S
811

PREM 19/1869

Shipbuilding Policy

Shipbuilding Pay.

PART 8

NATIONALISED INDUSTRIES

Part 1: May 1979
Part 8: Feb 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.2.85.		~~25.10.85~~		~~13.12.85.~~			
~~21.2.85~~		~~28.10.85~~		~~14.12.85~~			
~~21.2.85~~		~~5.11.85~~		~~14.1.86~~			
~~21.3.85~~		~~9.11.85~~		~~16.1.86~~			
~~10.4.85~~		~~8.11.85~~		~~23.1.86~~			
~~1.5.85~~		~~14.11.85~~		31.1.86.			
~~21.5.85~~		~~19.11.85~~					
~~21/6/85~~		~~19.11.85~~					
~~26.6.85~~		22.11.85					
1.7.85		~~26.11.85~~		PART CLOSED			
~~5.7.85~~		~~4/12/85~~					
~~11.7.85~~		~~10/12/85~~					
~~19.7.85~~		~~11/12/85~~					
~~22.7.85~~		~~13.12.85~~					
~~27.7.85~~		~~16.12.85~~					
~~2/8/85~~		~~17.12.85.~~					
~~26/9/85~~		~~20.12.85~~					
~~30.9.85~~		~~24.12.85~~					
~~1.10.85~~		~~2.1.86.~~					
~~8.10.85~~		~~3.1.86~~					
~~15/10/85~~		~~9.1.86.~~					
~~17/10/85~~		~~10.1.86~~					
21.10.85							
~~23.10.85~~							

PREM 19/1869

Material used by official historian
DO NOT DESTROY

PART 8 ends:-

SS/TRP TO LORD CAITHNESS 31/1

PART 9 begins:-

NIO TO DRN 14/2/86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (A) (85) 48	16/07/1985

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 08/10/2014

PREM Records Team

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Lord Caithness
Parliamentary Under Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

31 January 1986

Dear Malcolm

SHIPPING POLICY: CONSEQUENCES OF A LESS OPEN APPROACH

I am grateful to you for your memorandum of 27 November (MISC 19(85)3) and to other members of MISC 19 for their comments. It may be helpful if I briefly respond to some of the points raised.

The main recommendation that the UK should continue to eschew any policy of generalised cargo reservation has been endorsed. There is also clearly a general willingness to consider whether the Government might at the margin take action to secure more business for UK shipping, in line with the recommendations in paragraph 40 of the paper.

I therefore suggest that we ask officials to pursue the recommendations concerning the carriage of goods on government account, the carriage of cargoes backed by the ECGD, and the shipping policies adopted by the nationalised industries. On this last point I note from Peter Walker's response that the current policy of the NCB is to ship f.o.b. However this might well be the kind of policy that is worthy of reconsideration to see whether it is working against British shipping interests.

I should also mention that since the paper was prepared we have, as predicted, had intensive negotiations in trying to create a more liberal regime for the EC cabotage trade. If we are to secure agreement, we shall need to threaten to close cabotage trades to those states (whether EC or non-EC) which themselves operate closed cabotage policies to our detriment. This would not be expected to have any material impact on our shippers as competition will be provided by those European countries with free cabotage policies. The possibility of pursuing a case in the European

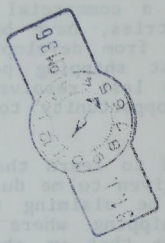
Court of Justice or actually closing our cabotage trade in an EC country in the event of not securing a community policy, can be considered later in the year.

Finally I should like to refer to Timothy Raison's response concerning the need to ensure that the shipment of aid cargoes is conducted on a commercial basis. The UK, and indeed other OECD countries, have been generally effective in resisting pressures from developing countries who wish to pursue protectionist shipping policies. It would be very odd if we showed less resolve in ensuring that British lines had a fair opportunity to compete for British aid cargoes.

I was particularly concerned to learn that the Indian authorities, despite assurances given to me during my visit to Delhi in April, appear to be claiming the right to discriminate against British shipping where aid cargoes are involved. I do not believe that we should sanction such discrimination by making any concessions in the conditions contained in our aid agreements. If we are further pressed to make such concessions by any aid recipients I believe the matter shoduld be considered by the Committee and I would hope that, in the meantime, we shall remain firm in requiring the Indian authorities to abide by existing agreements.

Copies of this letter go to other members of MISC 19 and to Sir Robert Armstrong.

NICHOLAS RIDLEY



CONFIDENTIAL

cc BJ

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

01 211 6402

The Rt Hon Leon Brittan QC MP
Secretary of State for
Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

23 January 1986

Prime Minister 2

In view of your comments I discussed with FCO. Their firm view remained that we would put other business at risk if we insisted on placing the order in Britain. Given the time constraints and other events today that seemed no realistic prospect of getting a change of policy.

DRS
24/1

BNFL SHIP

with DN?

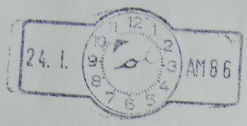
Thank you for your letter of 23 January.

I appreciate that British Shipbuilders is in a very serious commercial position. It is clear, however, that an order from BNFL would not have anything but a marginal impact on its fortunes. The need to restructure to meet present market conditions will inevitably remain. In contrast, as I and Geoffrey Howe have made clear, the potential consequences for BNFL of rejecting the Japanese bid are very significant. Present business with Japan is worth over £1 billion and we are looking for repeat orders on a similar scale. This must be one of the largest items of UK trade with the Japanese and I cannot agree that it would make sense to jeopardise this in any degree in view of the limited scale of the ship order. I have therefore decided not to interfere with the Company's commercial judgement and will not seek to prevent their negotiating team from travelling to Japan tomorrow, or prevent the tender from taking its course.

I am copying this to the Prime Minister and to Geoffrey Howe.

PETER WALKER

NAT IND: Shipbuilding



Note: Spoke FCO - Their firm view, based on earlier consultation of Ambassador in Tokyo, was that we would put these business at risk. Seeing NFA in view of PW's letter of 23/1 received on 24/1. DBR 24/1

CC BL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

JU235
Secretary of State for Trade and Industry

I should have thought that in view of the adverse balance of trade we could present or figure both to keep the N.F. business and to have the ships built here etc.

23 January 1986

Prime Minister

This has not caused Mr Walker to change his view: the BNFL ship would make little difference to the problems of the shipyards, though, as Mr Britton says, giving the order to Japan will inflame the political problems.

DBR 23/1

CONFIDENTIAL

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

Dear Peter,

BNFL VESSEL

Thank you for your letter of 17 January which unfortunately crossed with mine of 16 January. We subsequently discussed this issue on the telephone. I am grateful to you for having ensured that the BNFL Board took no precipitate action at their meeting on Wednesday. As I understand it the position now is that a negotiating team leaves for Japan on Friday, empowered to finalise a contract with Mitsubishi subject only to the Government's agreement as shareholder.

My earlier letter made clear my view that the balance of advantage lies in receiving this order for the UK. Since that was written there have been major developments on the ship-building front which greatly reinforce my view. It is now clear that British Shipbuilders faces an order crisis unprecedented in its history. So far this financial year it has obtained only 18,000 compensated gross tonnes (cgt) of new orders, against a target of 200,000 cgt. At the very best they might achieve 70,000 cgt, including the BNFL order. This means that they are facing a major over-capacity problem. Even with these orders, the Chairman, Graham Day, has said privately that he is likely over the next 6 - 12 months to have to close one major yard in the North East, one small yard in Scotland and one of the Corporation's two engine-building sites, again in the North East with the loss of 2,200 jobs. Further closures on this timescale will be necessary if the forecast level of orders, including the BNFL ship, are not forthcoming quickly.

1786 1986 BOARD OF TRADE BICENTENARY

999-1

Shipyard closures in late 1986 and 1987 will in any case require delicate handling. But it will become exceptionally difficult to defend them if in the interval a public sector body orders ships abroad which have been offered at a demonstrably uneconomic price. Given the vociferous shipbuilding lobby in Parliament, and British Shipbuilders' determination to pursue an anti-dumping case should Mitsubishi get the order, a major row will be inevitable.

In the light of this severe worsening of British Shipbuilders' position, I hope you can now agree to ask the BNFL Board to reconsider their position, in the national interest, and to place the order with British Shipbuilders.

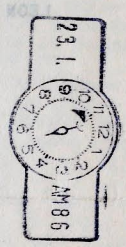
I am copying this to the Prime Minister and to Geoffrey Howe.

Yours,
Leon

LEON BRITTAN

NAT IND AT 8

Shipbuilding



10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr Walker has now replied on this, below.

On further reflection I am not sure you should intervene. There are quite strong arguments in Mr Walker's favour which will be difficult to gainsay. He will have the Chancellor and the Foreign Secretary with him against Mr Brittan and, possibly, you.

I suggest you leave it to Mr Walker. Agree not to hold a meeting? Yes

It is a tender one. DLW 17/1

Caparo could well drop in view of the balance of trade in their favour. Despite their comments, they have no intention of reducing the balance

cc FCO

01 211 6402

The Rt Hon Leon Brittan QC MP
Secretary of State
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H OET

17 January 1986

BNFL SHIP

I am grateful to Geoffrey Howe for his minute of 6 January and for his thorough assessment of the Japanese position. In the light of his views and those of our Ambassador that there is a considerable risk of damaging BNFL's significant interests in the Japanese market, I believe we must now allow BNFL to act in accordance with their commercial judgement.

It is imperative that we resolve the matter quickly. The Chairman has made clear that further delay to placing the contract and hence to completion of the ship will lead to severe operational difficulties for the Company. I hope, therefore, that you will feel able to indicate your early agreement that the tender should be allowed to take its course.

You will be interested in BNFL's estimates of the UK content of the ship if it is built in Japan. This would be significant; about £1.8 million in total, equivalent to nearly 20% of the cost of the ship. Orders for UK companies would include the cooling plant, worth £1 million, the engines, £0.5 million and electrical equipment.

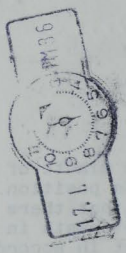
BNFL's judgement is that further delay in placing the contract would make it difficult for British companies to supply Mitsubishi on time, and Japanese manufacturers could benefit from this. This underlines the need for an early decision.

I am sending a copy of this letter to the Prime Minister and to Geoffrey Howe.

PETER WALKER

NAT IND PRS

Shipbuilding



RESTRICTED
COMMERCIAL IN CONFIDENCE

cc pc



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/3/3L

16th January 1986

NBPT
CDD
PM

Dear Chief Secretary,

SWAN HUNTER

cc Hap

Thank you for your letter of 15th January on Swan Hunters. I have also seen Peter Morrison's letter of the same date.

It is very difficult for this Department to reach an independent view of whether sale of Swan Hunters is preferable to continued public ownership. I am prepared to proceed on the basis of your request, although my Accounting Officer may need to refer to Treasury to assist him in answering any questions which may arise from the Public Accounts Committee.

I am grateful for the assurance you were able to give on how costs should be allocated to Departments if risks materialise. The key would, of course, be for the Department of Trade and Industry, the Ministry of Defence and the Treasury to work jointly to find the cheapest solution as we have been

The Rt Hon John MacGregor OBE MP

COMMERCIAL IN CONFIDENCE
RESTRICTED

able to do on the present decision. When we seek Treasury agreement to place any new contract with Swan Hunter Shipyards we will quantify what the liability may be so as to confirm that if justified at the time the Reserve may be used. On that basis I am ready to release the letter to Swan Hunter Shipyards and Nestgrace Ltd about the MOD attitude to future contracts which has been drafted in consultation with officials in the Departments concerned.

I am sure you will find this an acceptable solution. A copy goes to the Prime Minister, Willie Whitelaw, Leon Brittan and Peter Morrison, and to Sir Robert Armstrong.

Yours sincerely,
Denis Rawnsley

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

George Younger

NAT IND PT 8

Shipbuilding



PRIME MINISTER

I incline to agree with Mr. Brittan and if there is any criticism am quite prepared to write to Mr Nakasone. We have a big & adverse balance of trade with Japan now

BNFL SHIP

You will want to see Mr. Brittan's well argued letter, below.

You will remember that the question is whether BNFL should be directed to order the new nuclear waste carrier in the UK rather than in Japan which has put in the lowest bid. Mr Walker is in favour of allowing the order to go to Japan, arguing among other things that to refuse the order to Japan would jeopardise waste processing business for BNFL. Mr. Brittan argues that the Japanese are only putting in a low price in order to get hold of the technology for building this specialised type of ship.

The FCO, advised by our Ambassador in Japan, support the view that to deprive Japan of the order would be damaging to BNFL's business.

Mr. Brittan's letter, with its reference to Mr. Walker's need in taking the decision to balance two conflicting national interests, seems to me a clear request for you to call in the decision, though I have not discussed this with DTI.

Both Mr. Walker and Mr. Brittan clearly feel strongly about this, and no doubt Mr. Walker would be hard to move. And by sending his letter to Mr. Walker, Mr. Brittan has effectively said that he is prepared to leave the decision to him.

One of the questions for discussion at a meeting would be what powers would be used to issue a direction.

Nevertheless you may like to consider whether to hold a meeting to which I suggest the Treasury, along with the FCO, Mr. Walker and Mr. Brittan would be invited.

Do you wish to hold a meeting?

David Norgrove
16 January 1986

JAlAIZ

CONFIDENTIAL

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

Secretary of State for Trade and Industry

16 January 1986

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1

Prime Minister
A good tough letter.
I suggest you do not intervene.
DNS
16/1

Dear Peter,

BRITISH NUCLEAR FUELS LTD

I have now seen Geoffrey Howe's minute of 6 January reflecting the advice of the Ambassador in Tokyo on the issues raised by my proposal that we should instruct BNFL to order the nuclear waste carrier in the UK.

2 I have to say that I think the element of bluff on the Japanese side is very much greater than the Ambassador believes. First let us get all this in context. What we are talking about is a £10 million order for a ship, against £1 billion of existing reprocessing business, let alone future business. Within the Japanese shipbuilding industry, holding as it does 40 per cent of the world market, the order is insignificant. But it matters to us, with our 2 per cent toehold in the world shipbuilding market, and current very thin order book and shortages of prospects.

3 What makes me doubt the sincerity of the Japanese arguments, as expressed to our Ambassador is their suggestion that they might be driven towards the French. They must know that if they had an equivalent contract with the French, then they would be absolutely sure that all the ships, and probably all the flasks, would be built in France at the direction of the French Government. The French have an impressive track record of steering orders their way, the most recent example being the direction SCNF to place a ferry order in a Dunkirk yard.

DW2AIQ

4 I accept that the Japanese shipbuilders would complain vociferously, being rather unused to others indulging in the sort of protective action they themselves specialise in. But we can remind them that they have so far secured all the valuable orders for TN nuclear flasks used to carry the waste. And I incidentally find it hard to see how Mitsubishi can have "taken care to see that they are not vulnerable to any anti-dumping actions" since the price in their bid itself seems to constitute prima facie evidence. BS certainly believe they have a case and are determined to pursue it. Mitsubishi and BS have very similar material costs. The Mitsubishi bid price is marginally above BS material costs. Are we to believe the Japanese can build the vessel for next to nothing and still make a profit?

5 All this of course puts you in the unenviable position of having to balance two conflicting aspects of the national interest. My assessment is that by placing the order in the UK we shall be taking a very small risk of damaging the prospects of our reprocessing industry. If we allow it to go to Japan we shall do so in the absolute certainty of inflicting major damage on the UK shipbuilding industry at a time when other new work is virtually unobtainable. And we will attract a great deal of opprobrium for so doing.

6 I would therefore urge you to call the Japanese bluff in the national interest and ask BNFL to place the order at Sunderland.

7 I am copying this to the Prime Minister and to Geoffrey Howe.

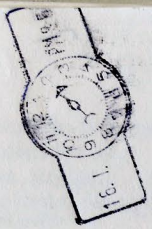
Yours,

LEON BRITTAN

Leon

DW2AIQ

999-49



NAT IND PT 8

Shipbuilding

COMMERCIAL IN CONFIDENCE

SCBS

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1

15 January 1986

2 pp's

Dear Secretary of State

SALE OF SWAN HUNTER (SH) SHIPBUILDERS LIMITED — File with DN.

Thank you for your letter of 14 January. I am grateful to you for your offer to match Leon Brittan's offer of up to £2.5 million from within your existing public expenditure totals should SH run into difficulties.

I recognised in my letter of 10 January that the sale of SH increased the risk associated with Ministry of Defence orders already placed with the Yard in ways which could not have been anticipated or, therefore, taken into account in contract negotiations when the orders were placed. I concluded then that the question of how within government we might handle the costs which would arise if those risks were realised was a hypothetical question which we could not possibly settle in advance. The possible allocation of such costs does not bear on the judgment of whether or not the sale is worthwhile taking into account all the relevant factors, to which I also referred.

I also made it clear in my letter of 10 January that in my opinion any new orders which might be placed with SH raise quite different questions. I understood that your Department were seeking to negotiate with SH whatever guarantees you and your advisers felt necessary and proper before placing further orders. The suggestion in your letter of 14 January that in order to facilitate the sale you should agree to let contracts without the guarantees you would normally seek, and that I should, from the Reserve, underwrite such arrangements is a different proposition and one which causes me considerable concern.

COMMERCIAL IN CONFIDENCE

Clearly you cannot give an open-ended assurance that you will be prepared to place orders with SH regardless of the guarantees they are able to muster. Decisions on individual orders, which must ultimately be your decisions, have to take account of all relevant factors including for example price and specification as well as risks associated with bankruptcy or industrial action. It seems to me that the most you can say is that you will not rule out placing orders with SH notwithstanding the prospect that they will not be able to raise the guarantees regarded as normal.

I understand that Peter Morrison will be writing today with his assessment that the potential exposure of the Exchequer should SH remain in the public sector is significantly greater than if the sale proceeds. If that is Peter's assessment and conclusion I can see no reason why I should reach a different view on the evidence available to me and if you are content with it then I hope that you will be prepared to give the assurances requested by the Buyout Team which I understand are consistent with what I have said above so that the sale can proceed. Whether you then actually decide to place an order is something only you can decide at the time.

I cannot for the same reasons as I gave in relation to existing orders, give firm commitments on the Reserve in respect of such orders (if placed), particularly since in this case they would be potentially unlimited in time and amount. If we were satisfied that it was appropriate to do so I would of course be ready to discuss with you how any costs which did materialise should be allocated within government. I would not rule out the use of the Reserve if that were justified at the time.

I am copying this letter to the Prime Minister, Willie Whitelaw, Leon Brittan and to Sir Robert Armstrong.

Yours sincerely

JOHN MacGREGOR

[approved by the Chief Secretary]

3377.ms

DRAFT for the CHIEF SECRETARY

COMMERCIAL IN CONFIDENCE

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON SW1

SALE OF SWAN HUNTER (SH) SHIPBUILDERS LIMITED

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could not possibly settle in advance. The possible allocation of such costs does not bear on the judgment of whether or not the sale is worthwhile taking into account all the relevant factors, to which I shall have regard.

