being worked out; Mr Prior proposes to discuss them with the Chief Secretary, Treasury and the Secretary of State for Trade and Industry.

8. The Sub-Committee needs to take two decisions on the Blue Star order.

a. Are the revised terms acceptable? The support required is high; it seems particularly disturbing that Harland and Wolff can only get the order by contributing, via the lease support payments, to the running cost of the ships. On the other hand there is no other order in sight at present; the Blue Star order would provide the yard with work until the spring of 1985 (though all three or four ships would be out of the first, metal-cutting stage of the yard in the first half of next year). If Harland and Wolff is to be kept open, there seems to be no alternative to this order, on these terms.

b. Should the Government notify the terms to the European Commission? Ministers have previously decided against notification, on the grounds that the Commission might not approve the order and this would expose to Commission scrutiny some of our less direct means of support (such as soft credit) which we have never previously notified. Mr Prior sticks to that view. But is non-notification still the best policy when (assuming the Secretary of State for Trade and Industry's proposals for BS are accepted) the Government will be seeking Commission approval for an increased level of Intervention Fund support for British shipbuilders in the next few months? If the Commission get to hear of the Blue Star order, as is quite possible, they are likely to suspect that it involves a higher level of aid than the current Intervention Fund arrangements provide. If the Commission were subsequently to investigate the terms, what effect would this have on the chances of securing approval for the Government proposals for British Shipbuilders? The Sub-Committee may well continue to take the view that non-notification is the best option in view of the certain difficulties that will follow from notification; but you will wish to invite the views of the Foreign and Commonwealth Secretary on this question.

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Public Expenditure

9. Ministers have so far agreed to interim funding of £16.1 million for Harland and Wolff up to the end of July. The Secretary of State for Northern Ireland proposes that for the financial year as a whole the Government should make available £42.2 million if four ships are ordered for the Blue Star Line and an additional £3.1 million if only three ships are ordered (and stage payments by the purchasers are therefore lower).

10. I understand that Treasury Ministers accept that the figures of £42.2 million or £45.3 million properly reflect the financial consequences of keeping Harland and Wolff open and accepting the Blue Star order; and are content with Mr Prior's proposals. The money is to be found from elsewhere in the Northern Ireland programme.

HANDLING

11. The Secretary of State for Northern Ireland will wish to introduce his memorandum. The Chancellor of the Exchequer or the Chief Secretary, Treasury will want to comment in general, as may the Chancellor of the Duchy of Lancaster. The Secretary of State for Trade and Industry and the Secretary of State for Transport will want to make known their views in the light of their respective responsibilities for British Shipbuilders and shipping. The Secretary of State for Foreign and Commonwealth Affairs will want to comment on the European Community implications.

CONCLUSIONS

12. You will want the Sub-Committee to reach conclusions on the following questions:

- i. What view do Ministers take at this stage of the Government's strategy towards Harland and Wolff? Is closure now to be ruled out?
- ii. In the light of i. does the Sub-Committee accept the substantive proposals in the last paragraph of E(NI)(83)16, ie:
  - a. Should E(NI) consider the company's Corporate Plan in the autumn? If so, is there any guidance which Ministers wish to give the Secretary of State now?
  - b. Do Ministers agree to the revised terms of the Blue Star order? If so, should it be notified to the European Commission?

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c. Should public expenditure on Harland and Wolff in 1983-84 be up to £42.2 million if four ships are built for the Blue Star Line or, £45.3 million if only three ships are built?

*Pcg*

P L GREGSON

27 July 1983

CONFIDENTIAL

SECRET

for E(M) folder 4

Qa 06426

To: PRIME MINISTER

26 July 1983

From: JOHN SPARROW

Harland and Wolff

ms

1. I have seen E(NI)(83)16 by the Secretary of State for Northern Ireland.
2. The case for keeping Harland and Wolff open is clearly based on political and social objectives and not on economic and commercial ones. The contrast with the situation of British Shipbuilders is instructive. In the British Shipbuilders' case it is possible to see a viable core of activities. In the Harland and Wolff case nobody is suggesting that it can ever be made into a viable concern; indeed, paragraph 20 of Annex 3 of the paper points out that, even if all the employees worked for nothing, the Company would still not be viable.
3. The net present value cost difference between closing Harland and Wolff now and supporting it indefinitely at current levels is put at some £650m. The question surely arises whether the political and social objectives which retention of Harland and Wolff is designed to achieve might not be better served (perhaps even more cheaply) by some other approach. The Officials' paper argues that there is little hope of success with measures designed to provide alternative employment. Is that not defeatist? Would not more intensive study of possible alternatives (including less costly uncommercial ways of employing people or even such way-out ideas as early retirement at an enhanced pension level) produce some more positive approach?
4. I recognise that the Secretary of State for Northern Ireland will want to avoid any Government-induced disruption to his present efforts to achieve a long term political solution in Northern Ireland and I recognise that closure of Harland and Wolff, coming on top of other recent job losses, would be a major disruption. But if his efforts succeed it may be that in a year or two's time closure could

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be more readily contemplated especially if in the intervening period the Government was ready to put in place some alternative means of overcoming the social and political problems implicit in closure.

5. The cost of failing to grasp the expensive Harland and Wolff nettle could be greater even than that estimated by Officials in Annex 3. Shipyard workers in other parts of the United Kingdom, whose jobs must be sacrificed if British Shipbuilders is to have any reasonable future, will draw their own conclusions from Government's hesitation. This could make it more difficult for the Government to shed the public expenditure burden of propping up an over-blown British Shipbuilders.

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

BS.



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PRIME MINISTER

HARLAND AND WOLFF

The Corporate Plan and the Report by Officials

The Report by Officials is pessimistic and depressing - which is not surprising in view of their terms of reference.

The crucial question is whether the new Corporate Plan casts doubts upon the Conclusions reached by officials. This is not said as a criticism - the Corporate Plan was presumably not available when the Report by Officials was written. We do not ourselves have a copy of the Corporate Plan - only a summary plus a preliminary assessment by PA Management Accountants. But according to them the Corporate Plan is an impressive document and reflects a spirit of drive and determination by the new management.

The Management Accountants are due to provide a full assessment of the Corporate Plan in the Autumn. The Northern Ireland Secretary suggests we should await that assessment. I agree.

Incidentally, on productivity - a key factor - Harland and Wolff are much more realistic than British Shipbuilders. They estimate a 25% increase over the next 4 years, compared with British Shipbuilder's 100%.

Blue Star Ships

So far as the Blue Star ships are concerned, the terms on any commercial reckoning are absurd. They can only be justified on the ground that work would be provided in Northern Ireland to keep people off the streets. They savour a little, too, of what the Americans describe as a "squeeze racket". Just how far we allow ourselves to be pushed is a matter for negotiation between the Northern Ireland Office - and the Treasury - and Vestey. If what is offered is the best that can be negotiated, we shall have to swallow it with as good grace as we can muster.

A.C.

A C

26 July 1983

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for E (M) folder 3

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NAT IND. Shipbuilding  
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DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813143  
 Telegrams Advantage Dept SW1  
 Telephone Direct Line 01-212 3301  
 Switchboard 01-212 7676

22 July 1982

PS/Secretary of State for Trade &amp; Industry

C Butler Esq  
 Political Office  
 10 Downing Street  
 London SW1

*Dear Mr Butler:*

PS/NL Mr Rice  
 PS/B Mr Russell FRU  
 PS/See (on file)  
 Mr Portillo  
 Mr Cooper  
 Mr Treidgold  
 Mr Mallison  
 Mr Jackson

## NATIONALISATION COMPENSATION AND THE WARSHIPBUILDERS

Thank you for your letter of 28 June. I attach a confidential background briefing note dealing with the complaints of the warship builders about the compensation they received under the 1977 Act. The note explains the state of play before the European Commission for Human Rights, which has recently announced both to the applicants and to the Government its provisional finding that the terms of the 1977 nationalisation did not breach the European Convention for the Protection of Human Rights. It was very important for the United Kingdom to win this case before the Commission. The sovereignty of the United Kingdom Parliament was at issue. Moreover, other cases which it was important for the Government to win were before the Commission at the same time and many of the arguments were common. As well as the shipbuilding cases the Government was defending the leasehold reform legislation and another case relating to an aircraft company nationalised under the 1977 Act.