I also made it clear in my letter of 10 January that in my opinion any new orders which might be placed with SH raise quite different questions. I understood that your Department were seeking to negotiate with SH whatever guarantees you and your advisers felt necessary and proper before placing further orders. The suggestion in your letter of 14 January that in order to facilitate the sale you should agree to let contracts without the guarantees you would normally seek, and that I should, from the Reserve, underwrite such arrangements is a different proposition and one which causes me considerable concern.

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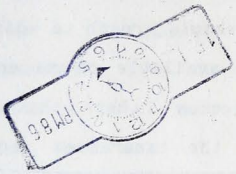
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Nat Ind: Shipbuilding Pt 8.

If we were satisfied that it was appropriate to do so I would of course be ready to discuss with you how any costs which did materialise should be allocated within Government. I would not rule out the use of the Reserve if that were justified at the time.

I am copying this letter to the Prime Minister, Willie Whitelaw, Leon Brittan and Sir Robert Armstrong



CCBG

DEPARTMENT OF TRADE AND INDUSTRY

The Rt Hon John Macgregor Esq OBE
Chief Secretary
HM Treasury
LONDON SW1

15 January 1986

NBPM

SALE OF SWAN HUNTER SHIPBUILDERS

I have seen George Younger's letter of 14 January. In it he asks for an assurance from you that the sale is in the wider interests of the Exchequer.

My officials have therefore discussed with British Shipbuilders what the risk to the Exchequer might be if they are unable to sell Swan Hunter and decided to close the yard as soon as it was practicable for them to do so (this is the strategy which they would probably choose to follow). An estimate of these costs is set out in the attached table and is compared with the costs to the Exchequer of a failure by Swan Hunter in the Spring of 1987, which is when I understand that the Ministry of Defence believe that the Exchequer would be at greatest risk. It seems clear that on these 'worst case' assumptions, the maximum exposure of the Exchequer is likely to be higher and possibly quite significantly so if BS were to be unable to sell Swan Hunter. And, since various steps have been taken to minimise the risk of a failure by Swan Hunter in the timescale envisaged by MOD the chances that this 'worst case' will actually arise if Swan Hunter is sold is also likely to be less than the chances of the 'worse case' arising if Swan Hunter remained with BS.

PETER MORRISON

999-80

CONFIDENTIAL

ASSESSMENT OF MAXIMUM EXPOSURE

OF THE EXCHEQUER

	£M	£M
	BS Sells Swan Hunter	BS Keeps Swan Hunter
Redundancies	2.5	45
Direct industrial relations costs in BS North East yards		7 *
Warranties up to	13	
'MOD risk'		
22-14	30	15 **
other vessels	15	15
Sub total	60.5	82
Offset by		
Consideration	3	
Residual asset value on closure		10-15
	57.5	67-72

* BS are unable to estimate the indirect costs of disruption in terms of managing their business. They believe the figures would be considerable

** BS finishes the 22-24 but incurs increased overheads in so doing.

NAT IND PT8

Shipbuilding



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/3/3V

14th January 1986

NBPR

Dear John,

SWAN HUNTER

I have seen your letter of 10th January to Leon Brittan about the prospective sale of Swan Hunter. He has now written asking me to give the buy-out teams written assurances that MOD will let contracts without the financial guarantees we would normally seek.

Coming fresh to the problem, there seem to me to be two choices facing us:

a. For the sale to proceed as proposed, leaving a potential risk of up to £25-30M on defence contracts.

b. For Swan Hunter to stay in the public sector, with almost certain costs to the DTI for major restructuring.

The Rt Hon John MacGregor OBE MP

Your letter suggests that sale is likely to involve the lesser burden to the Exchequer. Given our strong commitment to privatisation and favourable disposition towards management buy-outs, it should not be too difficult to organise financial arrangements between Departments so that the sale can proceed.

There are good reasons why MOD as the customer should be safeguarded from the risks flowing from privatisation:

a. The Defence budget is not, and should not, be planned on the basis of taking uncommercial risks of this kind.

b. Leading independent accountants have advised that we obtain guarantees on new orders (I think there may be some misunderstanding on this point; the assurances provided by the team are not an adequate substitute, and we can only agree to let contracts without full safeguards if you can assure me this is in the wider interests of the Exchequer).

c. MOD would otherwise be left, in effect, with a strong financial interest in Swan Hunters. It would be bad for our competition policy (and unfair on other yards) if we had to place more work with Swans to keep them going to complete existing work.

I do, however, understand the difficulty from your point of view over writing a blank cheque for my Department and the Department of Trade and Industry. I am therefore prepared to match from existing totals the £2.5M Leon Brittan has offered if the firm are in difficulties. Beyond that I believe it would be reasonable for us to agree now that the Reserve will bear any burden up to at least the £25-30M we have already identified as being at risk on existing and likely new orders. This would be on the understanding that the Ministry of Defence and the Department of Trade and Industry would agree with Treasury, if a crisis materialised, which Department should act to achieve the cheapest way of resolving it. I hope you could see that contingent amount as the lesser evil compared with the certain costs you would face while Swans remained in the public sector.

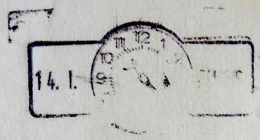
If you could agree to proceed on this basis, I can give the buy-out teams the assurance they are seeking. Officials can settle how to apply these principles to the similar case of Vosper Thornycroft (as discussed in correspondence prior to sale).

I am sending copies of this letter to the Prime Minister, Willie Whitelaw and Leon Brittan, and to Sir Robert Armstrong.

Yours ever,
George.

George Younger




14.1.

CCBG

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) 01-215 7877

13 January 1986

The Rt Hon George Younger MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1

NBPM.

Dear George,

SALE OF SWAN HUNTER SHIPBUILDERS LTD

I have seen John's letter of 10 January and am satisfied that the terms of the sale are reasonable. I am therefore ready to given my consent to British Shipbuilders for the sale to proceed.

2 I am aware the purchaser would withdraw if your Ministry were not able to give the comfort the consortium has asked for as regards the placing of future orders.

3 In present circumstances, it would embarrassing for us if I were to give my consent and the purchaser were to withdraw because you did not feel able to comply with the consortium's request. Therefore I have not yet given it.

4 I nevertheless very much hope that I shall be able to give my consent in time to allow completion as planned on Tuesday, 14 January. Otherwise the risk of the purchasers withdrawing will be very much increased, especially if we cannot give a very clear near alternative date thereafter.

Yours ever,

Leon

LEON BRITTAN

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SHIPBUILDING

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NBPM.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

10 January 1986

Dear Secretary of State

SALE OF SWAN HUNTER (SH) SHIPBUILDERS LIMITED

Thank you for your letter of 8 January to Nigel Lawson seeking agreement to the sale of Swan Hunter to a management buyout consortium. As you say, there is an outstanding question of where the costs of any failure of SH should fall, about which Michael Heseltine wrote to you also on 8 January.

It is particularly important for you to satisfy yourself that the terms of the sale are reasonable since you are proposing that BS should sell by private treaty when only one bidder has come forward. You will no doubt be taking into account the views of the Public Accounts Committee in their recent report on the sales of subsidiaries of nationalised industries.

In taking this decision, we cannot ignore the possible financial consequences of failure, about which Michael Heseltine is particularly concerned. I think we both recognise the real prospect (which is reflected in the consideration being offered) that SH will not prove a viable proposition. In that event, costs might well arise in relation to Ministry of Defence orders which were not anticipated or, therefore, taken into account in contract negotiations when the orders were placed. Equally, we must weigh these costs against the likelihood that in the absence of this sale (for which only one bidder has emerged) BS will be faced with the prospect of running down and closing SH. There would be a real risk in those circumstances of industrial action which would not only have the effect described above on Ministry of Defence orders but could, conceivably, have knock-on effects in other BS yards.

On the basis of the independent financial advice which both you and BS have taken, and in the light of balance of risks outlined above, I would have no objection to your giving consent to the sale providing you are satisfied that the terms and conditions are reasonable and defensible. As to how costs which could arise if SH

NAT IND: Shipbuilding: AE8

did prove unviable should be handled, I do not think we can decide now on which public expenditure programme they should fall. We do not know if SH will fail, when, what the costs would be or what scope there might be at the time for off-setting savings either inside or outside the defence programme. I am sure that we must leave this on the basis that if and when such costs arise it will be for us collectively to decide how they are to be absorbed.

While I do not think we can decide now how we should deal with costs which could arise from existing contracts if SH fail, it is of course clear that once the sale takes place the Ministry of Defence will need to negotiate with SH as a freestanding concern and seek whatever guarantees they feel necessary and are obtainable from the shipyard before placing their order, and I understand that terms have already been agreed on this basis. There can be no question of meeting cancellation or other costs due to failure of the yard in respect of orders placed after the sale takes place.

I am copying this letter to the Prime Minister, Willie Whitelaw, George Younger and to Sir Robert Armstrong.

Yours sincerely

for JOHN MacGREGOR

[Approved by the Chief Secretary]

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COMMERCIAL IN CONFIDENCE

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Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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GTN 215)
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9 January 1986

Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Treasury Chambers
Whitehall SW1

NBPM at this stage

Dear John,

SWAN HUNTER

You will now have seen Michael Heseltine's letter to me about Swan Hunter as well as my letter to the Chancellor. I am replying by means of a letter to you simply to speed the debate since an early decision is needed.

ATTACHED

I accept that there are risks in allowing a privatised Swan Hunter to take MoD contracts without guarantees of the sort MoD would like, but I am satisfied that these cannot be given. The offer by the company of a £3m insurance against liquidation is as much as they can do coupled with their acceptance of a monitoring system intended to allow early action to prevent a financial failure.

The costs to MoD of a financial failure by Swan Hunter in 1987 would relate primarily to the costs of completing existing contracts (and if they predate the British Shipbuilders' 1983 Act BS are obliged to stand behind them anyway). In addition, as I explained in my letter to the Chancellor, we are prepared to allow the deferred element of the payment (up to £2½m) to be ploughed into the company if this would avert a crisis.

I do not see how we can do more. I am afraid that the problems of guarantees should have been raised in March 1985 when it became clear that the likely purchasers of Swan Hunter would be the management. If this issue had been raised then, we would almost certainly not have proceeded to sell Swan Hunter on its own. I cannot accept a greater financial liability and must therefore look to you and to Michael to be willing to play a part.

I am copying this letter to the Prime Minister, Willie Whitelaw, Michael Heseltine and to Sir Robert Armstrong.

Yours,

LEON BRITTAN

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Secretary of State for Trade and Industry

DN decided to take out of box

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8 January 1986

Prime Minister 2

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

8/1.

Dear Nigel,

SALE OF SWAN HUNTER SHIPBUILDERS LIMITED

I am writing to say that I am ready to give my consent to the sale of Swan Hunter Shipbuilders Limited to a management buy-out consortium as soon as the question of guarantees for MoD contracts has been resolved. I would like if possible to announce consent on Friday, 10 January and attach a copy of my proposed press release.

2 The main details of the bid are as follows: payment of £5 million, of which half is deferred. The terms include British Shipbuilders making a cash injection of some £3.5 million, the precise amount depending on the current account balance on completion. There was no alternative purchaser. As the yard had considerable work in progress, immediate closure was not an option.

3 The Department's financial advisers see no reason to believe any better sale could have been achieved, or that any delay would have been advantageous. If we did not agree to this sale, British Shipbuilders would have to keep Swan Hunter: the costs would almost certainly exceed those of sale, possibly by a considerable margin depending on industrial relations. Furthermore, failure to sell would be politically difficult, as it would be contrary to our policy as endorsed by Parliament in November 1984.

WILL REQUEST IA REQUIRED

4 However, as you will know from earlier correspondence (Peter Morrison's letter to John Lee of 24 December 1985), the Ministry of Defence has been concerned about the inability of the new company to provide financial guarantees for contracts placed with them. I understand that the Ministry of Defence is prepared to agree to alternative arrangements provided there is an agreement between the Departments where the costs should fall in the event of failure by Swan Hunter giving rise to extra costs for MoD to complete

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unfinished contracts in the yard and that Michael Heseltine is writing to you on the subject. The alternative arrangements comprise an offer of an insurance policy by the company for £3 million in favour of the MoD in the event of liquidation; a vigorous monitoring arrangement intended to provide early warning of potential problems and the need for action to overcome them; and an agreement by my Department to allow the deferred elements of payment (amounting to £2½ million plus interest) to be put into the company for a period (instead of being paid to BS on schedule) provided that these are accompanied by similar cash injections from the investors, and that the increased working capital would secure the company's future and allow it to complete its orders for MoD.

5 It is important for us to allow the deal to be completed this week if possible, and I would therefore be grateful if you could quickly resolve the question of where the costs of any failure should fall, thus allowing me to give consent to the sale.

6 I am copying this letter to the Prime Minister, Willie Whitelaw, Michael Heseltine, and Sir Robert Armstrong.

Yours,
Leon

LEON BRITTAN

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DRAFT
PRESS RELEASE

The Secretary of State has given his consent to British Shipbuilders for the sale of Swan Hunter Shipbuilders Ltd to a management buy-out consortium. British Shipbuilders will receive £5 million but this will be partly offset by an immediate cash injection. In addition British Shipbuilders have accepted a small contingent liability should redundancies arise.

BACKGROUND

Under the British Shipbuilders Act 1983, the Government is empowered to direct the sale and disposal of the remaining BS subsidiaries and assets. It is a longer term objective to return the whole of BS - including the merchant yards - to the private sector. As an initial stage, however, BS were directed in 1984 to dispose of its warshipbuilding yards by 31 March 1986. (The announcement was made to the House of Commons on 25 July 1984 by Mr Tebbit, the then Secretary of State for Trade and Industry.) This process is well in hand:

BROOKE MARINE at Lowestoft was sold in May to a management buy-out team for £100,000 plus 1 per cent of the value of certain contracts. BS agreed to accept a small contingent liability should redundancies arise.

YARROW SHIPBUILDERS on the Clyde was sold in June to GEC for £34 million. BS agreed to accept a small contingent liability should redundancies arise.

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VOSPER THORNEYCROFT, in Southampton and Portsmouth, was sold to a management buy-out team in November for £18.5 million plus 1 per cent of the value of certain contracts. BS agreed to accept a small contingent liability should redundancies arise.

JH3CNN



COMMERCIAL IN CONFIDENCE

CC BG

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/3/3E

8th January 1986

N B P Matthias Esqre.

Dear Leon

You will be aware of the correspondence between Peter Morrison and colleagues here about the prospective sale of Swan Hunters to a management buy-out team and of the condition in the team's offer that my Department should undertake not to seek financial guarantees in future contracts.

I recognise that the team have made the only offer for Swan Hunters but, once a shipyard has been privatised, the position of MOD in placing contracts is the same as that of any ship purchaser. It is common practice for any investment of such importance to require guarantees. The clear advice from leading independent accountants is that guarantees are necessary in this case to safeguard the Exchequer.

In making their formal proposal for the sale of Swan Hunters, Lazards state that the company's future will depend upon its ability to win orders from my Department. However the

The Rt Hon Leon Brittan QC MP

company's projected order book is optimistic and, on the basis of recent bids they are unlikely to win many MOD orders for the next 18 months, beyond the frigate already promised to them. Our assessment is that if the company were to collapse in, say a year to 18 months time, the additional costs of getting our ships then building completed elsewhere could amount to as much as £30 - 40 million.

Negotiations with the buy-out team have produced offers of £5.5 - £8 million against that possibility. The buy-out team have also offered monitoring arrangements to give early warning. Even so, the team's position on guarantees is that the Defence Budget should bear a net risk of perhaps £25 - 30 million, or possibly some lesser figure if it were decided to mount a limited rescue operation to allow the company to complete its existing orders. It is for you to judge whether the buy-out team could provide greater assurances.

I am, of course, fully behind our privatisation policy for the warshipbuilding yards. But I cannot accept that the Defence Budget should bear risks of the magnitude I have described. I believe that risks of this nature lie more properly with the Industry rather the Customer side of Government and that, if necessary, any costs arising from the collapse of the company which cannot be recovered from the guarantees should be met from your budget, with assistance from the contingency reserve should this prove necessary.

I hope that you and the Chief Secretary, to whom I am copying this letter, will be able to agree to this proposal. In effect this matches a possible liability on the contingency reserve against the almost certain costs of retaining Swan Hunter in public ownership.

I am also sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever

Michael Heseltine



CONFIDENTIAL

cc TBG

Prime Minister 2

It seems increasingly likely that this ship will be built in Japan. The decision would be controversial but the Government's position would be reasonably strong. (The decision really is BNFL's to make, unless the Government directs otherwise.) DHS 6/1

FCS/86/002

SECRETARY OF STATE FOR ENERGY

BNFL Ship

1. You copied to me your letter of 13 December to Leon Brittan about BNF's intention to purchase, through its subsidiary PNTL, a ship to transport spent nuclear fuel from Japan. Having received advice from the Ambassador in Tokyo, it is clear to me that, if we were to insist on the contract going to a British yard, there would be a considerable risk of damaging British Nuclear Fuels' prospects in the Japanese market. There is an evident risk of losing more than we would gain in directing BNF where to procure their ship.

2. The Japanese have told the Embassy in strong terms that if this ship is not built in Japan a severe blow would be dealt to BNF's relations with the Japanese utilities. If the ship were to be built elsewhere, the utilities would inevitably be driven towards COGEMA, BNF's French competition, at a vital phase of the negotiations for valuable new contracts. Among those reportedly taking this line is Tokyo Electric, by far the largest and most influential of the utilities engaged in the huge Japanese nuclear programme.

3. It is relevant that the Japanese Atomic Energy Commission (AEC) recently announced that they are carrying out a review of the whole nuclear programme to be completed by June 1986. The Embassy has been told by various Japanese government agencies that a slippage of the big domestic reprocessing plant planned for northern Japan is very likely to be announced. This would mean an extension of overseas reprocessing business longer than hitherto

/planned.

planned. With such business currently worth £100 million a year to BNF, and growing as the Japanese nuclear programme gathers pace, further valuable opportunitites are in prospect for BNF over and above their present £1 billion contract. The Ambassador has observed that we are also currently seeking through URENCO (in which BNF has a one-third share) other business from the utilities in Japan for uranium enrichment work for which we are in competition with the USA and COGEMA. I am aware that the USA has much surplus capacity in this area. Both they and COGEMA will be fighting hard for the business. The link between the contracts for the ship and for enrichment may not be direct, but to some extent the goodwill of the same Japanese is at stake.