2 Though at the moment the Commission's view is only provisional, it is, we understand, most unlikely to be changed and is almost certain to be endorsed without serious argument by the Council of Ministers, though this may not take place until the middle of next year. There is just a possibility that the cases could be sent by the Commission to the Court established under the Convention. This would theoretically reopen all the arguments but, again, the Court could reasonably be expected to endorse the Commission's view.

3 The note also refers to the decision which must be taken before 29 July on whether HMS should make proposals to the Commission for a "friendly settlement". It might be thought odd that, having found for HMS, the Commission should have issued this invitation. But this is merely a procedural step required by the Convention and the Commission would think it extraordinary if at this late stage HMS were to reverse its public position.



EUROPEAN COMMISSION OF HUMAN RIGHTS

Complaints about Compensation for Nationalisation  
under the  
1977 Aircraft and Shipbuilding Industries Act

A Confidential Background Note  
by the  
Department of Trade and Industry

1. Shareholders of 8 of the 24 shipbuilding companies which vested under the 1977 Act have complained to the European Commission of Human Rights that the compensation they received was inadequate. (A list of the shipbuilding companies which were nationalised, the shareholders in those companies and the compensation paid is annexed to this note.)
2. The main complaints are:
  - a. that no market price could be fixed for unquoted companies (7 of the 8 were unquoted and only the preference shares were quoted for the other one);and
  - b. that, in any case, the "reference period" for the determination of compensation should have been related to vesting day in 1977 rather than taken to be the six months ended in February 1974 (when the decision to nationalise was announced) as provided in the Act.
3. The force of the second complaint was particularly felt by the former owners of the warship building companies. The fortunes of these companies improved between 1974 and 1977 and substantial dividends have been paid by them since then to British Shipbuilders.
4. Prolonged consideration was given as to whether the terms of compensation should be changed. The Cabinet decided in 1980 against this because of
  - a. the impossibility of arriving at a new settlement which could also take account, fairly, of the position of those who had sold shares on the footing of the 1977 Act;
  - b. the general objections to retrospective legislation;and
  - c. the cost (now estimated to be in excess of £600m) of meeting the claims of the former owners in full, including the aircraft company's former owners.



very greatly strengthens the position which the Government announced in August 1980. In accordance with the Government's stated policy in these matters, it is the intention that the Commission will be told that the Government will not be making any proposals for friendly settlements. The continued maintenance of a firm line should help to bring to an end a long standing difficult issue for the Government.

FRM/DTI  
July 1983

## INDUSTRY

### Shipbuilding and Ship Repairing

Mr. Buck asked the Secretary of State for Industry whether he intends to introduce legislation to enable the nationalised shipbuilding and ship repairing companies to be offered back to private enterprise; and if he will make a statement.

Sir Keith Joseph: The Government have been considering whether to introduce private sector capital into shipbuilding and ship repair. This review was begun when there were some signs of recovery in the market and there was still a reasonable expectation that British Shipbuilders would be able to keep within its financial limits this year without the need for substantial corrective action. As the Minister of State told the House last week, these

hopes have not been realised and the industry faces a period of continuing uncertainty about its future shape and viability. We have accordingly decided to defer proceeding at this stage. I know that this decision will be a disappointment to many, including all those who think that private enterprise offers a better hope for jobs and prosperity in the industry than public ownership. We intend to introduce private capital into the industry as soon as appropriate.

We recognise that some previous owners and many members of this House and of the public believe that the terms of compensation imposed by the 1977 Act were grossly unfair to some of the companies and we share this view. We have explored every possibility to right the injustice done by the previous Government, but to our very great regret we have concluded that amending legislation to establish new compensation terms retrospectively would be unjust to the many people who sold shares on the basis of the previous terms.

We had to recognise, moreover, that had we wanted as an alternative to offer the companies back to the former owners legislation would have been required. This would inevitably create a long period of uncertainty for the industry during the passage of legislation, the preparation of the detailed offer to the former owners and the consideration of the terms. Moreover we cannot return to the former owners that which was taken from them because the assets and liabilities of the companies concerned have changed. In the case of the aircraft industry the changes are quite clearly irreversible. We have therefore come to the most reluctant conclusion that there is no satisfactory way to alter the 1977 compensation terms.