4. Even if there is an element of bluff in the Japanese position, there is also a real threat to future business. I specifically asked the Ambassador if he thought that any protests which the Japanese might make following a decision against them on grounds of UK national interest would be confined to a ritual level. His reply is a firm no. The Japanese companies directly concerned, and their sponsoring Ministries, would wonder why a tender was held at all if we intended to plead national interest if the outcome went against a British bid by a wide margin. They would find it difficult to understand why we could not accept on commercial grounds the offer most advantageous to a UK/Japan cooperative venture like PNTL. I am told incidentally that Mitsubishi have taken care to ensure that they will not be vulnerable to any anti-dumping action which British Shipbuilders might bring.

5. I would see no objection to giving offence to the Japanese, so long as the balance of advantage would rest with the United Kingdom. However, the Ambassador has made it clear that there is a real risk that the reverse might be true. Sums far in excess of the shipbuilding contract are potentially at stake. Moreover, the case for allowing normal tender procedures to stand

/are

are considerably strengthened by the fact that the purchaser, PNTL, is a joint company 25% Japanese owned. The finance for building the ship is in effect largely Japanese. My considered opinion therefore is that we should not direct BNF one way or the other but should allow the tender procedures to take their normal course. If British Shipbuilders wished to initiate anti-dumping action, I would see no reason to try to dissuade them; but I would wish to be consulted before the British Government initiated formal action against Japan in the OECD shipbuilding forum.

6. I am copying this minute to the Prime Minister and to Leon Brittan.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

6 January 1986

NAT IND
SHIPBUILDING
PT 4



MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

CDP 3/1

D/MIN/NL/1/3
4/4

3rd January 1986

Dear Anna

Thank you for your letter of 14th November, following our meeting about Scott Lithgow and the competition for Type 2400 submarines.

In your letter you expressed concern at the extent of the design information which was available to Scott Lithgow for the submarine competition. This matter has been looked into in considerable detail, and the position is that the information pack which was provided with the invitation to tender was typical of those used for early follow-on orders for warships. However, I do of course fully recognise both the difficulty of Scott Lithgow's position and the importance of the order decision for the yard.

However, it was impossible to reconcile the early order date which Scott Lithgow sought, with the further round of tendering which would inevitably result from issuing additional detailed information, and which would simply prolong the period of uncertainty for all the bidders. Furthermore, I think it is fair to point out that Scott Lithgow's

/ long ...

Mrs Anna McCurley MP

long experience of submarine building could have left them in no doubt about the position of the lead yard when tenders were first sought late in 1984; and, of course, that Yarrow Shipbuilders tendered on the same basis as Scott Lithgow. We therefore concluded that we should not seek further tenders, although the comments which Scott Lithgow made were kept closely in mind during our assessment of the tenders.

As you know, the company did offer direct to the Ministry of Defence a reduction in the price which they were quoting at the time of your meeting with the Prime Minister, but the Cammell Laird bid still represented the best value for money to the MOD overall. All the tenderers offered a substantial discount for a batch order from a single yard, and it would have been expensive to the MOD to split the order.

Having considered the matter carefully, I will therefore be announcing later today that the order for the first three follow-on UPHOLDER class patrol submarines has been won in competition by Cammell Laird/Vickers Shipbuilding and Engineering Limited. In taking this decision we were, of course, mindful of employment considerations, but each of the shipyards that tendered for the contract is in an area of high unemployment.

I know that you will be disappointed that Scott Lithgow have not won a share of this order, especially in view of the considerable time and effort which you have personally given to their cause. I trust that the meetings which you have had with the Prime Minister and with me were able to assure you that Scott Lithgow were given the fairest opportunities to tender for the contract and I hope that they will be able to continue

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to bid for MOD business on future occasions when they arise.

However, you will be pleased to know that we have decided to place orders with Scott Lithgow for a Range Mooring Vessel later this year followed by two powered mooring Lighters. The yard will also be invited to bid for refit work and to compete for steel work for Trident submarines as a sub-contract from Vickers Shipbuilding and Engineering Limited.

You also refer in your letter to the competition for the Auxiliary Oiler Replenishment vessel. I can assure you that I appreciate the reasons why Scott Lithgow did not take part in this competition, but I remain disappointed that they did not do so.

I have written separately to Norman Godman and am copying this letter to the Prime Minister, Peter Morrison and Hector Monro, who have received copies of yours.

Yours

Norman

Norman Lamont

NAT IND PT 8

SHIPBUILDING



COMMERCIAL IN CONFIDENCE

SRWAMW

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bc: PC

10 DOWNING STREET

From the Private Secretary

2 January 1986

UPHOLDER CLASS SUBMARINES: WORK FOR SCOTT LITHGOW

The Prime Minister has considered the Defence Secretary's minute of 30 December reporting on his further discussions with the Secretary of State for Scotland on the possibilities of finding further work for Scott Lithgow; and proposing that the decision to award the contracts for Upholder Class submarines to Cammell Laird should be announced on 3 January.

The Prime Minister is content with the proposal to make the announcement on 3 January. She hopes that particular attention will be paid to presentation of the decision from the point of view of reactions in Scotland. She notes that the Defence Secretary will continue his discussions with Mr. Younger on finding alternative work for Scott Lithgow and hopes that this will produce results.

I am sending copies of this letter to the Private Secretaries to the Lord President, Secretaries of State for Trade and Industry, Scotland, the Environment, Energy, Chancellor of the Duchy of Lancaster, Chief Secretary to the Treasury, Parliamentary Under Secretary of State for Employment and to Michael Stark (Cabinet Office).

Charles Powell

Richard Mottram, Esq.,
Ministry of Defence.

COMMERCIAL IN CONFIDENCE

DBJ

CC PC (L)

Prime Minister

Mr. Younger is reluctantly prepared to go along with Mr. Heseltine's proposal — to announce the award of the submarine contracts on Friday, while continuing to discuss possible consolation prizes for Scott Lithgow. We shall need to present the decision very carefully in Scotland. Yes no Agreed to proposed announcement on Friday?

MO 18/2L

PRIME MINISTER

UPHOLDER CLASS SUBMARINES - WORK FOR SCOTT LITHGOW

When we met on 10th December to discuss the Upholder Class submarine order, I agreed to look seriously at what defence work might be offered to Scott Lithgow. I have now seen George Younger's minute to you of 20th December which follows up some possibilities I had put to him.

2. Scott Lithgow are being given opportunities in the coming months to tender for the refits of two Royal Fleet Auxiliaries and for sub-contract work on our new Trident submarines. As for new ships, the company declined to tender for the current major opportunity in our programme - two Auxiliary Oiler Replenishment vessels worth over £150M. That apart there are few new orders programmed for 1986. I have, however, offered to place orders with Scott Lithgow later in the year for a Range Recovery vessel and some lighters provided that satisfactory terms and

CDP 31/1ii

conditions can be agreed. I appreciate that these are both smaller and later than George is looking for, but I really cannot order ships before we need them.

3. In normal circumstances these orders would have been placed competitively in what has become a very keen market, and one in which Scott Lithgow's prices have generally been much higher than other yards. I would have expected them to have been won by two of the following smaller yards:

Richards (Lowestoft and Yarmouth)
Appledore (N Devon)
Hall Russell (Aberdeen)
Dunstons (Humber)
Ailsa Ferguson (Clyde)
Brooke Marine (Lowestoft)
McTay Marine (Mersey)
*Souters (Isle of Wight)
*McGrewer (Clyde)
*Fairey Marine (Hamble, Southampton)
*James and Stone (Brightlingsea, Essex)

* lighters only.

4. I cannot say which one of these yards will lose from the direction of work to Scott Lithgow, but most of them are also short of work and some are said to be on the brink of closure.

We are likely to get complaints from many of them that they are not being given an opportunity to tender. I am prepared to face these complaints in the light of our decisions on putting work to Scott Lithgow. But to go any further (for example by placing work at Scott Lithgow whatever their price) would be liable to produce widespread and damaging allegations that we are abandoning our policies on competition. I could not seriously argue that there was any long-term defence requirement to sustain Scott Lithgow.

5. The tenders for the Upholder Class submarines were extended once again for a further 2 weeks and now expire on 3rd January. The continuation of this uncertainty raises doubts about our ability to do business efficiently; we said in the House that an order for submarines was expected to be placed in 1985. As Leon Brittan pointed out in his minute of 13th December, delay would also have adverse consequences for privatisation of VSEL/CL. The good price which we have on offer will not be maintained indefinitely. I would therefore propose to place the order on Friday 3rd January indicating that work is to be offered to Scott Lithgow. I will continue my discussions with George Younger separately in the hope that we can reach an accommodation on the scope and extent of this work. We cannot afford to allow the very real savings which we are achieving through competition for these submarines to be negated.

6. I am sending copies of this minute to Willie Whitelaw, Leon Brittan, George Younger, Kenneth Baker, Norman Tebbit, Peter Walker, John MacGregor, Alan Clark and to Sir Robert Armstrong.

Ministry of Defence
30th December 1985

NAT IND
SHIPBUILDING
PT 8



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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5186

COMMERCIAL IN CONFIDENCE
From the Minister of State for Industry

THE HON PETER MORRISON MP

John Lee Esq MP
Parliamentary Under-Secretary of
State for Defence Procurement
Ministry of Defence
Main Building
Whitehall
London

24 December 1985

Dear John,

Thank you for your letter of 17 December on the sale of Swan Hunter and the difficult question of financial guarantees from the new management after privatisation.

I was glad to note your continuing acceptance of our collective aim of privatising the warship years, including Swan Hunter, and your willingness to look constructively at alternative proposals if the new management feel unable to proceed with the purchase while offering substantial financial guarantees.

As you may know, when we decided in March to proceed with the sale of the warship years individually or in small groups (a solution which offers MOD the best prospect of real competition for future warship orders) we did so in the expectation that any remaining overcapacity in the industry would have to be dealt with by rationalisation after privatisation and, specifically, in the expectation that as British Shipbuilders told us at the time "the best prospect for privatisation (of Swan Hunter) lies with the management buy-out team." If your Department had suggested at the time that the problem of guarantees was likely to prove an insurmountable obstacle to a management buy-out, I do not believe that we would have allowed BS to pursue the strategy that they then proposed. There are no alternative buyers in the wings for Swan Hunter should the management bid fail and it would be a major embarrassment if we were not to find that Swan Hunter were unsaleable.

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I understand that in the course of a long meeting yesterday with DTI, MOD and Treasury officials, the management buy-out team made it clear that they would not proceed with the purchase of Swan Hunter if financial guarantees were required; instead they put forward an alternative proposal which your Department agreed urgently to consider. The purpose of the guarantees as I understand them is to reduce the cost to MOD in the event of a failure by the company. The main element of the alternative proposed by the company is aimed at reducing the risk of failure by instituting a tight system of monitoring on behalf of MOD, to give early warning of impending problems and to signal the need for remedial action by the company. In addition, they will take out on behalf of MOD an insurance policy against receivership or liquidation of the company for some £2 million. This package is clearly different in kind from protection afforded by a guarantee, but is seems a constructive an imaginative proposal of the sort you are looking for. I hope that you will feel able to accept it. It gives the best opportunity we have to enable Swan Hunter to survive and to compete for continuing business from your Department without distorting the competitive process between the yards - of which there would always be a danger if they remained within British Shipbuilders.

At yesterday's meeting your officials agreed with the representative of the Swan Hunter team's financial backers that the Ministry would be in a position to give its view on the proposals by 3 January. I would, however, ask you to discuss the question with me first if you see major problems with the proposal.

I am copying this letter to the Prime Minister (with the earlier correspondence) and to Norman Lamont and John Moore.

PETER MORRISON

NAT IND

SHIPBUILDING

PT 8

CCPC

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Note
Overtaken by CDP's letter
of 20/12. Scottish Office accept
no need for a reply.
DLV
23/12

CONFIDENTIAL

Prime Minister

UPHOLDER CLASS SUBMARINES

When you chaired a meeting on 10 December to discuss the tendering for Upholder class submarines we agreed that the order for all three boats should go to Cammell Laird/Vickers, and that the announcement should be held over in order to find work for Scott Lithgow (SL). This morning I was told that the Secretary of State for Defence wished to make an announcement today, and that he would direct to Scott Lithgow the contract for a seabed recovery vessel, to be placed in December 1986, and worth about £4.5M; to this was later added two lighters in August 1987 and worth about £5.5m.

2. I appreciate the goodwill which lies behind this, but I am not convinced that I can accept the arrangement at short notice, and without being able to examine in more detail its implications for Scott Lithgow, for these reasons principally:

a. The orders are small in relation to the scale of operations at Scott Lithgow, and are likely to be criticised as such;

b. They are the type of work which other small shipbuilders around the contract would have expected to bid for; and

c. They may come too late, as work on the Britoil rig ends about October 1986, and Scott Lithgow may have to run its workforce down before then.

3. I think we should even now take a little more time to consider this more carefully, if we want, and I think that was the general view of our meeting, to help Scott Lithgow through this difficult period.

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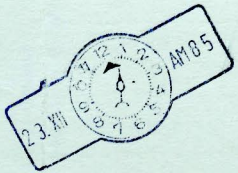
4. I am sending copies of this minute to Willie Whitelaw, Leon Brittan, Michael Heseltine, Kenneth Baker, Norman Tebbit, Peter Walker, Alan Clark and to Sir Robert Armstrong.

Jane Lambton

G Y
Approved by Secretary of State
and signed in his absence

20 December 1985

JMM02507.125


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AM 05

CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

SPEC

File

bc: Sir P Cradock

10 DOWNING STREET

From the Private Secretary

20 December 1985

Dear Richard,

UPHOLDER CLASS SUBMARINES

The Prime Minister has noted the correspondence between Ministers since the meeting on 10 December on Upholder Class Submarines. While she agrees that we must avoid unnecessary delay to the privatisation programme, she does not judge it essential to announce the award of the submarine orders to Vickers Shipbuilding and Engineering Limited/Cammell Laird before Christmas, if the matter of extra work for Scott Lithgow has not been finally resolved. She will be content for the Defence Secretary and the Secretary of State for Scotland to continue their discussions on this for a further week if necessary but would hope that a conclusion could be reached in the week beginning 29 December.

I am copying this letter to the Private Secretaries to the Lord President, the Secretary of State for Trade and Industry, the Secretary of State for Scotland, the Secretary of State for the Environment, the Chancellor of the Duchy of Lancaster, the Secretary of State for Energy and the Secretary of State for Employment, and to Michael Stark (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

Richard Mottram, Esq.,
Ministry of Defence.

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CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

FROM: CHIEF SECRETARY
DATE: 19 December 1985

PRIME MINISTER

UPHOLDER CLASS SUBMARINES

I have seen the minute from the Secretary of State for Trade and Industry which urges the case for an announcement before Christmas of the decision we took over a week ago to award the contract for three submarines to VSEL/Cammell Laird.

I fully endorse the arguments for an early announcement. In addition, I am concerned that a delay to the privatisation of VSEL will put further pressure on public expenditure this year. The sale of VSEL by 31 March 1986 is essential if British Shipbuilders are to avoid a substantial shortfall on their proceeds target, and hence their EFL.

I am copying this minute to Willie Whitelaw, Leon Brittan, Michael Heseltine, George Younger, Kenneth Baker, Norman Tebbit, Peter Walker, Alan Clark, and to Sir Robert Armstrong.

JOHN MacGREGOR

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

NAT IND: Shipbuilding: Pt 8



COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6328 (Direct Dialling)
01-218 9000 (Switchboard)

PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE PROCUREMENT

IN
18 DEC 1985
OFFICE OF THE
MINISTER OF STATE

USOFS(DP) 21/5/3

17 December 1985

Dear Peter,

In your letter of 30 October to Norman Lamont you asked us to let you know in advance if we saw any difficulties emerging over the Swan Hunter sale.

The prospective management buy-out team asked MOD for a view on whether financial guarantees were likely to be required after privatisation for any AOR or Type 23 orders. In the event they proved reluctant to show their figures to MOD's accountants and, to be helpful, we agreed that only our advisors, Price Waterhouse (PW), would see the detail. A copy of PW's report has been given to your officials. The key points are:

a. The team appear (with some qualifications) to be adequately funded up to March 1987 only if their assumptions about future MOD orders are correct.

b. It would be prudent for MOD to insist that the company provide surety bonds (i.e. external financial guarantees) ....[until] ...."events have demonstrated that the company is operating efficiently and profitably after privatisation".

Since MOD has not seen the detailed figures we are in no position to take a different view from PW.

The buy-out team had previously indicated to officials that they would have difficulty in providing guarantees, although it may be that there is an element of a negotiating position here. I am sure that you will understand how difficult it would be for us to justify placing a contract with guarantees of less than the

/15% or so

The Hon Peter Morrison MP
The Minister of State for Industry
1 Victoria Street
LONDON
SW1H QET

COMMERCIAL IN CONFIDENCE

COMMERCIAL IN CONFIDENCE

15% or so of contract value we should normally seek in such circumstances. If the company foundered, we should face justified criticism form the PAC for deliberately placing the Defence Votes at risk against the clear advice of leading City accountants.

We do, of course, still share the collective aim of achieving privatisation. My Department would be prepared to look in a constructive way at any other proposals which gave us comparable assurance over the security of our contracts. The innovative spirit of buy-out teams and their expert financial advisors may produce alternatives (or a combination of methods).

I suggest that officials discuss with the buy-out team and their backers what might be achievable, prior to their putting further figures to Price Waterhouse. Obviously with only one bidder in the field the situation is delicate; but that should not in my view weaken the need for a hard-headed commercial outlook by our Departments.

Should such avenues prove unsuccessful you might return to considering whether it would be right for your Department (or BS) to retain some contingent liabilities so as to achieve privatisation; but it is important that the Defence Votes are not exposed for this purpose. Such arrangements could sensibly be combined with giving MOD comfort on our existing contracts. For the reasons given in Norman Lamont's letter of 28 October, we remain of the view that if privatisation gives rise to a risk (albeit worth taking), that should rest with the industry not the customer side of Government.

The position should anyway become a little clearer as Type 23 and AOR tender rounds near a conclusion and although I accept that delay is undesirable, it seems worth getting this sale on the right footing.

In the meantime, if any formal response by MOD to the management buy-out team is needed, it will have to be on the lines that we are not yet able to give an opinion on the contract conditions required before placing contracts with the privatised company. My officials will clear the precise wording with yours.

A copy goes to John Moore.

with best regards.
Yours

(JOHN LEE)

COMMERCIAL IN CONFIDENCE



COMMERCIAL IN CONFIDENCE

(2)

Prime Minister

CJP
17/XII

01 211 6402

The Rt Hon Leon Brittan MP
Secretary of State for Trade & Industry
1/19 Victoria Street
LONDON
SW1H OET

17 December 1985

I have seen a copy of your letter to Michael Heseltine of 3 December on the evaluation of tenders for the Upholder Class Patrol Submarine and also the note of the Prime Minister's meeting to discuss this on 10 December.

The award of the Submarine contract to Cammell Laird will indeed make life very difficult for Scott Lithgow. However, I must make it absolutely clear that my Department has no contracts in its gift which can be given to Scott Lithgow to compensate for the loss of the Submarine contract. It is the oil companies who award contracts on the UKCS and in this respect Scott Lithgow's credibility with the oil industry is still suspect. Moreover OSO cannot direct orders between British yards and our ability to help is very limited.