Mat. Ind : Shipbuilding, Pt 5

COMMERCIAL IN CONFIDENCE

Prime Minister (4)



DEPARTMENT OF TRADE AND INDUSTRY

Room 1103 Ashdown House 123 Victoria Street SW1E 6RB  
Telex 8813148  
Telegrams Advantage London SW1  
Telephone Direct Line 01-212 5902  
Switchboard 01-212 7676

MS 21/7

From the  
Minister of State  
Norman Lamont MP

MS

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

21 July 1983

*Dear Prime Minister*

I now have the British Shipbuilders (BS) figures on shiprepair for the period 2 April to 27 May. The trading position is:

	TRADING PROFIT (LOSS)	FORECAST TO END OF YEAR PROFIT (LOSS)
Period 1 & 2 (2 April-27 May)	(£649,000)	£1 million

This compares with a trading profit of £456,000 for the previous month.

Following the overall trading profit for the last quarter of 82-83 the Shiprepair Division as a whole has made a loss in the first two months of this financial year. However, within the overall picture Falmouth continues to be profitable with a good future. Vosper has for the present performed worse than expected, but the yard has a good orderbook for the rest of the year.

After being profitable for a few months running, the restructured Tyne Shiprepair Limited (TSL) with a much reduced workforce has again started to make a loss. This, according to BS, is due to the company's failure to attract the necessary volume of work needed. Close monitoring of both TSL and Grangemouth Dockyard Limited is being undertaken by BS but the future existence of the companies, at least in their present form, must be in grave doubt.



Privatisation or closure is the top priority. Graham Day who becomes Chairman on 1 September, but who has moved in as Deputy Chairman since 1 July, is already making a more vigorous influence felt in this. BS have now asked Morgan Grenfell Limited for advice on Falmouth, which has several potential buyers.

*Yours  
Norman*

NORMAN LAMONT

CONQUERO

LONDON



Foreign and Commonwealth Office

London SW1A 2AH

13 July 1983

*From The Minister of State**Sean Cecil,*

## BRITISH SHIPBUILDERS: 1983 CORPORATE PLAN

I have seen a copy of your memorandum E(NI)(83)15. As Geoffrey Howe will be unable to attend tomorrow, I am writing to let you and other E(NI) colleagues know our views so that they can be taken into account during the meeting.

Our concern is, of course, with the handling of the clearance of the aid with the European Commission. I am grateful for the careful consideration you have given to this aspect in your paper. I agree that of the various possible measures of assistance, an increase in the amount and intensity of the Intervention Fund seems the best course of action.

A package of crisis aid of the order of magnitude envisaged will present serious problems vis à vis the European Commission and we must expect adverse comments from other Member States. As you say, the negotiations will be very tough and we will need to be flexible. In particular, the Commission will need to be convinced that there is adequate counterpart to justify the large increase in amount and intensity of aid we propose; and they will also be looking for firm undertakings from us on loss financing.

This means that the Commission will not begin to negotiate seriously with us until they have received a detailed notification of the aid required and the planned capacity and manpower reductions. Given the timing problem, it is very important that we be ready to submit the notification as soon as possible after the new Corporate Plan is agreed in September. On loss financing, we shall need to explain to the Commission why the losses incurred this year exceed the planned figure by such a substantial margin; we must expect some probing questions from them about loss financing; and we must be ready to give a commitment to phase out the practice within a given period of time.

In the immediate future, before the Corporate Plan is ready, there would in my view be only limited value in an approach to the Commission. We could perhaps begin to prepare the ground, by warning them of the extent of BS' losses and of the need for further aid and explaining that BS are working on a restructuring plan (although they are almost certainly aware of all this in general terms). But this would do very little to speed up the clearance procedure in the autumn.

The Rt Hon Cecil Parkinson MP  
Secretary of State for Trade and Industry

/Moreover



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Moreover, one possible difficulty about an approach to the Commission now is that they may ask how BS expects to win any orders in the next few months if the current level of IF support is so ineffective. They will be aware of the statement Patrick Jenkin made in May that we would be prepared to consider requests for help on a case by case basis, within the framework of the international rules. If they have the opportunity, they may try to probe more deeply into what this means.

All this underlines the need for particular care in the use of soft credit to win orders in the coming months. As you know, the ground rules for its use specify that it should be restricted to established UK owners and that it should not be authorised if competition from another EEC yard is known or suspected. If there is any possibility that we may need to go beyond the ground rules (eg use of soft credit to win foreign orders) I should be grateful if my department could be consulted on such cases.

I am copying this letter to members of E(NI) and to Sir R Armstrong.

*Yours ever*  
*Dame*

Baroness Young

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14 JUL 1983

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MR SCHOLAR

cc Mr Mount

BRITISH SHIPBUILDERS: CORPORATE PLAN 1983

Mr Parkinson's memorandum presents colleagues with three options:

- A. BS's preferred option;
- B. partial closure;
- C. complete closure

but it does not in our view present them at all well. One might conclude from Annex I that for only an additional £35 million over four years, Ministers could avoid the political and social difficulties entailed by the partial/closure option B, and that total closure would be more expensive than the BS preferred option. This presentation is misleading in several respects:

1. The figures disregard the highly unprofitable offshore activities at Scott Lithgow.
2. The BS preferred option allows BS its optimistic market assumption and an improbable 50 per cent increase in productivity over four years, even though no significant growth in productivity has been achieved over the last four years.
3. The "other restructuring costs falling to Government", ie costs of unemployment benefit, should not be counted on all fours with commercial costs, as they are here. They are highly speculative (based on assumptions about the time it would take to reabsorb the employees directly concerned, and those in supplying industries). They disregard the hidden unemployment costs associated with the jobs crowded out elsewhere in the economy by higher taxation or borrowing needed to sustain BS.
4. The calculations do not attempt to compare the positions after 1986-87. BS's preferred option would probably require ever-increasing support; complete closure would cost very little, once the redundant workers have either retired or been reabsorbed. The benefits of closure have to be viewed in a 5-10 years perspective. If all closures in the economy were analysed and decided in the way suggested here, it is doubtful whether structural change would ever occur.

The financial prospects of BS's merchant activities require urgent decisions, which have been fudged by the present management. E(NI) ought to agree now that:

1. The partial closure route should be followed as soon as possible. The disastrous merchant shipbuilding yards have been identified and are all due to complete their orders by end-1984.
2. The DTI should be specifically instructed not to provide any subsidy for new orders to these disaster yards.
3. The 1983-84 EFL should be constrained at £159 million.

NICHOLAS OWEN

13.7.83

P.01069

PRIME MINISTER  

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British Shipbuilders

E(NI)(83)15

## BACKGROUND

In this memorandum the Secretary of State for Trade and Industry sets out his proposals for British Shipbuilders (BS) in the light of the Sub-Committee's previous discussions of the industry, BS's 1983 Corporate Plan, and the present prospective market conditions for shipbuilding and BS's other activities.

2. The main figures are clearly set out in the memorandum. But you will note that there has been a significant further worsening since the Sub-Committee's last discussion of BS (E(NI)(83)2nd Meeting, Item 1). Losses in 1982-83 were £117 million, compared with the previous estimate of £57 million (and the target of £10 million). BS have applied for 'crisis aid' on merchant shipbuilding, and recognise that offshore business will be much less than their previous estimate. They have recently announced that about 9,000 jobs are likely to be lost.

## MAIN ISSUES

3. You will want the Sub-Committee to look at the Secretary of State's proposals for all of BS's divisions; but the meeting's main concern will be with merchant shipbuilding and offshore work, the Corporation's main loss makers.

Merchant Shipbuilding and Offshore Work: the proposals

4. Following E(NI)'s earlier discussion, BS were told to include in their 1983 corporate plan realistic options for reducing losses on merchant shipbuilding. Mr Parkinson reports that the Corporate Plan produced fails to do so, and argues that the Government should reject its proposals for merchant shipbuilding. His own proposals are as follows.

- (i) The new Chairman, Mr Graham Day, should be invited to produce in the Autumn a plan for a controlled run down of merchant shipbuilding.