As regards the future of the yard, even under the most favourable circumstances, enough offshore business will not be generated to maintain employment at anything like the present levels. If substantial employment is to be retained at the yard other work will need to be found elsewhere.

I am copying this to the Prime Minister, Willie Whitelaw, Michael Heseltine, George Younger, Ken Baker, Norman Tebbit, John MacGregor and Alan Clark.

PETER WALKER

COMMERCIAL IN CONFIDENCE

Nat Ind; Shipbuilding Pt 8.



JD

cc MA
SO
DTI
MOD

10 DOWNING STREET

THE PRIME MINISTER

15 December 1985

Dear Dr. Godman.

When we met on 14 November, I said I would look into your request for a speeding up of the work of the SDA's Inverclyde Initiative and write to you.

I appreciate the anxiety which must be felt in your constituency to see early results from the Initiative, but I am sure you will recognise that, particularly in view of the serious employment position in the area, the problems which the Initiative faces will not be solved without considerable effort and a great deal of preparatory work. That is one reason why from the outset it was decided the Initiative should be for at least five years. The Government have made clear our commitment to the area and the priority we want to be given to measures of assistance. The Scottish Development Agency, as our instrument in carrying out this work, must, however, operate within the resources at its disposal. This means that decisions have to be taken between competing priorities. The priority programme of measures which is currently underway at a cost of up to £6 million is by no means insignificant. The Agency will have spent about £3.5 million by the end of this financial year. One outcome should be to demonstrate, through the environmental improvement programme, the potential of Inverclyde to inward investors, about which you were concerned (Locate in Scotland is represented on the advisory groups of the Initiative). But the attraction of inward investment is only one of the fronts on which the Initiative is operating, and I believe

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the other aspects, such as local business development and development in service industries, will be as important in creating new job opportunities. As you no doubt know, proposals are still being developed on some of these aspects.

I have restated to the SDA in the light of our discussion the importance which the Government attaches to the Inverclyde Initiative, but otherwise I believe it is too early in the life of the Initiative to be seeking acceleration of the activities of the Initiative, or to be expecting to see definite results.

Yours sincerely

Margaret Thatcher

Dr. Norman Godman, M.P.

010

(2)

Prime Minister

CDP 16/12

CONFIDENTIAL

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PRIME MINISTER

UPHOLDER CLASS SUBMARINES

We decided on Tuesday that the contract for all three submarines should be awared to Vickers Shipbuilding & Engineering Ltd (VSEL)/Cammell Laird but that no announcement should be made until the outcome of the search for alternative orders for Scott Lithgow was known.

2 These orders are very important for VSEL/Cammell Laird and it is important that the fact that they will be awarded the contract for all three should be made public before Christmas if the privatisation programme is not to be delayed. Potential bidders have in fact been asked to declare their interest today (13 December) but they will be unable to judge what price to pay without knowing the number, timing, and associated profits of the submarine contracts. British Shipbuilders are already concerned that other aspects of the sale (especially the new half-completed Submarine Facility for Trident submarines) will give rise to protracted negotiations which could threaten our timetable of completion by 31 March 1986. Prolonged uncertainty in the placing of the submarine orders would further jeopardise privatisation by that date.

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3 I am copying this letter to the Lord President, the Secretary of State for Defence, the Secretary of State for Scotland, the Secretary of State for the Environment, the Chancellor of the Duchy of Lancaster, the Secretary of State for Energy, the Minister for Employment, the Chief Secretary and Sir Robert Armstrong.

L. B.

L B

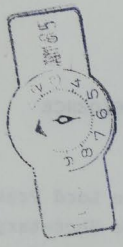
13 December 1985

Department of Trade & Industry

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cc PS/

1. NW
2. NSPM at this stage.

01 211 6402

The Rt Hon Leon Brittan QC MP
Secretary of State for
Trade and Industry
1 Victoria Street
London
SW1

13 December 1985

Thank you for your letter of 18 November. I have since had a report from Con Allday on the outcome of the PNTL Board meeting. He informed the Board that his Government as shareholder wished to consider the contract carefully and the Board agreed not to take a decision. The Japanese were, however, disturbed and made clear that they would react strongly against intervention. The shareholders have clearly indicated, at the meeting in San Francisco, and subsequently the importance they attach to the next ship being built in a Japanese yard and the need for the Mitsubishi bid to be dealt with at its face value.

I appreciate that the Japanese may expect intervention but I am sure you will agree that it is difficult to gauge their reaction with certainty. This is particularly true of their attitude to future reprocessing business. Decisions on the management of spent fuel are not made simply on commercial criteria. There is considerable worldwide public scrutiny of the options and in a number of countries close consideration is being given to the alternatives to reprocessing, long term storage or direct disposal. Utilities are therefore subject to much wider pressures than purely commercial consideration. There has in fact been recent evidence that the utilities in Japan are already nervous of being forced into long term storage. I understand this concern emerged when BNFL discussed new business earlier this year. The utilities were conscious that their plans for a domestic reprocessing plant, planned to take a proportion of their spent fuel, could generate public pressure forcing them to accept other options such as storage. If this were to happen the most important of BNFL's markets could be closed.

In relation to existing business BNFL are also anxious to maintain a good working relationship with the Japanese during the construction of THORP. This is a large and highly complex plant, costing nearly

£1.5 billion. The Japanese are meeting a large proportion of the cost and although BNFL has a sound contractual position the goodwill of the customer in circumstances where questions can continually arise is clearly of considerable importance.

In view of the scale of existing and potential business it is imperative that we reach a well informed conclusion on the likely Japanese response to intervention before taking a decision. This must include an assessment of the possible impact on public opinion and the attitude of the various authorities in Japan and any consequences for their attitude to reprocessing. I therefore believe that we should have advice from our representatives in Tokyo and I am copying this to Geoffrey Howe, together with the earlier correspondence, with a request that a view should be sought from the Ambassador. I should be grateful if Geoffrey could let me have his views as soon as possible.

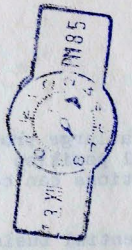
On a separate point you say that we would be giving the Japanese access to the building technology if the contract goes to Mitsubishi. I understand from BNFL that the Japanese have already converted a ship to carry spent fuel in their own waters and that they therefore alrady have much of the expertise.

I am copying this to the Prime Minister and Geoffrey Howe.

PETER WALKER

NAT IND PT 8

SHIPBUILDING POLICY



Dr Norman Godman MP
House of Commons
LONDON
SW1A 0AA

JD3Aug

When we met on 14 November, I said I would look into your request for a speeding up of the work of the SDA's Inverclyde Initiative and write to you.

I appreciate the anxiety which must be felt in your constituency to see early results from the Initiative, but I am sure you will recognise that, particularly in view of the serious employment position in the area, the problems which the Initiative faces will not be solved without considerable effort and a great deal of preparatory work. That is one reason why from the outset it was decided the Initiative should be for at least five years. The Government have made clear our commitment to the area and the priority we want to be given to measures of assistance. The Scottish Development Agency, as our instrument in carrying out this work, must, however, operate within the resources at its disposal. This means that decisions have to be taken between competing priorities. The priority programme of measures which is currently underway at a cost of up to £6m is by no means insignificant. The Agency will have spent about £3.5m by the end of this financial year. One outcome should be to demonstrate, through the environmental improvement programme, the potential of Inverclyde to inward investors, about which you were concerned (Locate in Scotland is represented on the advisory groups of the Initiative). But the attraction of inward investment is only one of the fronts on which the Initiative is operating, and I believe the other aspects, such as local business development and development in service industries, will be as important in creating new job opportunities. As you no doubt know, proposals are still being developed on some of these aspects.

I have restated to the SDA in the light of our discussion the importance which the Government attaches to the Inverclyde Initiative, but otherwise

I believe it is too early in the life of the Initiative to be seeking acceleration of the activities of the Initiative, or to be expecting to see definite results.

NAT IND: Shipbuilding Pt 8



Prime Minister

Draft letter to Mr Godman attached, if you agree

13/12

NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Timothy Flesher Esq
10 Downing Street
LONDON SW1

11 December 1985

Dear Tim

You sent John Graham a copy of your letter of 14 November to Malcolm McHardy (DTI), about Scott Lithgow and the unemployment problems of the Inverclyde area, and asked for a draft for the Prime Minister to send to Dr Norman Godman dealing with his request for a speeding up of the Scottish Development Agency's Inverclyde Initiative.

The Inverclyde Initiative is now the main vehicle for measures to assist the economic redevelopment of the area. It was set up at the end of March 1985, but arose from approaches made by Mr Younger to the SDA in 1983 when the difficulties at Scott Lithgow seemed to be coming to a head. The project is therefore in part anticipatory as it was set up to deal not only with past decline in local industry but also with likely future job losses. It is a five-year initiative, and is based on various proposals identified in a preliminary study carried out by the SDA. It differs from earlier SDA projects because there is no fixed programme of expenditure. It is run by a Development Group, whose membership is drawn predominantly from the private sector in the Inverclyde area, and this is the body which has to develop proposals for action under the Initiative. The SDA has agreed to make resources available for viable projects as these are brought forward, but this is subject to the overall level of resources available to the Agency and the extent to which there are competing claims from elsewhere.

There is no doubt that, given the very bleak position of the Inverclyde economy, the Initiative faces an uphill struggle. The October 1985 unemployment figures for the Greenock TTWA are 21.4% (total workforce) and 25.4% (males). Scott Lithgow is in the process of making a further 1000 redundancies, which will take male unemployment to about 28.5% and such previously secure employers as IBM and National Semiconductor have recently been reducing their workforces in response to market conditions. To give the Initiative some momentum the Agency is therefore undertaking a priority programme involving some £4m of its own expenditure and £2m from other sources. This is proceeding, but it has proved impossible to attract private sector commitment to a factory building programme despite a demonstrated need for units of specific sizes, and the Initiative is having to formulate its own proposals at a further cost of £2m, although it has yet to be decided whether the Agency will be able to make this available.

We have raised with the Initiative the question of speeding up the work. There is no doubt that it would be practicable. The land renewal programme in particular could be accelerated, in order to make sites available for early development, while experience elsewhere has shown that environmental improvements also help to attract private investment particularly in housing, industrial and service sectors. However, the Agency has had to revise its original intentions in the light of a combination of cuts in its overall budget. First, the SDA's total provision was reduced by £6.2m earlier this year to help finance other measures in Scotland (domestic rate relief and the education "switch"); secondly, the carry forward from last year's end-year flexibility has been withheld because of forecast overspend by the Government on selective financial assistance and regional development grant; and thirdly, the Treasury are insisting that extra receipts on all Department's programmes must be surrendered this year without exception. We are still in discussion with the Treasury on this last point since it depends upon the outcome of the Agency's highly creditable factory sale programme, on which they have always previously counted to finance part of their own expenditure. A change in practice at this stage, which may amount to a loss from the Agency's budget of up to £10 million this year would undoubtedly create a very difficult situation. The Agency is therefore having to curtail planned expenditure generally in order to live within resources, and there is not expected to be any easement in this position.

The initiative has therefore been launched at a time when the Agency is experiencing serious constraints on its own spending. It is caught between increasing demands on Agency resources and a deteriorating local employment position. In these circumstances, we see no alternative to recognising the constraints on the Agency, but we still consider the level of priority given to Inverclyde acceptable and defensible. We are reluctant to press for resources to be redirected from other areas, such as the steel areas in Lanarkshire, which would raise other political difficulties (although we might have to reconsider if Scott Lithgow closes next year). This is the line taken by the Secretary of State recently, and Dr Godman has been told that he must not expect immediate results from the Initiative. The Agency has a good team at work, and ideas are being developed which should bring good results in time.

Copies of this letter go to Malcolm McHardy (DTI) and James Harrison (MOD).

Yours ever

Robert Gordon

ROBERT GORDON
Private Secretary

CONFIDENTIAL COMMERCIAL IN CONFIDENCE

file 84

10 DOWNING STREET

From the Private Secretary

11 December 1985

Dear Judith,

UPHOLDER CLASS SUBMARINES

Thank you for your letter of 11 December about the record of Tuesday's meeting on Upholder Class Submarines.

I agree of course that Mr. Clark made the point to which you refer. But:

(i) it is not useful to record every point made by every Minister; and

(ii) a bewildering array of comparative statistics for unemployment in the Greenock and Liverpool areas were quoted by different Ministers. I do not believe anyone present at the meeting could have concluded that the relative level of unemployment in each place should sway the decision on where the contract for the submarines should be placed. Hence point (i) in my letter.

I am copying this letter to the recipients of my earlier letter.

Yours sincerely,

(C. D. POWELL)

Ms. Judith Rutherford,
Department of Employment.

CONFIDENTIAL COMMERCIAL IN CONFIDENCE

NJ/5

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

cc PC

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213.....6620/6690.....
Switchboard 01-213 3000

Parliamentary Under Secretary of State

But to note was strongly contested

Charles Powell Esq
Private Secretary
10 Downing Street
London SW1

11 December 1985

Dear Charles,

UPHOLDER CLASS PATROL SUBMARINES

Thank you for a copy of your letter to Richard Mottram which recorded the outcome of the meeting of 10 December.

Mr Clark is a little concerned that the note contained no record of this Department's firm view that there is a clear distinction between the unemployment rates in Greenock and Liverpool. In particular there was no mention of the Department's concern at the consequences of the closure of the Scott Lithgow yard on the benefit service in an area where there are already industrial relations problems due to overcrowding of offices and pressures on staff.

I am copying this letter to the recipients of yours.

Yours sincerely,
Judith Rutherford.

JUDITH RUTHERFORD
Private Secretary

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

Not Ind: Shipbuilding 118.



Subject cc Master.

fl ECL

10 DOWNING STREET

From the Private Secretary

10 December 1985

Dear Richard,

UPHOLDER CLASS PATROL SUBMARINES

The Prime Minister held a meeting of colleagues this afternoon to consider the outcome of tendering for the UPHOLDER class patrol submarines reported in your Secretary of State's letter of 28 November. The Lord President, the Secretary of State for Trade and Industry, the Secretary of State for Defence, the Secretary of State for Scotland, the Secretary of State for the Environment, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury and the Parliamentary Under Secretary of State, Department of Employment, were present.

The Defence Secretary said that the results from the tendering process were quite clear and pointed to placing a batch order for three submaries with Vickers Shipbuilding/Cammell Laird. At a very late stage in the process, when the Ministry of Defence had sought confirmation from the firms involved that they would hold their prices even if the interval between boats was spaced out, Scott Lithgow had unexpectedly lowered their bid, bringing their raw tender price below that of Cammell Laird. However his assessment was that the bid was not as solidly based as that of Vickers/Cammell Laird. When a contingency margin was added to take account of Scott Lithgow's refusal to accept the tender specification as a basis for a fixed price, their bid became significantly more expensive.

The Secretary of State for Scotland said that management at Scott Lithgow felt aggrieved at the outcome of the tendering process and believed that their company had not been treated fairly. They had been unable to quote a fixed price for the whole contract because they did not have access to all the drawings. No detailed justification had been provided by the Ministry of Defence for the £6.4 million added to the Scott Lithgow bid to take account of this. He recalled that the Government had succeeded in persuading private enterprise to take over the Scott Lithgow yard which had subsequently performed well, and had a first-class management team. Unfortunately the outlook for future orders was bad. Without an order for at least one of the submarines there was a possibility that the yard would have to close at the end of 1986. This would drive the level of local male unemployment up to 33 per cent. It

VC

would also be seen as a signal that privatisation had failed. He recalled that the Government had earlier taken account of broader factors when the survival of Cammell Laird was at stake. He believed that the precedent should be followed on this occasion. The batch order for all three submaries should be awarded to Scott Lithgows.

The following points were made in discussion:

(i) unemployment was high in both the Greenock and the Liverpool areas and was therefore not a decisive argument for award of the contract to one yard or the other.

(ii) it was important the Government should adhere to its policy of competitive tendering and batch ordering. Not to do so would further undermine the industry's confidence in the Ministry of Defence's tendering process following the decision on the two Type 22 frigates earlier this year.

(iii) a decision to split the order would give rise to substantial additional costs. To award one submarine to Scott Lithgow would involve an additional direct cost of at least £13 million (and possibly more). It would also diminish the proceeds of privatisation at Vickers/Cammell Laird.

(iv) the outlook for future orders for Scott Lithgow was not entirely clear. There was a possibility that BP would place an order for a further oil rig (although this had been in the air without materialising for some considerable time). Trafalgar House, as owners of both Scott Lithgow and Cunards, should be well placed to give further work to Scott Lithgow. Moreover Scott Lithgow had been invited by the MOD to tender for nine refits, but had declined to do so on seven (and lost the other two).

(v) it was by no means certain that Scott Lithgow would survive in the longer-term even with a submarine order.

(vi) Yarrow Shipbuilders whose original tender had been lower than that of Scott Lithgow, would feel aggrieved if the latter were given preference.

(vii) on the other hand, having shown itself ready to take account of broader factors in the case of Cammell Laird, it was difficult for the Government to refuse to show similar understanding for Scott Lithgow. To refuse would increase the already strong feeling that Scotland was being treated unfairly.

(viii) there could also be implications for the success of the Government's privatisation policy, if yards

which had been privatised were subsequently starved of orders.

Summing up, the Prime Minister said that colleagues felt on balance that it would not be right to incur the additional costs of splitting the order. A decision should therefore be taken to award the contract for all three submarines to Vickers/Cammell Laird as the lowest bidder. However the strength of the case made by the Secretary of State for Scotland for assistance in keeping Scott Lithgow open was recognised. A serious effort should be made to find some additional work for the yard from the Ministry of Defence and from the Department of Energy. The Defence Secretary should discuss this further with the Scottish Secretary and the Energy Secretary. No announcement of the decision on the submarine orders should be made until the outcome of this search for alternative orders was known.

I am copying this letter to Joan MacNaughton (Lord President's Office), John Mogg (Department of Trade and Industry), Robert Gordon (Scottish Office), Robin Young (Department of the Environment), Andrew Lansley (Chancellor of the Duchy of Lancaster's office), Geoff Dart (Department of Energy), Richard Broadbent (Chief Secretary's office, H.M. Treasury), J. Rutherford (Mr. Clark's office, Department of Employment) and Michael Stark (Cabinet Office).

Yours sincerely,

Charles Powell

(C.D. Powell)

Richard Mottram, Esq.,
Ministry of Defence.

10 DOWNING STREET

From the Private Secretary

Prime Minister

Submarines

You are familiar with the papers. The question is whether all three submarines should go to Cammell Laird as the lower tender; or whether one should go to Scott Lithgow at an additional cost of £13 million, to pacify the Scots.

Mr. Younger has no support in the correspondence; and it's hard to see where the extra £13 million would come from.