(ii) The Government should pay 'crisis aid' of up to £100 million (instead of the £45 million planned at present) to secure orders for the potentially viable yards in 1983-84 and 1984-85. The aid might best be paid in the form of increased Intervention Fund support. 'Soft credit' might also be necessary, but any proposal for such assistance would have to be decided by Ministers collectively, as at present.

(iii) The Government should immediately begin negotiations with the European Commission to seek their agreement to the payment of 'crisis aid'.

5. On offshore work BS's corporate plan envisages that Scott Lithgow (on the Clyde) will run down and probably close, leaving Cammell Laird as the only offshore yard. Mr Parkinson concurs in this view, noting that no decision need be announced until nearer the time when the yard's present workload is completed, probably in 1985.

General approach

6. E(NI) accepted in previous discussions that substantial yard closures and redundancies would be necessary to reduce BS's losses and give the Corporation a chance of breaking even. BS's recent performance certainly gives no cause for greater optimism. The proposals in E(NI)(83)15 probably imply the closure of around half a dozen yards and a fall in merchant shipbuilding manpower to around 9,000 (17,300 at present; 13,600 after redundancies planned at present). The PSBR cost of the proposals is estimated to be £300 million over the public expenditure planning period, (compared with £335 million for BS's preferred option and £380 million for complete closure).

LAG B →

7. We understand that Treasury Ministers are being briefed to support these proposals, on the grounds that they constitute a realistic attempt to get rid of yards with poor performance and few prospects; and to let BS concentrate orders and management resources on those yards (eg. Govan, Austin and Pickersgill) for which there is some hope. However, the Sub-Committee may wish to explore the more radical option of complete closure. No doubt this would create severe political difficulties. But it would be little more expensive than partial closure, even in the short

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term; and it would offer substantial savings in the longer term. It is far from clear, on the evidence before the Sub-Committee, that there is any prospect of a profitable merchant shipbuilding industry in this country.

8. Points that the Sub-Committee may wish to explore are as follows.

(a) What is the financial test which will demonstrate that there is a 'viable core'? When is it supposed to break even, without Intervention Fund assistance or any other subsidy?

(b) Why must assistance of as much as £100 million over the next two years be directed towards the better BS yards? Mr Parkinson cites the recession and price competition from the Far East. But the latter will be a continuing problem, not just a problem for the next two years.

(c) Is there an option for BS which involves keeping fewer than 9,000 men in merchant shipbuilding?

9. It may well be argued against this that Ministers would need a good deal more evidence before they could contemplate so drastic a step as complete closure. If so, a possible approach would be to ask Mr Day to consider this as an option (ie not to assume that it is ruled out for political reasons) and to advise on the desirability of this and other courses as part of the exercise recommended at the start of paragraph 27 of E(NI)(83)15.

Implications for individual yards

10. We understand that any worthwhile rationalisation programme is likely to involve closing Scott Lithgow; Henry Robb (Leith); Ferguson/Aika (Clyde and Ayrshire); Smiths Dock (Teesside) and probably Swan Hunter (Tyneside). Closing any of these yards would be difficult: specially so in the case of Scott Lithgow and Swan Hunter. But you will probably want to avoid prolonged discussion of individual yards at this meeting. It is for Mr Day to advise the Government which ones should be closed: and it would defeat the point of trying to rationalise BS if Ministers seek now to make a special case for retaining particular yards.

European Community Implications

11. Under the Fifth Shipbuilding Directive, production aids for shipbuilding can only be paid with the prior approval of the European Commission. It will not be easy to obtain Commission approval to an effective doubling of the current rate of Intervention Fund subsidy; production aids are supposed to be 'degressive' under the Fifth Directive; the size of BS's losses and loss financing in 1982-83 will also influence the Commission's attitude. The Commission may however be prepared to accept an increase in the intensity of aid for a limited period if this is accompanied by significant rationalisation, like that which the Secretary of State proposes; they will probably look for yard closures and not just redundancies.

12. If the Sub-Committee should decide that total closure is an option that should be explored, this would presumably have a considerable effect on our tactics.

13. It might therefore be best to invite the Secretary of State for Trade and Industry and the Foreign and Commonwealth Secretary to arrange for officials to discuss the tactics and timing of an approach to the Commission in the light of the Sub-Committee's decisions on the substance.

Achieving the Government's Objectives.

14. It has proved consistently difficult to get BS to face up to its problems, produce realistic plans and stick to them. No doubt Mr Day's arrival will improve matters; but how does the Secretary of State intend to ensure that the Government's objectives are achieved? In particular:

→ (a) Will he make clear to Mr Day what order of run down the Government is prepared to accept? (Depending on the course of the Sub-Committee's discussion this could extend to total closure of merchant shipbuilding and perhaps other activities).

(b) When does he envisage reaching agreement with Mr Day about the latter's objectives as Chairman of BS? Will the objectives specify a timetable for BS to break even or make profits on merchant and offshore work?

(c) When is Mr Day to be asked to report back with his advice on contraction?

see  
m/s FCO to  
S/S DTI 13/7

flag c

Warships

15. The Sub-Committee is likely to welcome the Secretary of State's proposal to explore how the financial control of warshipbuilding might be separated from that of BS's other activities, so as to facilitate privatisation and to clarify the financial performance of the Corporation's divisions.

Ship-repair

16. Mr Parkinson says that he hopes to see substantial progress by BS in closing down or getting rid of ship-repair facilities by the end of 1983-84. Does he envisage that all of these activities can be got rid of by the end of the financial year, as the Sub-Committee intended when it last discussed BS?

Engine building and engineering

17. When does the Secretary of State intend to bring forward proposals to deal with the excess capacity in these activities?

External Financing Limit.

18. Mr Parkinson proposes that BS's EFL for this year should be raised from £159 million to £174 million (an increase of £16 million less a cut of £1 million as a contribution towards last week's measures). I understand that the Treasury are content with this proposal.

## HANDLING

19. The Secretary of State for Trade and Industry will want to introduce his proposals. The Chancellor of the Exchequer or the Chief Secretary, Treasury will wish to comment generally on them, as may Mr Sparrow and the Chancellor of the Duchy of Lancaster. The Secretary of State for Scotland will wish to comment on the implications for Scotland of the proposals before E(NI); so may the Secretary of State for Northern Ireland and the Secretary of State for Defence on their implications respectively for Harland and Wolff and warshipbuilding. The Secretary of State for Foreign and Commonwealth Affairs (or his representative) will wish to discuss the European Community implications of the proposals. The Minister of State, Department of Trade and Industry (Mr Lamont) will be able to deal with any detailed questions which arise about the industry.

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CONCLUSIONS

20. You will want E(NI) to reach conclusions on the proposals summarised in paragraph 27 of E(NI)(83)15, ie:

- Need to  
concentrate  
better words.*
- 179 -*
- i. in respect of merchant shipbuilding:
    - a. whether BS should be told to prepare a plan for "controlled rundown", ie partial closure (preserving 9000 jobs) or whether other courses, such as total closure, should also be examined;
    - b. whether an approach should be made to the Commission immediately for approval of Intervention Fund assistance amounting to around £100 million over 1983-84 and 1984-85;
  - ii. whether the offshore division should be run down by the closure of Scott Lithgow in 1985;
  - iii. whether warshipbuilding should be privatised wherever possible (and the feasibility of separate financial arrangements for this activity explored as a step towards this);
  - iv. whether BS should divest themselves of their ship repair and engineering activities;
  - v. whether the future of engine building should be considered in the light of the future of merchant shipbuilding;
  - vi. whether BSs' EFL for 1983-84 should be raised to £175\* million;
  - vii. whether the future of BS should be considered again in the autumn on the basis of a new Corporate Plan by the new Chairman, taking account of i. to vi. above.

*PLG*  
P L GREGSON

13 July 1983



SECRET AND PERSONAL

Prime Minister

A brief for ELM)

MW 12/7

PRIME MINISTER

BRITISH SHIPBUILDERS: 1983 CORPORATE PLAN

Merchant Shipbuilding

This is the crucial area and the one I concentrate on.