CDP 9/12

cc B/UP.

CONFIDENTIAL

PRIME MINISTER

Upholder Class Patrol Submarines

RELEVANT CORRESPONDENCE

FLAG A

FLAG B

FLAGS C+D

FLAG E

FLAG F

1. The following letters are relevant: that of 28 November from the Secretary of State for Defence to the Secretary of State for Trade and Industry; that of 2 December from Mr Heseltine's Private Secretary to yours; and the further letters to the Defence Secretary from the Scottish Secretary (3 and 6 December), the Secretary of State for Trade and Industry (3 December) and the Environment Secretary (4 December).

Proposals

2. The Secretary of State for Defence proposes that the three orders for this class of patrol submarine be placed with Cammell Laird (CL), now a subsidiary of Vickers Shipbuilding and Engineering Limited (VSEL), the lead yard for this class of submarine.

3. The Secretary of State for Scotland proposes that at least one order should go to Scott Lithgow (SL).

MAIN ISSUES

4. The main issue is whether the Government should bear the extra costs of the order of about £10 million to avoid, or at least postpone, 1500 redundancies at SL; and, if so, how the costs should be met.

5. The arguments in favour of placing the three orders at CL are:

(a) Economic Costs

CL has won the tender competition for the three patrol submarines, and there is a significant price advantage in placing a batch order of submarines. Building all three vessels at CL is estimated by the Ministry of Defence

(MOD) to cost £280 million at 1984-85 prices. Building one at SL and the other two at CL would cost £293 million. This is a rough measure of the cost differential; there is some difference of view at the edges about the contingency margin to be incorporated by MOD in the costings of the alternative bids and about the treatment of payments for design services, but the £13 million price differential is probably a reasonable ball-park figure. The Department of Trade and Industry (DTI) would wish to add to it some allowance for the reduction in the proceeds from privatising VSEL and CL if CL secure less than the full three orders, but this cannot be quantified.

(b) Impact on Tendering Process

Not to accept the outcome of the competitive tender competition would further undermine the industry's confidence in MOD's tendering process, already shaken by the decision in January of this year not to place the order for the two Type 22 frigates with the lowest tenderer Swan Hunter (SH). On that occasion, the Secretary of State for Defence, with the concerns of Liverpool and the return to work of moderate CL workers very much to heart, announced that SH and CL should receive one order each of the two Type 22 frigates. If the tendering process is similarly distorted on this occasion, the industry may well conclude that political lobbying is consistently more significant than competitive performance in securing orders.

(c) Yarrow

Yarrow, a Glasgow yard with reasonably good order prospects, who came second in the tender exercise, will be discontented if SL receive preferential treatment, the outcome of the competitive tender notwithstanding. Placing one submarine with Yarrow with the other two being built at CL would cost £2 million less than one at SL and two at CL.

6. The arguments in favour of placing one of the three orders with SL are:

(a) Cammell Laird precedent
Mr Younger argues that the broader factors which were thought important in the case of the Type 22 frigate order when the survival of CL was at stake are equally applicable now SL is in trouble;

(b) Future of Scott Lithgow
There has been much rationalisation at SL by Trafalgar House, who claim to have overcome inefficiency and indiscipline at the yard. There had been a prospect that the yard would secure a gas rig for BP's 'village' fields but this has been delayed by a year; and there is also thought to be a requirement for a fleet auxiliary ship, but this does not seem to be an imminent prospect. SL could expect some work if Euroroute were selected for the Channel Fixed Link. A single submarine order would appear to be sufficient to avoid closure in the near future and keep the yard open until the hoped-for offshore installation orders materialise.

7. If Ministers were to decide that SL should secure one or more of the submarine orders, Mr Heseltine would certainly argue that someone else should bear the extra costs. DTI are most unlikely to be willing to do so, since withholding any of the orders from CL means less than optimum results from warshipbuilding privatisation. Mr Younger would need to find some way of meeting the costs without recourse to the Reserve.

8. If Ministers were to decide that SL were to secure the first submarine order (SSKO2), the Secretary of State for Trade and Industry may well argue that the construction of the third submarine (SSKO3) should be brought forward from February 1987 to mid-1986, to prevent a gap in CL's work schedule in the latter half of 1986, and possible redundancies.

HANDLING

9. You will wish to invite the Secretary of State for Defence to present the arguments for placing all three submarine orders with CL. The Secretary of State for Scotland will wish to comment on the implications such a decision would have on SL. The Secretary of State for Trade and Industry will wish to comment on industrial implications and any consequences this might have on the prospects for the privatisation of Vickers. The Chief Secretary, Treasury will wish to speak on the public expenditure aspects. The Secretary of State for Energy may wish to comment on the possibility that offshore orders might alleviate SL's plight in the foreseeable future. The Secretary of State for the Environment (who has written supporting Mr Heseltine's position) may wish to draw attention to the implied choice between the Clyde and Mersey. The Secretary of State for Employment will have views on employment issues. The Lord President of the Council and the Chancellor of the Duchy of Lancaster may wish to offer views on the political aspects.

CONCLUSIONS

10. You will wish to reach conclusions on:

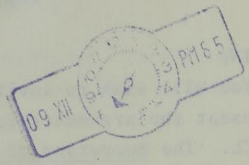
(a) whether three orders for Upholder class submarines should be placed with Cammell Laird, or one or more of the orders should go to Scott Lithgow; and

(b) if the latter, how the extra costs should be financed.

JW

A J WIGGINS
Cabinet Office
9 December, 1985

£ 13m.



PRIME MINISTER

6 December 1985

UPHOLDER CLASS SUBMARINES

George Younger wants to play the Scottish card but:

- Scotland is winning some battles: Gartcosh is to close but Ravenscraig remains open; Prestwick (which should close) is staying open, and BL are investing in their Albion works at Glasgow.

- Unemployment is bad in Greenock but no worse than in Liverpool.

- Cammell Laird were wrongly awarded a T22 frigate but this only reinforces the need to make sure the system is not abused again. Privatisation of the warshipyards can only work if competition is given full rein.

- Scott Lithgow is not the most deserving of cases. In addition to the initial £71m dowry, Trafalgar House have since received a further £70m in respect of contingent liabilities and are asking for yet a further £50m, which is currently in arbitration.

- The submarine order is crucial to the success of the proposed employee buy-out of the Vickers/Cammell Laird shipyards. If this is successful some 20% of the shares will be offered to employees - probably the biggest such employee participation since National Freight. The submarine orders may be worth £20m on the price, which is a further reason for giving the order to Cammells.

We strongly recommend the order goes to the lowest tenderer, Cammell Laird.

Peter Warry

PETER WARRY

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

COMMERCIAL - IN - CONFIDENCE

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

6 December 1985

Dear Secretary of State

I wrote to you on 3 December about the tenders for the Upholder Class Submarines. Since then I have seen your Private Secretary's letter of 2 December to the Prime Minister's Private Secretary. That letter commented particularly on the tendering process, and the costs arising from Vickers' position as lead yard.

There is considerable disquiet about the position of the lead yard in the present case, and both Yarrow Shipbuilders Ltd (YSL) and Scott Lithgow (SL) consider that they have not had a fair crack of the whip. In particular, YSL contrast the position on lead yard information for these boats with that for frigates, where they are the lead yard. For the frigates YSL are providing to the other tenderers, a full package of information which has been fully defined and approved by your Department. This information is made available at no cost to other tenderers, having been paid for your department under the contract for the first of class. For the submarines a payment has to be made, although again the design was funded by MOD.

There are three main areas of doubt and difficulty,

1. Full detailed drawings are not yet available for follow-on yards; limited access only has been given to inspect the scale model of the boat; drawings and other documents have been supplied "for guidance only", but tenderers are required to accept the risk of additional costs arising from design changes; some information has been withheld, or offered only against payment.

2. There is a cost penalty against both YSL and SL because of the higher contingency allowances added on to their prices, and arising specifically because of the difficulties described under (1) above; these allowances must be regarded as speculative, and in themselves illustrate the unsatisfactory nature of the whole process, whereas if the tendering were on a proper basis the only contingencies required would be those for design changes made by the MOD itself, and these would be uniform; at the latest (21 November) prices if the contingency allowance were uniform then the difference in price between CL and SL would be only £1.4m.

3. There must be scepticism about Vickers' offer to absorb the lead yard costs if CL get the order; someone must pay for these services, and I wonder whether they will be loaded onto other MOD work; indeed, does VSEL have other than MOD work?

I should mention that my letter of 3 December contained a transcription error in that my intention in paragraph 4 was to refer to "the submarine order", and not to concentrate specifically on the possibility of an order for one of the present three.

I am sending copies of this letter to the Prime Minister, Tom King, Kenneth Baker, John MacGregor and to Sir Robert Armstrong.

Yours sincerely

Andy Rinning

ANDY RINNING
Private Secretary
Approved by the Secretary of State
and signed in his absence.

DEFENCE: Procurement: Pt 3



10 DOWNING STREET

6/12

Cadbane.

Cd. you please invite those on the enclosed list to a meeting at 4.00 pm next Tuesday (instead of E(A)) to discuss the Contract for Upholder Class Submarines.

Please also invite John Wiggin, Cabinet Office CDP

DEFENCE: Procurement: Pt 3

(1)

PRIME MINISTER

SUBMARINES

The Secretary of State for Scotland has objected to Mr Heseltine's proposal to award the contract for all three Upholder Class submarines to Cammell Laird and has asked for a discussion either in E(A) or an ad hoc meeting.

I think it might be better to have an ad hoc meeting though we shall need quite a number of people present. Agree to invite:

Lord President ✓
Defence Secretary ✓
Trade and Industry Secretary ✓
Secretary of State for Scotland ✓
Chief Secretary ✓
Employment Secretary ✓
Chancellor of the Duchy of Lancaster? ✓
Environment Secretary. ✓

(We have a slot in the diary next Tuesday.)

CDP

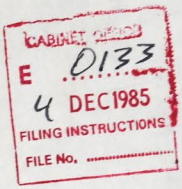
Charles Powell
4 December 1985

CCPC

Mr C Powell COPY No 10

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE



DR WALKER

cc Mr Unwin
Mr Jago

UPHOLDER CLASS SUBMARINES

attached

This note records what I have been able to learn about this issue, in the light of the Defence Secretary's letter of 28 November, the Trade and Industry's reply of 3 December, and the further letter of 3 December from the Scottish Secretary. I understand that the Prime Minister's Office are now contemplating holding a special ad hoc meeting on the subject at 4:00pm on Tuesday 10 December. Apart from the Prime Minister, Lord President and Chancellor of the Duchy of Lancaster, and the Ministers already involved in the correspondence, the other Ministers with an interest appear to be the Chief Secretary, Energy (because of Scott Lithgow's involvement in building oil and gas rigs), Environment (because of the implied choice between the Clyde and the Mersey) and Employment.

2. The question essentially is whether three orders for this class of patrol submarines should be placed now with Cammell Laird (now a subsidiary of Vickers, the lead yard for this class of submarines), or whether two orders should go to Cammell Laird and one to Scott Lithgow, as the Scottish Secretary has in effect proposed. It appears that the extra costs of Mr Younger's preferred solution are in the range £9 to £12 million (on top of a base cost of three orders at Cammell Laird of £136½ million).

4. The effective rescue of Cammell Laird last Summer by the splitting of the Type 23 frigate order has had the effect of retaining some over-capacity in warshipbuilding. Some

submarine orders for Cammell Laird are essential if the yard is to be successfully privatised as part of Vickers; potential purchasers of Vickers had been invited to tender either for one or for both yards. Cammell Laird are said to have substantial expertise in the construction of submarines, although none have been built there recently. From the standpoint of privatisation, however, DTI think two orders would be sufficient.

5. Scott Lithgow have had a very bad record in recent years, and performed disastrously badly on two major oil-related orders from Britoil and BP. There has already been a good deal of rationalisation at the yard, largely at the expense of the Government who in the end have in effect paid Trafalgar House a great deal of money to take it off our hands. Trafalgar House now say that the inefficiency and indiscipline at the yard has been overcome, and are looking urgently for new orders. There had been a prospect that the yard would secure a gas rig for BP's 'village' fields, but this has been delayed by a year; there is also thought to be a requirement for a fleet auxillary ship, although MOD say they do not at present have enough money in their budget for this. Scott Lithgow could also expect to secure some work if Euroroute were selected as the Channel Fixed Link. Meanwhile, however, in the absence of alternative orders they are in effect adding to the existing problem of shipbuilding over-capacity; unlike Cammell Laird, they have no established expertise in building submarines. A single submarine order would obviously not assure the future of Scott Lithgow, but it appears that it would be sufficient to avoid closure in the near future, and thus keep the yard open until the hoped-for offshore installation orders materialise.

6. On this basis, the question appears to be whether the Government should contemplate bearing extra costs of the order of £10 million in order to avoid, or at least postpone, 1500 redundancies on the Clyde, and if so, how the costs should be met. In the case of the Type 22 frigates, it was Mr Heseltine who argued in favour of the 'non-commercial' solution, and it was accordingly agreed that the defence budget should bear any extra costs. In this case, if Ministers were to insist on Scott Lithgow securing one of the orders, Mr Heseltine would certainly argue that someone else should bear the extra costs. The DTI are unlikely to be willing to do so, since withholding any of the orders from Cammell Laird means less than optimum results from warshipbuilding privatisation. So it would be up to Mr Younger, if he wants an order for the Clyde, to find some way of meeting the costs, without recourse to the Reserve.

7. I have told Mr Powell that we will provide a short brief for the Prime Minister's meeting.

AJW

A J WIGGINS
4 December, 1985

B10

COMMERCIAL IN CONFIDENCE

CC

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CON
57

4 December 1985

Dear Michael,

Thank you for sending me a copy of your letter of 28 November to Leon Brittan about the competition for the Upholder Class patrol submarines.

I entirely support your decision to give the order for all 3 submarines to Cammell Laird. As you say, the commercial facts indicate that this is the right decision. It will also be good news for Cammell's and for Merseyside to know that a major local firm can win a significant order like this on a competitive basis.

I am sending copies of this letter to the Prime Minister, George Younger, Leon Brittan, Tom King, John MacGregor and Sir Robert Armstrong.

Yours ever,

KENNETH BAKER

The Rt Hon Michael Heseltine MP

NAT IND

SHIPBUILDING



RESTRICTED

cc BG

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

Secretary of State for Trade and Industry

4 December 1985

The Rt Hon Tom King MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1

CDP

Dear Tom,

WARSHIPBUILDING

Thank you for your letter of 22 November.

I am grateful for your repeated assurances that Harland and Wolff's bids for MOD work will in future both be unsubsidised and comprehensively costed.

You will know from my response to Michael Heseltine's letter of 28 November about the Upholder Class submarine that I am most firmly attached to the view that all MOD work should be let on purely commercial considerations. I do not believe that it would be proper for decisions on where to place orders to be influenced in any way by the privatisation programme. I am copying this letter to the recipients of yours.

Yours ever,

Leon

LEON BRITTAN

NAT IND: Shipbuilding. Pt 8

010

CC BG

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

3 December 1985

COMMERCIAL - IN CONFIDENCE

Dear Michael,

WITH DRN/CDP

Thank you for sending me a copy of your letter of 28 November to Leon Brittan about the tendering for the Upholder Class Submarines.

2. I accept that commercial considerations point to the tender going to Cammell Laird but I think that this is one case where we ought to examine the wider implications before we proceed. The second paragraph on page 4 of your letter comes down in favour of proceeding on a "truly commercial basis", while "occasionally having to take account of broader factors".

3. Our supporters in Scotland, where the Government's standing is already low because of difficulties over local authority rates and question-marks over the future of the steel industry, will be aware that a year ago broader factors were thought to be important, in relation to the Type 22 frigate order, when it came to the future of Cammell Laird, but are now discarded when Scott Lithgow's future is at stake. In the case of the frigates the price differential appears to have been greater than it is now.

4. The economic and unemployment position in Greenock and Port Glasgow is already severe (October 1985 unemployment rates total 21.4%, male 25.4%) and there is a very strong possibility that Scott Lithgow will close if it does not get one submarine order, with a loss of over 1500 jobs.

5. At the very least I think we ought to have an opportunity to discuss these matters, either in E(A) or in an ad hoc meeting, and I should be grateful if you would hold back your question until we have had an opportunity to do so.

6. I am sending copies of this letter to the Prime Minister, Tom King, Kenneth Baker, John MacGregor, and to Sir Robert Armstrong.

Yours ever,
George.

HMP33709

NAT IND
SHIPBUILDING



The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HE

3 December 1985

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6. I am sending copies of this letter to the Prime Minister, Tom King, Kenneth Baker, John MacGregor, and to Sir Robert Armstrong.

Yours ever,

Norman

010

CC BG

COMMERCIAL IN CONFIDENCE

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

Secretary of State for Trade and Industry

3 December 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Michael,

WITH DRN/CDP

Thank you for your letter of 28 November setting out the results of your evaluation of the tenders for the Upholder Class patrol submarine and your conclusion that the competition result points to placing a batch order for three submarines with Cammell Laird.

2 Given the importance which we both recognise of showing clearly to industry that you intend to let contracts on a truly commercial basis, I agree fully with your conclusion, despite the problems that could arise at Scott Lithgow. Although you say that the latest bid from Scotts would bring their raw tender price some £1.5 million lower than that of Cammell Laird, I agree that the proper calculation is the one set out in Annex B to your letter, which as you say renders even the reduced Scott Lithgow price more expensive, by some £8 million. Even if you were not to take account of the extra costs to your Department of lead yard services (£2.1 million) the cost to your Department of the reduced Scott Lithgow bid is still some £6 million more expensive than that from Cammell Laird.

3 I welcome your decision to press ahead with an early announcement. This is what all the yards have been asking for, even though the losers will inevitable be disappointed with the decision, which will pose particular problems for Scott Lithgow. Trafalgar House have asked if they can have some advance warning in confidence of the announcement so that they can prepare their reaction locally. I hope you will be able to help them on this. The decision does however render the question of the future of the Scott Lithgow yard more acute and I think that our Departments and the Department of Energy (with their responsibility for offshore

JFlANT

COMMERCIAL IN CONFIDENCE

installations) should look very closely at what, if anything, can be done to help.

4 I am copying this letter to the recipients of yours and to Peter Walker.

Yours ever, Leon

LEON BRITTAN

JF1ANT

NAT IND

SHIPBUILDING



10 DOWNING STREET

CDP

There is a row brewing over submarine orders, which may need to go to E(A) or Cabinet.

Could you ring John Wiggins?

DRN
3/12

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone ~~01-830-7022~~ 01-218 2111/3

MO 18/2E

2nd December 1985

Dear Charles,

UPHOLDER CLASS SUBMARINES

You told Richard Mottram that the Prime Minister would find it helpful to have a more detailed explanation of the build up of total submarine costs set out in Annex B to Mr Heseltine's letter of 28th November to Mr Brittan.

The key areas are those where this Department has added different amounts to the shipbuilders' raw tenders. In more detail the reasons for doing so are as follows:

a. Exclusions. These are Ministry of Defence estimates of certain minor items for which Contractors are unable to offer prices at this stage. Certain items are common to both Cammell Laird and Scott Lithgow totalling £1.8M (eg cladding of steel valves to avoid sea water corrosion; the number of deposit layers needed to meet Ministry of Defence specifications is uncertain).

Differences between tenders are:

(1) Items specific to Cammell Laird (£0.3M), eg testing of the combined diesel alternator.

(2) Items specific to Scott Lithgow (£1.5M). These are, noise and vibration testing of equipments prior to installation; assistance in installation and testing by the main propulsion package sub-contractor; fittings to pass electrical connections through watertight decks (these are not yet fully developed).

b. Ministry of Defence Contingency. This is an allowance for additional costs which may arise on the contract over its seven year duration and comprises:

(1) Items common to Cammell Laird and Scott Lithgow (£15.5M), for example changes in the Ministry of Defence submarine specification resulting from the introduction of new weapons/sensors and feedback from fleet operation of the new boat.

C D Powell Esq
No 10 Downing Street

(2) Items specific to Scott Lithgow (£6.4M). The major element here flows from Scott Lithgow's refusal to accept the tender specification as a basis for a fixed price. They reserved the right to seek additional payments if the working engineering drawings for the submarines differed from their interpretation of the design implicit in the tender. (This Department indicated that it would accept additional payments only where the Ministry changed its specification). Accepting Scott Lithgow's position would expose the Ministry of Defence to claims for additional payment. The Department cannot determine exactly what level of claims could not be resisted, but allowed £6M for this risk (based on experience of claims in similar circumstances).

c. Lead Yard Services. The lead yard (Vickers at Barrow) is producing on the Ministry of Defence's behalf all the working drawings and other documents necessary for the build of these submarines. This information has to be made available to any follow-on shipbuilder (ie including Cammell Laird at Birkenhead). The invitation to tender was on the basis that this Department would fund this transfer through a separate contract. The cost is estimated at £2.1M plus £0.3M VAT. Cammell Laird/Vickers said that they would absorb the cost of the transfer to Birkenhead in their case.

I am sending copies of this letter to John Graham (Scottish Office), Jim Daniell (Northern Ireland Office), Robin Young, Department of the Environment), Richard Broadbent (Treasury) and to Michael Stark (Cabinet Office).

Yours ever,

Denis

(D BRENNAN)



COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone ~~01 930 7022~~ 01-218 2111/3

MO 18/2E

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COMMERCIAL IN CONFIDENCE

C D Powell Esq
No 10 Downing Street

COMMERCIAL IN CONFIDENCE

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I am sending copies of this letter to John Graham (Scottish Office), Jim Daniell (Northern Ireland Office), Robin Young, Department of the Environment), Richard Broadbent (Treasury) and to Michael Stark (Cabinet Office).

Yours ever,

Dennis

COMMERCIAL IN CONFIDENCE

Later today !!
2.12.85

10 DOWNING STREET

Duty Clerk

You should
receive tomorrow from
Richard Mottram
a further letter
about the award
of submarine contracts.
Could you please
Mufax it to me
in Luxembourg. (FCO have a
facility).
CDP.

COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 7022 01-218 2111/3

MO 18/2E

2nd December 1985

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C D Powell Esq
No 10 Downing Street

COMMERCIAL IN CONFIDENCE

(2) Items specific to Scott Lithgow (£6.4M). The major element here flows from Scott Lithgow's refusal to accept the tender specification as a basis for a fixed price. They reserved the right to seek additional payments if the working engineering drawings for the submarines differed from their interpretation of the design implicit in the tender. (This Department indicated that it would accept additional payments only where the Ministry changed its specification). Accepting Scott Lithgow's position would expose the Ministry of Defence to claims for additional payment. The Department cannot determine exactly what level of claims could not be resisted, but allowed £6M for this risk (based on experience of claims in similar circumstances).

c. Lead Yard Services. The lead yard (Vickers at Barrow) is producing on the Ministry of Defence's behalf all the working drawings and other documents necessary for the build of these submarines. This information has to be made available to any follow-on shipbuilder (ie including Cammell Laird at Birkenhead). The invitation to tender was on the basis that this Department would fund this transfer through a separate contract. The cost is estimated at £2.1M plus £0.3M VAT. Cammell Laird/Vickers said that they would absorb the cost of the transfer to Birkenhead in their case.

I am sending copies of this letter to John Graham (Scottish Office), Jim Daniell (Northern Ireland Office), Robin Young, Department of the Environment), Richard Broadbent (Treasury) and to Michael Stark (Cabinet Office).

Yours ever,

Dennis

(D BRENNAN)

Scotts - long record of building submarines.

Tender 21-5

COMMERCIAL IN CONFIDENCE

cc PB

(1)

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 18/2A

28th November 1985

Prime Minister
Re Defence Secretary intends to award the contract for 3 submarines to Vickers-Cammell-Laird. This may result in the closure of Scott Lithgow.
Agree to proposed award?
CDP
20/XI

Dear Leon

Thank you for your letter of 8th November about the competition for the Upholder Class patrol submarines. We have now completed our evaluation of the tenders from Scott Lithgow (part of Trafalgar House Group), Yarrow Shipbuilders, and Vickers Shipbuilding/Cammell Laird.

We sought tenders last Autumn for any combination of up to 3 submarines to commence building at yearly intervals. Bids on the first 2 rounds of tendering were close and there were changes of ownership in the Summer with GEC buying Yarrows and Vickers taking over Cammells. We sought "best and final" offers by mid-September. The raw tenders received then are summarised at Annex A. These showed:

a. There was a significant price advantage, of some £10M, in placing a batch order of 3 submarines.

b. Cammell Laird were substantially the lowest for any combination of boats.

Rt Hon Leon Brittan QC MP

Comparisons of the cost to my Department must, however, take account of other variations in the tender responses. Cammells were generally compliant with contract conditions; Scott Lithgow dropped their earlier insistence on a down payment but were not compliant in important aspects; Yarrows were also non-compliant to a lesser degree. There is also a cost to my Department in transferring design information from a lead shipbuilder (Vickers) to a follow-on yard, although the Vickers/Cammell group said they would absorb this for an order at Cammells. Taking account of these factors, the total cost to the Ministry of Defence builds up as at Annex B. In summary the total production cost was:

Batch of 3 submarines	£M Total production cost (at 1984/85 prices)
Cammell Laird	280
Yarrow Shipbuilders	293
Scott Lithgows	301

Thus Cammell Laird were the clear winners of the competition.

These figures are for a batch of three at a single yard. Splitting the order would increase costs substantially (since we should lose the discount for batch ordering as well as having to pay more). To order one submarine from Yarrows would increase costs by £10M; spreading across 3 yards, by over £20M.

COMMERCIAL IN CONFIDENCE

After the final round of tenders, Scott Lithgow asked for further detailed design information to be supplied from Vickers (the lead shipbuilder for these submarines) and an opportunity to make a more compliant tender (arguing that the Vickers/Cammell group had more data available). A lead shipbuilder has an inherent advantage but of course higher overheads as a result of the design team it has to keep employed on the particular class of ship. We were satisfied that the 800 drawings provided to the non-lead shipbuilders were adequate for tendering and did not think it fair on other competitors to extend the competition again; Yarrows did not make a similar request (although they asked that account be taken of Cammell's advantage here when comparing tenders). Scott Lithgow also made unsolicited offers of further price reductions. Initially, Anna McCurley mentioned figures of up to £4M to Norman Lamont; on 21st November Trafalgar House (Scotts) offered a £5M reduction for one boat and £3M for two (none was offered on the 3 boat price).

Earlier this week, we sought confirmation from all 3 firms that they would hold their prices even if we needed to space out the interval between boats (so as to give me more budgetary flexibility). Cammells confirmed their earlier prices; Yarrows made a small reduction of £0.7M; Scotts confirmed their 21st November offer but unexpectedly reduced their price for 3 boats by £13.6M (or 9 per cent) even for the extended build period.

This latest bid from Scotts brings their raw tender price some £1.5M lower than Cammell Laird. But when account is taken of the total production cost to the Ministry of Defence, Scott Lithgow would still be substantially more expensive, by some £8M. Even if Scott Lithgow's bid had been compliant there would still have been a margin in Cammell Laird's favour. There would also be a doubt whether a major price reduction offered at the very last moment would not lead us into great difficulties subsequently, with Scott Lithgow looking to cut corners on the quality of the boat. My conclusion remains that the competition result points to placing a batch order for 3 submarines with Cammell Laird.

I recognise that the failure of Scott Lithgow to win an order may prejudice the future of that yard, and I have discussed this issue with George Younger. But the fact is that there is no long-term defence requirement to keep it open. We could not justify the additional cost in splitting the order to give them a single submarine. While one cannot rule out occasionally having to take account of broader factors, I also agree with you that it is important to show clearly to industry that we intend to let contracts on a truly commercial basis. In this case, competition has produced savings of £13 million between the rounds of tenders.

Subject to John MacGregor's confirmation that he is content with the expenditure involved (which can be accommodated within my forward programme), I intend to announce the placing of the order by means of a written Answer on Wednesday 4th December.

I am sending copies of this letter to the Prime Minister, George Younger, Tom King, Kenneth Baker, John McGregor and to Sir Robert Armstrong.

Yours ever

Michael Heseltine

COMMERCIAL-IN- CONFIDENCE

Prices submitted in Tenders dated 17 September 1985

Order SSK02, 03 and 04 November 1985

Start Fabrication SSK 02 November 1985

" " SSK 03 February 1987)
) Note 1
" " SSK 04 February 1988)

SSK	CLS	YLS	SL
	£M	£M	£M
02 only	47.7	49.6	50.3
03 only	48.7	50.1	57.5
04 only	49.5	50.6	No Bid
02 & 03	91.8	96.3	102.5
02 & 04	92.6	96.9	103.6
03 & 04	93.6	97.4	104.2
02, 03 & 04	136.5	142.6	148.6

Main Options

1. Batch order of 3 at CLS £136.5M

2. Order for pair SSK02 and 04 at CLS £92.6M
Order for SSK03 at YSL £50.1M
£142.7M

3. Order for SSK02 at CLS £47.7M
Order for SSK03 at SL £57.5M
Order for SSK04 at YSL £50.6M
£155.8M

4. Three single orders for SSK 02, 03 and 04 at CLS £145.90M

(1) During retendering on 25 November, MOD secured the option to extend the start date for 03 to August 1987 and 04 to February 1989. (SL offered a £1m discount for starting 04 earlier.)

TAL PRODUCTION COST: COMPARISON FOR BATCH ORDER FOR 3 BOATS
BASED ON 17 SEPTEMBER TENDERS

	£m 1984-85 price levels CLS	YSL	SL
TENDERED PRICE (1)	128.2	134.0	139.6
LONG LEADS (already ordered)	41.2	41.2	41.2
EXCLUSIONS (2)	2.1	3.0	3.3
MINISTRY CONTINGENCY (3)	15.5	18.9	21.9
LEAD YARD SERVICES (4)	-	2.1	2.1
DESIGN AGENCY SERVICES	0.9	0.9	0.9
WEAPONS (supplied under separate MOD contracts)	79.6	79.6	79.6
VAT	12.5	12.8	12.8
TOTAL	280.0	291.4	301.4

Notes:

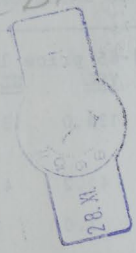
(1) Tender prices at Annex A brought to a common 1984-85 price level.

(2) MOD estimates of certain minor items for which contractors are unable to offer prices at this stage.

(3) MOD's contingency is higher for YSL and SL, mainly because non-compliant aspects of tender responses would allow contractors to claim additional payments for which we must make provision.

(4) VSEL/CL have offered to absorb this if an order is placed with CL.

NAT IND
SHIPBUILDING
PT 8



file

JD

cc DTI
MA

10 DOWNING STREET

THE PRIME MINISTER

28 November 1985

Dear Anna,

When you and Norman Godman came to see me recently about the position at Scott Lithgow, we discussed the orders for conventional submarines that will soon be placed by the Ministry of Defence.

I fully appreciate the points that you both made about the importance of this decision to Scott Lithgow. As I am sure you too appreciate, it is also important that Government Departments follow the best commercial practices when placing orders, thus getting the best value possible for the tax-payers' money. Also, fair competition is, of course, fundamental to the efficient working of our market economy and thus essential for the health of our private sector companies. It is, therefore, important that the decision on the submarine orders should be taken solely on the basis of price, delivery and technical conditions, despite the many difficulties in comparing tenders for an order as complex as submarines. I understand that the competing tenders are still being assessed, but that Michael Heseltine intends to make an announcement on the placing of the order later this month.

I am writing similarly to Norman Godman.

Yours ever

Margaret

Mrs. Anna McCurley, M.P.

EA

NAT IND
SHIPBUILDING
PT 8

CF. file.

JD

cc DTI
MA.

10 DOWNING STREET

THE PRIME MINISTER

28 November 1985

Dear Dr. Godman,

When you and Anna McCurley came to see me recently about the position at Scott Lithgow, we discussed the orders for conventional submarines that will soon be placed by the Ministry of Defence.

I fully appreciate the points that you both made about the importance of this decision to Scott Lithgow. As I am sure you too appreciate, it is also important that Government Departments follow the best commercial practices when placing orders, thus getting the best value possible for the tax-payers' money. Also, fair competition is, of course, fundamental to the efficient working of our market economy and thus essential for the health of our private sector companies. It is, therefore, important that the decision on the submarine orders should be taken solely on the basis of price, delivery and technical conditions, despite the many difficulties in comparing tenders for an order as complex as submarines. I understand that the competing tenders are still being assessed, but that Michael Heseltine intends to make an announcement on the placing of the order later this month.

I am writing similarly to Anna McCurley.

Yours sincerely

Margaret Thatcher

Dr. Norman Godman, M.P.

EC4

CC/66

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215 5186
GTN 215
(Switchboard) 01-215 7877

From the Minister of State for Industry

Private Secretary to
THE HON PETER MORRISON MP

Timothy Flesher Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

25 November 1985

Dear Tim

Thank you for your letter of 14 November recording the Prime Minister's meeting with Mrs Anna McCurley MP and Dr Norman Godman MP about Scott Lithgow. As requested, I enclose a draft letter to the MPs on the submarine order which has been agreed with MOD officials.

I understand from MOD officials that the decision on the order may be announced as soon as this week: either during a naval debate if arranged, or by means of an arranged PQ. The draft letter is on the basis that it is sent before the announcement.

For your information, I understand that Mr Calder the MSC's Regional Director has spoken to Dr Godman and a meeting is being set up. No doubt the Department of Employment and the Scottish Office will keep you informed of developments.

Copies of this letter go to Stuart Lane (Paymaster General's Office) and John Graham (Scottish Office).

Yours aye

Malcolm McHardy

MALCOLM MCHARDY

THUAVU

999-7

2 letters → 1) Anna McCurley 2) Norman Godman.

DRAFT LETTER TO MRS ANNA McCURLEY MP, COPIED TO MR NORMAN GODMAN MP, FROM THE PRIME MINISTER

When you and Norman Godman came to see me recently about the position at Scott Lithgow, we discussed the orders for conventional submarines that will soon be placed by the Ministry of Defence.

I fully appreciate the points that you both made about the importance of this decision to Scott Lithgow. As I am sure you too appreciate, it is also important that Government Departments follow the best commercial practices when placing orders, thus getting the best value possible for the tax-payers' money. Also, fair competition is, of course, fundamental to the efficient working of our market economy and thus essential for the health of our private sector companies. It is, therefore, important that the decision on the submarine orders should be taken solely on the basis of price, delivery and technical conditions, despite the many difficulties in comparing tenders for an order as complex as submarines. I understand that the competing tenders are still being assessed, but that Michael Heseltine intends to make an announcement on the placing of the order later this month.

I am writing similarly to 1) Norman Godman 2) Anna McCurley

MONAXT

NAT IND Pt 8

Shipbuilding

DRAFT LETTER TO MRS ANNA MCCURLEY, MP, COPIED TO MR NORMAN GODMAN MP, FROM THE PRIME MINISTER

When you and Norman Godman came to see me recently about the position at Scott Lithgow, we discussed the orders for conventional submarines that will soon be placed by the Ministry of Defence.

I fully appreciate the points that you both made about the importance of this decision to Scott Lithgow. As I am sure you too appreciate, it is also important that Government Departments follow the best commercial practices when placing orders, thus getting the best value possible for the tax-payers' money. Also, fair competition is, of course, fundamental to the efficient working of our market economy and thus essential for the health of our private sector companies. It is, therefore, important that the decision on the submarine orders should be taken solely on the basis of price, delivery and technical conditions, despite the many difficulties in comparing tenders for an order as complex as submarines. I understand that the competing tenders are still being assessed, but that Michael Heseltine intends to make an announcement on the placing of the order later this month.

MONAXT

RESTRICTED

CCBG

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

22 November 1985

1. COP
to see.
DCW

2. NBOT.

Dear Secretary of State,

WARSHIPBUILDING

Thank you for copying to me your letter of 8 November.

I fully acknowledge your concern that, in the run-up to warshipyard privatisation, we should be especially careful to let naval contracts on a fair and unsubsidised basis. I have been entirely content to endorse the instruction of my predecessor that Harland and Wolff should prepare its bid for AOR contracts on an unsubsidised and profitable basis in order to avoid distortion of competition; and Rhodes Boyson recently gave Peter Morrison the assurance he sought that H&W's bids for MOD work will in future be both unsubsidised and comprehensively-costed.

But I am concerned lest our entirely proper aim of promoting successful disposals by ensuring that naval orders are let on strictly commercial grounds could in itself unintentionally lead to distortion of competition. This could arise, in particular, if our desire to launch Swan Hunter back into the private sector successfully were to obscure a fair and competitive bid for H&W for AORs: the aim of promoting a successful sale of Swans could become just as much a non-commercial consideration as taking, for example, regional dimensions into account. I hope we can guard against this.

/I am

RESTRICTED

RESTRICTED

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer and the Secretaries of State for Defence and for Scotland, and to Sir Robert Armstrong.

Yours Sincerely
Neil Ward
(Private Secretary)

for T K

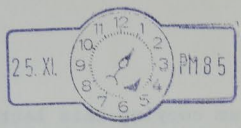
(Approved by the Secretary of State and signed in his absence from London)

RESTRICTED

ssd

NAT IND AT 8

Shipbuilding



(2)

Prime Minister
CDP

D/S of S/PS/20/187

PRIME MINISTER

DN to note
CDP
24/11

STATEMENT ON SHIPPING POLICY

1. I have seen Nicholas Ridley's minutes to you of 23 September and October.

2. I agree with Nicholas that it would be highly desirable to publish a comprehensive White Paper on Shipping Policy, along the lines proposed in the synopsis that he has circulated. It is not yet clear whether the British merchant fleet will be able to meet our overall national requirements in crisis or war and it will be necessary to get a clearer picture of the factual position before the White Paper is published.