1. In terms of direct costs (item 2 in Table A1) BS's 'preferred option' is by far and away the most expensive - £265M against £160M for 'complete closure'. But by the time 'other costs' (item 3 in the Table) are taken into account, the order is reversed: and 'complete closure' which was the cheapest, now becomes the most expensive - £380M against £335M for the 'preferred option'. I am always very sceptical where this sort of thing happens. The 'other costs' consist primarily of unemployment benefit and income tax which would have been paid by the workers who are now redundant. It is all very reminiscent of Mr Foot's £15 billion cost of unemployment: and of the Labour Party/Alliance claim that you can reduce unemployment by 1 or 2 million by spending vast sums of public money.
2. It is very easy to identify certain immediate costs or benefits arising from a particular course of action. But these may not represent the sum total of the costs or benefits which may ultimately emerge. This surely is the lesson we learned both from the analysis of the alleged 'cost of unemployment' and from the simulation using the Treasury model of what would happen if Government expenditure were substantially increased. I suspect that a full analysis has not been done in the present case. Thus BS's 'preferred option' costs £105M more than 'complete closure'. This additional cost would add to the borrowing requirement, would involve additional interest payments and would have repercussive effects on the private sector of the economy. Have all these matters been taken into account? I suspect not. But if they have not, it is seriously misleading to claim - as Table A1 sets out to do - that the 'preferred option' saves £150M by way of reduced payments of benefits and lower tax losses and that as a result while it starts out by being significantly more expensive than 'complete closure' it ends up by being cheaper.
3. Coming to more detailed matters, we really do need to see the productivity record to judge whether the 50 per cent improvement which is the basis of the figures in the paper is remotely achievable. The figure is not credible simply on the ground that it is less than BS proposed.
4. Quite apart from the question of productivity, how have wage costs moved in recent years? Are wage rates high in relation to other industries? Have increases been greater or less? Here as elsewhere in British industry the wage costs is likely to be a major factor in our lack of competitiveness. In the case of both the Atlantic

Conveyor and the Blue Star ships we demanded assurances on this point. How successful have we in fact been? May we not have to squeeze even harder if any of the yards are to survive?

5. Is there any element in BS's costs which represent other Nationalised Industries' losses passed through to BS? Do BS pay more for their steel than their continental or Far East competitors? Is there any element of the losses of the Coal Board being passed through into steel - or electricity - prices and thus contributing to BS's uncompetitiveness?
6. This provokes another question. Do we know - or are we in a position to guess - what is the build-up of costs in the prices quoted by our competitors? And how this compares with our own costs?
7. It would be valuable - indeed essential - to have disaggregated profit and loss figures and other relevant information for each of the yards. We cannot come to a sensible decision on partial closure unless we know what it is we are looking at.
8. One would have thought that the 'crisis aid' needed would be quite different if one concentrated on the best yards (the 'partial closure' option) than if one tried to keep all the yards open (BS's 'preferred option').
9. While it is important to clarify the points I have made above, I believe that in political terms 'partial closure' is about as far as we could go. But this decision needs to be better underpinned than it is at present. Moreover we need to present it not as 'partial closure' or as 'substantial contraction' but as creating a base for a viable industry in the longer term by building on those yards which can show a prospect for the future. If they are to have any prospect, we have to engage the co-operation of the work-force remaining in those yards. This can only be done in the context of a positive attitude by BS's management and a determination to succeed.

#### The Warship Yards

10. Separate accounting is essential: and I entirely agree with this recommendation.

But how far is the profitability of the warship yards due to what are essentially cost plus contracts? Overtly or covertly, most Ministry of Defence contracts fall into this category.

Are we in a position to compare our warship building costs with those of other people - as we have done with HARM and ALARM? If so has this been done and with what results?

Have there been any fixed price contracts for warships? If so, were the fixed prices adhered to?

Offshore: Repair: Engine building

11. The recommendations on the first two - to close - are undoubtedly right. So far as engine building is concerned, I do not agree that the future is necessarily tied up with the future of the Merchant yards. It may well be that, if the yards or some of them are retained, BS could buy in cheaper and better engines. Has this been fully investigated?

*A.C.*

COCKFIELD

11 July 1983

17 JUL 1988



*[Faint, illegible text or markings]*

PART 4 ends:-

FERB to DTI 23.6.83

PART 5 begins:-

E(NI)(83)15 7.7.83