3. I hope that a White Paper would make clear the different responsibilities for merchant shipping. As far as the requirements for shipping are concerned we must distinguish between "defence" and "economic" requirements ie. between shipping needed for direct support of naval and military operations, and that required for the support of industry and the civil population during a period of crisis or war. To draw

this distinction would help to make it clear to the merchant shipping lobby that they cannot expect public subsidising of their industry through Defence funds.

4. I am copying this minute to members of E(A), to Willie Whitelaw and to Sir Robert Armstrong.

Ministry of Defence

19th November 1985

NAT IND. Shipping Policy : R8

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

20 NOV 1985

DATE: .....
FILE: ..... 1.3 .....
FINAL ACTION: .....

HOUSE OF COMMONS
LONDON SW1A 0AA

19 November 1985

RDD 15 previous meeting Dates

The Rt Hon Norman Lamont Esq MP
Minister of State for Defence Procurement
Ministry of Defence
Mansion Building
Whitehall
London SW1 2HB

Dear Minister

I believe that you will by now have received a letter from Mrs Anna McCurley MP outlining the serious economic circumstances surrounding Scott Lithgow.

As you will know, this shipyard is wholly and completely within my constituency but a goodly number of Mrs McCurley' constituents are employed there.

I simply wish to reiterate the contents of her letter to you of the 14th November concerning the future of Scott Lithgow if the submarine orders fail to materialise. May I also reinforce Mrs McCurley's observations concerning the significant improvements that have taken place in productivity, job flexibility and in industrial relations generally. Mr Sydney Fudge, the Managing Director of Scott Lithgow, said to me only a few days ago that he was highly satisfied with these improvements and that he could not have asked for more from the Shop Stewards' Committee and his employees.

I can assure you that any Ministry of Defence orders placed withe the yard for either submarines or surface vessels will be constructed to the very highest standards and would also be delivered on or before the specified delivery date. Of this I am absolutely certain.

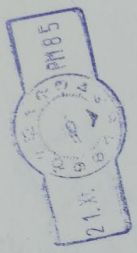
Yours sincerely

N A Godman

N A Godman

JMC

CAB 23/3971


21 MAY 1985

Covering: ~~TOP SECRET/SECRET/CONFIDENTIAL~~

Reference:
D/MIN/N4/1/3

DRP(W)

SCOTT LITHGOW

I attach a letter/~~minute~~ from NORMAN A. GOODMAN MP to MINISTER (DP) dated 19.11.85

I should be grateful for advice and a draft letter/~~minute~~ for reply by 3.12.85

Would you please consult with other departments and branches, and clear your advice with higher authority as necessary.

The draft letter must always be supported by an explanatory minute detailing the nature of the enquiry, the background to the subject and a summary of the proposed reply.

Copies have been sent to:

	Additional copies
PS/CDP	PS/PM
Sec/Cab	PS/S of S (DI)
PUS (MIN)	
CDP	
RP (MAN)	
AD (WS)	

Date 19.11.85

for PPS/Minister of State (DP)
~~6621/7260~~/7033 MB

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

JU634
Secretary of State for Trade and Industry

18 November 1985

CONFIDENTIAL

The Rt Hon Peter Walker MP
Secretary of State for Energy
Thames House South
Millbank
London SW1P 4QJ

Prime Minister

No need to read, except last sentence. There are the makings of an unpleasant little row here. But DTI and Energy already know your view.

DBS
19/11

Dear Peter,

BNFL SHIP

WITH DN?

Thank you for your letter of 11 November. I am grateful to you for having this matter taken up so promptly with the Chairman of BNFL. However, I am most disappointed by his very negative response and I have to say I disagree with most of the arguments he has put forward for placing this order in Japan.

While I recognise your concerns about future re-processing contracts, I am sure that the Japanese will realize that the root cause of the present problem is their predatory pricing. The Japanese are well aware through OECD and bilateral contacts, of the damage their predatory pricing tactics are doing to the European shipbuilding industry and the resentment this is causing. It would hardly come as a great surprise to them to be told that such tactics will not be countenanced by a UK Government-owned company. As to future reprocessing contracts the Japanese will surely place these according to whether BNFL can offer the best deal at the time.

You say that, according to BNFL, the question of transfer of technology is not a real one. I am afraid the company have misunderstood the point. The design technology has, of course, been made available to all bidders for this vessel for tender purposes. What the Japanese do not have is the building technology, which can only be acquired by actually building such vessels. If the Japanese build this one, that technology will be lost to the UK. What little competitive advantage we have in

shipbuilding rests on the application of increasingly advanced technology to ships. It would be a major blow to forfeit perhaps the only area in which our shipbuilding industry has a monopoly.

In addition to the commercial and technical arguments we must also address the presentational issues. We need to think of the Parliamentary and public reaction. If the order goes to Japan we shall be accused not only of acting as the dumping ground for Japan's nuclear waste, but of supporting Japanese industry rather than UK industry in order to do so. I mentioned in my earlier letter the recent considerable uproar over the Trinity House vessel ordered in South Korea. In this instance we can expect this uproar multiplied several times.

Moreover, I doubt that I can persuade Graham Day to desist from anti-dumping action. He has already written to tell BNFL that he intends to proceed should the order go to Japan. The UK industry is now at the receiving end of continuous predatory pricing by the Japanese and South Koreans. The industry has to defend itself. Indeed I would myself feel bound to have this case raised in the OECD shipbuilding forum and make a formal complaint against the Japanese. In brief, I see no way of avoiding very considerable embarrassment for us and for BNFL should they place the order in Japan.

In this light - and given the Prime Minister's views as expressed in her Private Secretary's minute of 7 November to yours - I must ask you to speak further to the Chairman of BNFL. If we, in the form of a Government-owned company, cannot defend the UK shipbuilding industry against predatory Japanese pricing then our wider efforts to support the industry and to find it some sort of viable future will be cast to the wind. I think we must be prepared to tell BNFL that we regard it as a matter of national interest that the order be placed in the UK, and that we are prepared for them to make this clear to the BNFL Board should it prove necessary.

I am copying this letter to the Prime Minister.

Yours ever,

LEON BRITTAN

NAT IND
SHIPBUILDING
PT 8

FOR INFORMATION



from Anna McCurley, M.P.
Member for Renfrew West and Inverclyde

House of Commons
London SW1A 0AA
01-219 3000

Dear Prime Minister,

Very sincere thanks for your attention to the problem.

Yours

With Compliments

ANNA McCURLEY, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

PRIVATE AND CONFIDENTIAL

Norman Lamont Esq MP
Minister of State for Defence Procurement
Ministry of Defence
Main Building
Whitehall
London
SW1 2HB

14 November 1985

The future of Scott Lithgow has become rather dependent on the acquisition of at least one order for a submarine of the conventional diesel-electric Type 2400. Already the workforce is dropping from around 2500 to 1600 by the end of this year and a further number will go if no orders are placed with the yard.

It is reported in Lloyds List of Saturday, 2 November 1985 that the sale memorandum for Vickers Shipbuilding and Engineering Ltd (incorporating Cammell Laird Shipbuilders Ltd) contains a financial forecast which assumes Cammell Laird will win a new submarine order early next year. This can only mean an order for one of the three Type 2400 diesel-electric submarines for which Cammell Laird has recently tendered on behalf of the Vickers Group. Scott Lithgow and Yarrow have also tendered for these submarines.

It is not an exaggeration to say that Scott Lithgow's survival hinges on its prospects of obtaining the first order for one of these submarines to enable work to start early in 1986. The current labour force at Scott Lithgow stands at around 2500 (including specialist sub-contractors). This will fall to about 1600 by the end of the year - 850 workers are under notice of redundancy expiring on 15 December 1985. It is too late to save these 850 jobs.

Currently there is one vessel (a Britoil rig) under construction at Scott Lithgow. This is well advanced and due for completion at the end of 1986. During the course of 1986 the labour force will be progressively reduced as the vessel nears completion leaving an empty yard facing closure at the end of the year.

No further orders are in sight apart from one small offshore contract.
A submarine would generate 500 hourly paid and staff jobs per year on average for four years and would absorb the labour released from the Britoil contract.

Scott Lithgow has experienced a number of difficulties relating to MOD terms and conditions of contract when tendering for these submarines. These have been resolved in discussions with officials, save for one significant issue. The Type 2400 Class is an entirely new design. Vickers is the lead yard and design authority; it is building the first vessel now about two years into contract.

ANNA McCURLEY, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

(2)

Norman Lamont Esq MP
Minister of State for Defence Procurement

14 November 1985

Full manufacturing drawings are not available to follow-on yards such as Scott Lithgow. Only limited access has been given to inspect the scale model of the submarine. Drawings and other documents have been supplied to tenderers for guidance only. Tenderers are required to quote on a fixed price basis and to accept the risk of additional costs arising from design changes during the period of construction although they would be entirely outside their control.

Scott Lithgow which has long experience in the building of submarines for the Royal Navy considers that major changes could be made by the MOD during the building period within the broad framework of the guidance information provided for tendering purposes. Substantial additional costs might arise as the detailed design developed. Normally but not in this case the terms of contract with the MOD would allow for price variation if this happened.

Scott Lithgow considers that no prudent commercial company could accept an onerous term of this kind and has quoted on the basis of the guidance information (supported by bills of quantity and related data) with a price variation clause to cover any design changes imposed by the MOD. The company is worried that by insisting on this clause it is placed at a disadvantage in relation to Vickers/ Cammell Laird.

This matter is of importance to the policy of fixed price contracting and competition in defence procurement with which Trafalgar House has no quarrel. The lead yard, Vickers (and hence Cammell Laird), is in possession of full design data and knowhow. As the designated yard for design and technical support, Vickers can influence the development of detailed design changes as construction proceeds. From this position it has no difficulty in judging risks it can accept. In a nutshell the terms of contract deny Scott Lithgow equality of information with British Shipbuilders Yards (i.e. Vickers/Cammell Laird) in the the tendering process.

There have been helpful discussions recently with Mr Levene about this matter but it has not yet been resolved. Scott Lithgow have offered a solution based on bills of quantity as a benchmark for their fixed price quotation from which variations could be assessed. However this has not been acceptable to the MOD as a means of measuring and evaluating variations.

There is another point of importance. Scott Lithgow has incorporated into the tender price the cost imposed by Vickers for access to the Vickers planning and project management system. This amounts to £2.25m. Trafalgar House have an alternative project management system which has been developed to support its large offshore engineering activities. If the latter system, which the company considers is entirely suitable for the submarine programme, were to be used in

ANNA McCURLEY, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

Norman Lamont Esq MP
Minister of State for Defence Procurement

14 November 1985

place of the Vickers system, the Scott Lithgow tender price could by reduced by £1.5m.

Scott Lithgow was criticized earlier this year for failing to bid for two naval auxiliary ships. These were to be built to an entirely new design and entailed complex and sophisticated construction with the provision of new weapon systems as well as ammunition and general stores. The MOD wanted a design and build tender.

Scott Lithgow has a significant cadre of draughtsmen though it has never held the establishment needed by a lead yard. It therefore did not have the resources to act as the lead yard for the naval auxiliary ships and approached YARD for assistance. YARD had no available spare capacity. Scott Lithgow then turned to Harland & Wolff. The latter company was unwilling to help because it was bidding for the contract in its own right and in point of fact had enlisted YARD to support its design team.

For these reasons Scott Lithgow was unable to tender. The company's reasons were fully explained to the Ministry of Defence. However there is doubt whether the full facts have been given to Ministers.

I believe the transformation which has been wrought in the yard is quite dramatic and there would be a cast-iron guarantee from the workforce of every possible effort to keep to the schedule.

One major political point that I urge you to consider is the effect of closure of the yard which would undermine seriously the credibility of the Government's privatisation programme. It would also create a virtual and undesirable monopoly for submarine building at Vickers/Cammell Laird.

The problems of Inverclyde which are many would be seriously exacerbated by the demise of the yard. It desperately needs a chance to show its goodwill and I do hope that you will consider this aspect when coming to a decision as much as on the vital aspects I have outlined regarding the contract.

Anna McCurley

cc MASTER

fcl JA1 ADA

cc DOT (Procurement)

10 DOWNING STREET

14 November 1985

From the Private Secretary

The Prime Minister together with your Minister saw Mrs Anna McCurley MP and Dr Norman Godman MP today to discuss the position at Scott Lithgow. Dr Godman said that the continued survival of Scott Lithgow was vital to the Greenock area where there were already 10,000 people out of work at a rate of 25 percent for men. Management at Scott Lithgow had proposed that there should be 900 redundancies thereby reducing the workforce from 2500 to about 1600. These redundancies would be likely to be accepted by the workforce subject to the usual negotiations: indeed the workforce at Scott Lithgow had accepted radical changes in approach and working practices and the local management had paid great tribute to them. Scott Lithgow had tendered for a number of conventional submarines for the Ministry of Defence and obtaining at least one of those orders was vital to the preservation of the remaining jobs. Mrs McCurley endorsed Dr Godman's comments. The Scottish Office had acknowledged the great advances which had been made at Scott Lithgow and Trafalgar House itself had indicated a strong desire to stay there and were lucky to have as their local manager, Mr Sid Fudge, who had proved an outstanding success.

The Prime Minister said that she very much sympathised with the efforts which had been made at Scott Lithgow to improve efficiency and shared the desire of the two MPs to bring work to the Greenock area. The decision on the submarine orders would be taken, however, on the basis of price alone, especially given that all the shipyards tendering for the contract were in high unemployment areas. In this context the Prime Minister noted that Mrs McCurley at her meeting with Norman Lamont the previous day had suggested that Scott Lithgow would be able to reduce their price for one submarine by up to £4 million. The Prime Minister understood however that, while no decision had yet been reached, even a reduction on this scale was unlikely to be sufficient to overcome the difference in price between Scott Lithgow and the other two bidders, Yarrow and Vickers. While therefore she would look into the points which

/Mrs. McCurley

Mrs McCurley and Dr Godman had raised and write to them she could not hold out any hope that the Secretary of State for Defence would be able to decide in favour of Scott Lithgow.

Dr Godman also raised the Scottish Development Agency initiative which had got under way in his constituency over the last year to rehabilitate derelict industrial sites. He was concerned that this initiative was not proceeding quickly enough and that as a result the admirable efforts of the Locate in Scotland office were being directed to sites in the new towns rather than in his constituency. There were a number of sites in Port Glasgow for example where the excellent communications could well attract American companies if the sites themselves were prepared quickly enough. The Prime Minister undertook to look into Dr Godman's request for a speeding up of the SDA initiative and to write to him.

Dr Godman also raised the extent of MSC funding for a number of self help community projects to provide employment in his constituency. Mr Morrison undertook to contact the MSC to see what could be done.

The Prime Minister will need to write both to Dr Godman and to Mrs McCurley on the question of the submarine order for Scott Lithgow and I should be grateful if you together with James Harrison in Norman Lamont's office to whom I am copying this letter could arrange for a draft to be prepared. In addition the Prime Minister will want to write to Dr Godman about the subsequent point he raised on derelict land in his constituency and I should be grateful if John Graham to whom I am also copying this letter could arrange for a draft covering this point. I assume that Mr. Morrison will be taking up Dr Godman's point about the MSC and will be arranging for a reply to go to him independently.

(Timothy Flesher)

Malcolm McHardy, Esq.,
Department of Trade and Industry

004/112

CONFIDENTIAL

EC/BG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

14 November 1985

NBPM.

Dear Nicholas,

STATEMENT ON SHIPPING POLICY

You copied to me your minute of 21 October to the Prime Minister, with its synopsis of your proposed public document on shipping policy.

I have looked at this in the light of the reservations which I expressed in my letter to you of 14 October. I take it that what you have in mind is still a White Paper, rather than a document which would be presented as written evidence to a select committee? I can see the case for preparing a statement of this kind, but in view of the potential difficulties including the strong feelings of many critics I do not think that we want to raise expectations until we have looked at a full text, and considered how all this should best be presented. The document will have nothing new to announce, and some unwelcome truths to put across. In my view it would therefore be premature to announce that a statement of policy was on its way, although you could of course confirm to the interested select committees that written evidence will be provided.

I am content for officials to work up the synopsis circulated with your letter into a full text, and I have asked Treasury and Inland Revenue officials to assist in this difficult task.

I am copying this letter to the Prime Minister, to members of EA, Willie Whitelaw and Michael Heseltine, and to Sir Robert Armstrong.

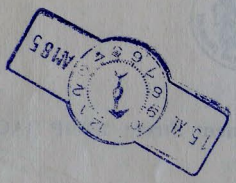
Yours ever,

JG

JOHN MacGREGOR

CONFIDENTIAL

NAT. IND. Shipping. Pt 8.



Prime Minister

YOUR MEETING WITH DR NORMAN GODMAN MP AND MRS ANNA McCURLEY MP

4.00 P.M. THURSDAY 14TH NOVEMBER 1985
HOUSE OF COMMONS

Dr Norman Godman (Member for Greenock and Port Glasgow) asked to come and see you about the decision of Scott Lithgow, which affects his constituents.

This matter also has repercussions in Anna McCurley's constituency (Renfrew and Inverclyde), and she too will be attending the meeting.

The Minister attending is Peter Morrison. Briefing is attached.

TESSA
13.11.85

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

From: James Harrison, Assistant Private Secretary

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/NL/4/1

13th November 1985

Dear Private Secretary,

CALL ON PRIME MINISTER BY MRS ANNA McCURLEY MP
AND DR NORMAN GODMAN MP

I understand that Mrs McCurley and Dr Godman are due to call on the Prime Minister at 1600, Thursday 14th November. Mrs McCurley called on Mr Lamont on 13th November to discuss Scott Lithgow, and you may wish to warn the Prime Minister of the specific points which she made. The Ministry of Defence is currently evaluating tenders from Vickers/Cammell, Yarrow and Scott Lithgow for three submarines, of the UPHOLDER class. HMS UPHOLDER, the first of class, is currently under construction at Vickers. The present competition was for Numbers 2, 3 and 4 of the class. Scott Lithgow recently wrote to Mr Levene, complaining that they did not have equality of information with Vickers, the "lead yard". Mrs McCurley came to report Scott Lithgow's concern and to request that the Ministry of Defence made further information available to Scott Lithgow, so that they were on an equal footing with Vickers. Mrs McCurley indicated that, as a result, Scott Lithgow would be able to reduce their price for one submarine by up to £4M.

This issue is one which had previously been put to Mr Lamont and on which he is about to put a minute to the Secretary of State for Defence. I ~~attach a copy of this minute which summarises the position~~. Having considered Mrs McCurley's representations, Mr Lamont sees no reason to alter his recommendations to the Secretary of State for Defence. In particular, the price reductions offered by Scott Lithgow are not sufficient to overcome the difference in price between Scott Lithgow and the other two bidders, Yarrow and Vickers.

(Pass a to Letwin)

At the conclusion of his meeting with Mrs McCurley, the Minister said that he took very seriously the points which she made especially those concerning employment and the future of Scott Lithgow. He recognised Scott's concern over design information, but noted that this needed to be balanced against

/ other ...

A Turnbull Esq

CONFIDENTIAL
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other considerations, in particular that of price. He told her that no final decision had been made, but that it would be soon. Mrs McCurley said that she would write to him to set out the arguments in detail.

I would suggest that the Prime Minister listens to Mrs McCurley's representations, takes note of the points which she makes, and assures her that they will be taken into account by the Ministry of Defence.

Yours,

James Hamilton

MEETING WITH ANNA McCURLEY MP AND NORMAN GODMAN MP, 14 NOVEMBER 1985

SCOTT LITHGOW

BRIEF FOR THE PRIME MINISTER

The meeting has been arranged at the MPs' request to discuss recently announced redundancies at Scott Lithgow. Discussion may well however range more widely over shipbuilding in Scotland, the economic position of the Inverclyde area and possibly the proposed closure of Gartcosh.

Objectives

2 (i) to allow Mrs McCurley and Dr Godman to voice their consituency concerns;

(ii) to reassure them that the Government is aware of Scott Lithgow's problems and is doing what it can to help, principally by inviting them to tender for up to 3 conventional submarines for the Navy;

(iii) to stress that it is however primarily up to Scott Lithgow to secure its future in the offshore and defence markets.

Line To Take

3 (i) I fully appreciate the serious difficulties faced in Inverclyde, in particular the historical overdependence on manufacturing and on a few large firms;

(ii) that is why so much effort and money has gone into encouraging inward investment (IBM, National Semconductor), rescuing Scott Lithgow and more generally through the SDA's Inverclyde Initiative.

(iii) on Scott Lithgow, I naturally regret the 700 redundancies now in hand. I understand that these should mostly be achieved voluntarily. They will take the yard down to the core workforce of 1500 predicted by Trafalgar House when they took over.

(iv) I understand that the best immediate order prospects (which will not affect the redundancies) is a North Sea single point mooring buoy for Mobil, the order to be placed this month. SL are hopeful of success.

(v) the other main prospect is conventional submarines for MOD. The tendering process has taken a long time but the issues have been complex. The SOS for Defence hopes to make a

statement shortly. While he is aware of Scott Lithgow's problems, he must of course place the orders on the merit of the tenders submitted.

(IF RAISED)

(vi) Shipbuilding in Scotland. BS' Govan yard is busy with the order for a large ferry for P+O. BS' Clarke Kincaid engine works is also busy, but future workload depends on the ability of BS' merchant yards to win orders in a very difficult market. They did not get the recent order for new engines for the QE2 because Cunard chose, for technical reasons, MAN engines for which they do not have a licence.

(vii) Gartcosh. The Government remains ready to listen to reasoned argument for retaining Gartcosh. But nothing said to date has altered our view that it should remain a commercial decision for BSC. The closure of Gartcosh does not imply the closure of Ravenscraig. Ravenscraig's position will be reviewed at the end of 3 years and its future decided in the light of market conditions then. No guarantees can be given on the life of any business. (Note : Mr Morrison is giving evidence to the Scottish Select Committee on 13 November).

BACKGROUND

4 Scott Lithgow is in Dr Godman's constituency. He secured an adjournment debate on Friday 8 November on unemployment in the area : Extracts relating to Scott Lithgow and Clark Kincaid are at FLAG A. Mrs McCurley also takes a close interest and last met Mr Morrison on 16 September (note at FLAG B).

5 SL declared 700 redundancies in September as workload fell to the single rig for Britoil whose cancellation originally precipitated the disposal of the yard. 200 were contract labourers who were released immediately. About 60% of the rest have been achieved voluntarily and only a few compulsory redundancies are expected. They should be completed by mid-December, with the workforce reduced to 1500.

6 The best order prospect is for a single point mooring buoy (an oil take-off device) for Mobil to replace one lost earlier this year. SL believe they are in with a good chance, but depending on the design selected, may be in competition with Highland Fabricators, another Scottish offshore yard in need of work. The order is due to be placed this month.

7 In the longer term SL is looking for one or more of up to 3 SSK 2400 conventional submarines about to be ordered by MOD. The competition comes from Cammell Laird and Yarrow. SL have ben most unhappy about the MOD tendering requirements but have now met them. The Secretary of State for Defence intends to announce the outcome later this month. It is of considerable importance to the shipbuilding industry generally that the order should be placed on the basis of price and technical merit. Mrs McCurley is selling the Minister of Defence Procurement on 13 November on this subject.

8 The overall economic problems of Inverclyde (unemployment about 22%) have produced an Inverclyde Initiative from the Scottish Development Agency, acting jointly with the local authorities and the private sector. The primary aim is to create jobs. £6 million is available for environmental and building improvements, with funds available for commercial projects as they come forward.

DTI

12 November 1985

Ile 510/16/01 F.

N. Lamont.

DM
24.9.

NOTE OF A MEETING ON 16 SEPTEMBER WITH MRS A McCURLEY MP TO DISCUSS GARTCOSH AND SCOTT LITHGOW

Gartcosh

Mrs McCurley explained to the Minister that she was extremely concerned by what she believed was BSC's confused strategy. Gartcosh was a fairly new plant which needed only a minimum amount of investment to bring it up to scratch. The plant also produced high grade pressed steel, the quality of which could not be matched by the South Wales mills which BS intends should make up for the loss of Gartcosh. This steel was used in the car industry for bonnets etc. With the development of the new Nissan car factory in the North East, Gartcosh was in the best location to service the new factory's needs.

Mrs McCurley said she had visited Gartcosh recently. There was great local concern that the closure of Gartcosh was the forerunner to the closure of Ravenscraig. One third of Ravenscraig's capacity went to Gartcosh. Sir Robert Haslam had indicated that the Corporation might have to close one major plant. Since Ravenscraig had only been given a guarantee of work for another three years, the fear was that it would be the plant involved. This would be disastrous. Ravenscraig was a symbol of Scotland's industrial past. With the knock-on effects the closure of Ravenscraig could result in 10,000 redundancies, with the effects being felt in such diverse places as the whisky trade and the port of Grangemouth. The proposed silica welding of the plant's coke ovens would not add much to their life span. This could ultimately effect their capacity, making Ravenscraig easier to close.

The Minister explained that, while he could understand Mrs McCurley's fears, the closure of Gartcosh did not imply that Ravenscraig would close. Ravencraig's position would be reviewed at the end of the three years. No guarantees could be given on the life of any business. BSC would have to decide the plant's future on the basis of market conditions. Mrs McCurley warned that if Ravenscraig were to close, the political implications could be devastating to the Government in Scotland.

Scott Lithgow

Mrs McCurley said that while the latest announcement of further redundancies at Scott Lithgow were not unexpected, there was a real danger that unless more work were to be

JO4ADG

found, the whole yard would have to be put on a care and maintenance basis or worse closed. With unemployment already running at 30% in Inverclyde, this would be a body blow. There were problems with the local sugar industry and there were even redundancies in the new technology field. The National Semi-Conductor Company was laying off people because of over-capacity in the industry.

The Minister said he knew of Scott Lithgow's problems but that some of them were of the company's making. Poor labour relations and failure to achieve target dates, especially for the oil rigs had given the company a bad reputation within the oil industry. Mrs McCurley said that there had been a considerable improvement in labour relations. The union's main concern was to keep the yard going. The Minister was glad to hear this but did not know how he could help. The submarine contract which the yard had tendered for was for the Ministry of Defence, while the offshore oil work was dealt with by the Department of Energy. Mrs McCurley said she would be meeting Mr Heseltine the next day and hoped to see Mr Buchanan-Smith before she went to the United States. The Minister said he would contact Mr Buchanan-Smith to see if an early meeting could be arranged.

Mrs McCurley went on to ask for the Inverclyde region to be given some form of special status. The area was well served for communications by road, rail and air. While there was currently a £60 million programme to improve the area, a lot of money was being spent on landscaping rather than creating jobs. The Minister said that landscaping was a useful investment. Companies would not come to derelict areas. He would consider Mrs McCurley's points carefully but made no promise of doing anything.

The Minister thanked Mrs McCurley for coming to see him and suggested she write to him if she had any further points to make.

Malcolm McHardy

MALCOLM McHARDY
PS/Mr Morrison
Rm 711, 1V/S
215 5186

23 September 1985

cc PS/Secretary of State
PS/Sir Brian Hayes
Mr Mountfield
Mr Murray MM
Mr Treadgold SBP
Mr Durie SBP
Mr Worman MM
Mr Whittingdale
Miss Bowe Inf

JO4ADG

Note
3 attached to SL mtg
EPC
24/9

01 211 6402

The Rt Hon Leon Brittan QC MP
Secretary of State
Department of Trade and
Industry
1 Victoria Street
LONDON
SW1H 0ET

11 November 1985

BNFL SHIP

Thank you for your letter of 31 October. My officials have now discussed the matter fully with the Chairman of BNFL.

I should naturally be most reluctant to see an order of this kind go to a Japanese yard at a time when the UK's own merchant yards are so short of work. The issue, however, is a complex one. The Japanese are shareholders in PNTL and we need to take account of the implications for our considerable nuclear trade with Japan.

The Japanese, who have a 25% shareholding in PNTL, are in fact paying the full cost of this and the previous ships, which are used to bring their fuel to Europe, again at full cost to themselves. They expect that BNFL will act responsibly in accordance with their interests as shareholder and customer and they have made it quite clear that they intend to have this last ship built in Japan. BNFL believe that their relations with the Japanese could be seriously put at risk if they use their shareholding to secure the order for the UK despite the low Mitsubishi bid. Overt Government intervention would deflect criticism from the company but even then they judge there would be some risk of a damaging Japanese reaction.

The impact on BNFL's business could prove very expensive. The Company has reprocessing contracts with Japanese utilities worth £100m per year and over £1 billion in total. While existing contracts would not be at risk the very real prospects for securing further business of this magnitude could be jeopardised.

We must set this export potential against the value of the ship. New reprocessing business is in fact particularly crucial to the Company's long term prospects: it is by far their largest and most profitable sector.

The Company have in fact been discussing new business with the Japanese and others in recent months. It is clear that the market is now much weaker than when they signed the present contracts. The Japanese and Germans are for example taking steps to develop domestic capacity, and utilities in a number of other countries are looking at alternative means of managing spent fuel. In addition, the French, who have spare capacity, will be offering very competitive terms. Any damage to the Company's relations with the Japanese could tip the balance against them.

You put forward a number of points which the Company might use at the PNTL Board. The Company do not find these persuasive:-

(i) while BS have experience of building these ships, BNFL's naval architects do not believe they pose any real difficulty for an experienced shipbuilder. A detailed specification is provided and the Japanese had this when they bid. Moreover, the specifically nuclear aspects of the design have already been described in detail to the Japanese transport authorities. There is no real technology transfer involved;

(ii) on the transfer of operating technology, James Fisher do not recognise the comments you quote. They point out that they will operate the ship, whoever builds it, with experienced British officers and crew;

(iii) while there are additional costs, such as supervision of construction, from building in Japan, BNFL say that they have taken these into account in assessing the tenders. Any extra operational costs have also been taken into account. (BNFL point out incidentally that the last ship, apart from being late, had engine problems and is still running below par);

(iv) You mention the possibility of BS bringing an EC antidumping case. As you say, it is difficult to predict the outcome. I understand that BS would have to demonstrate that the price was false compared to what would have been charged to a buyer in Japan; and also prove that there had been significant damage to EEC industry. It is also relevant that the second cheapest quote was from a French yard. While I understand that you make the point because it could help BNFL to justify

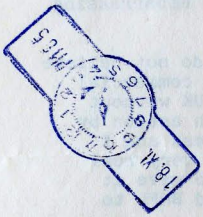
accepting the UK tender, I would hope that you could dissuade Graham Day from going through with such an action if the order does in the event go to Japan: it would certainly generate embarrassing publicity.

In the light of the further exchange with BNFL, I do not believe that we can expect the Company to mount a credible commercial case for BS or to force through the order for the UK without overt political support. In my view, however, such action by Government would put at risk valuable export business and I cannot recommend it. Nevertheless I recognise the very real sensitivity of this matter and that you may wish to give it further thought. My officials have therefore asked BNFL to seek more time from the PNTL Board.

PETER WALKER

NAT IND
SHIPBUILDING

PT 8



MINISTER OF STATE FOR DEFENCE PROCUREMENT

D/MIN/NL/4/1

11th November 1985

Secretary of State

Copies to:

US of S (DP)	DGSM
CDP	PDC/N
C of N	DSK
DCW	D of C/SN
AUS(Programmes)	DRP(W)
AUS(Mat N)	

TRAFALGAR HOUSE/SCOTT LITHGOW - THE COMPETITION FOR SSKs 02-04

As you know, we are currently evaluating tenders from Vickers/Cammell, Yarrow and Scott Lithgow for SSKs 02-04, the follow-on UPHOLDER Class submarines.

2. Scott Lithgow recently wrote to Peter Levene, stating that they wished to have parity of information with the other bidders. Their concern arises because Vickers, as lead yard, have developed substantially more design information, in the course of work on HMS UPHOLDER, since the tendering process began. This additional information is not available to Scott Lithgow (or Yarrow). We are currently planning to order SSK 02 before the end of the year; if we made the large amount of additional design data available to Scott Lithgow and Yarrow, this would delay an order at least until the end of February.

3. The question of whether we defer the order date so as to ensure that Scott Lithgow have no ground for complaint of lack of information if they fail to win, raises a number of important points, including SL's ability to stay in business. The main arguments against a further round of tendering are as follows:

/ a. ...

a. the margins between tenders are such that it is unlikely that another round of tendering would enable SL to come down in price enough to beat VSEL or Yarrow. (They increased their bid by £12m on the last round);

b. to delay the order until February could have damaging effects on the privatisation of VSEL/CLS - our most important warship yard - and would cause us some problems in the Navy debate, given our previously stated commitment to an order this year (especially John Stanley's statement in last year's Navy debate - attached). Nor would it help SL if they still fail to win an order. On the other hand, we would then be open to more serious criticism from SL and others for delaying the decision unnecessarily and to their cost;

c. given this, and the current state of SL's order book, we have to consider now whether we might want to award one or more SSK at additional cost; if so, this might still justify a further round of tenders. But, in the last resort, there is no MOD requirement to keep SL in business. Our needs for competition can be met elsewhere, and there is overcapacity in the warship yards. If SL were to be awarded an SSK order non-competitively, we would continue to pay for that overcapacity and simply have to face the same problems again at another yard;

d. a decision not to allow a further round of tendering would be readily defensible. It is a normal situation for complete data not to be available to all bidders when tenders are sought for follow-on vessels; SL entered the competition in full knowledge of the conditions; they have complained at a very late stage; SL themselves have been pressing for an early decision; Yarrow, who are in the same position, have not complained.

/ 4. ...

4. Against this, we have to consider the wider political issue of the possible closure of Scott Lithgow so soon after the privatisation. This would undoubtedly attract criticism of the Government and the MOD but, for all Trafalgar House's alleged reservations, I do not believe it would seriously affect the prospects for privatisation of VSEL/CLS.

5. I have spoken to DTI officials about the prospects of SL closing. While concerned at the risk, they do not see the SSK order as critical to the yard's future. Work on the Britoil rig will keep it open until November 1986, and there is also the possibility of winning some small contracts in the off-shore sector, as well as a BP rig and work on the Channel crossing (the Euroroute proposal). Since SL are not even second in the competition, it would be very difficult to make a political decision to give SL an order and would encourage other yards to press for similar decisions in their favour on other occasions.

6. On balance, and somewhat reluctantly, I believe that our best course is likely to be to order all three boats in a batch from VSEL/CLS, subject to LTC considerations. Graham Day has written to press us to award the order on the basis of the lowest cost compliant bid, which he believes is the tender for the batch of three from VSEL/CLS. He claims that it would cost us an extra £9m to set up a follow-on yard to VSEL/CLS, the design yard. We are also under pressure from the PAC to take advantage of the economies of batch ordering, of course; in this case for example, to order SSK 02-04 from VSEL/CLS in a batch would be over £13m cheaper than an order of SSK 02 from SL, and 03-04 from VSEL/CLS, and nearly £10m cheaper than separate orders for all three from VSEL/CLS. We should also take the opportunity to insist on an improvement in working practices

/ at ...

at Barrow. In the meantime, Peter Levene should write to Trafalgar House using the attached draft, which turns down the request for release of further information, and the consequent retendering.

7. I ~~am ready to~~ Perhaps we could discuss this further ~~if you wish~~.

Trafalgar House

PUBLIC LIMITED COMPANY

1 BERKELEY STREET · LONDON W1A 1BY

Telephone 01 499 9020
Cables TRAFULGENT
Telex 921341

JWSF/AMC/TH

Mr P Levene
Chief of Defence Procurement
Room 6204
Ministry of Defence Main Building
Whitehall
LONDON SW1

4th October 1985

Dear Mr Levene

SCOTT LITHGOW

Thank you for sparing the time to see Mr Fudge and myself on Thursday last week, when we discussed the Scott Lithgow work load situation particularly in relation to the tender Scott Lithgow had submitted for the three SK2400 submarines and the conversion of the Atlantic Causeway into an Aviation Support Ship.

I hope you now understand how critical it is to Scott Lithgow to obtain the submarine order and certainly an early decision on this award would be most helpful.

Mr Fudge explained to you how Scott Lithgow are at a considerable disadvantage compared with British Shipbuilder owned competitors because both Vickers and Cammel Laird have six months additional detailed design information which has not been made available to Scott Lithgow. This comment is made against a background where the Ministry of Defence in their conditions of contract are requiring Scott Lithgow to accept the cost implications of changes to the work scope. To put this point into perspective, when Scott Lithgow tendered for the submarines they were in possession of only 800 out of a total number of 12,000 drawings which Vickers estimate will be required for the project. We suggested it would be most helpful if Scott Lithgow could have a sight of the additional drawings which we understand are now available so that they can refine their price and also consider whether, with this further information, they could now accept the Ministry of Defence requirement in Dockrat 41 Sub-clause 2c.

We agreed you would contact Mr S R Fudge once you had investigated the suggestions we made.

Yours sincerely

J W S Fletcher

Directors: Sir Nigel Broackes (Chairman) The Lord Matthews (Deputy Chairman) E. W. Parker (Group Chief Executive)
G. H. B. Carter W. B. Slater, CBE, VRD The Marquess of Tavistock V. A. Grundy P. R. Howell
D. M. Taylor A. W. Clements G. E. Knight, CBE D. M. Calverley J. W. S. Fletcher I. Fowler J. R. Williamson
Registered Office: 1 Berkeley Street, London W1A 1BY Company No. 867281 Registered in England

ROYAL NAVY DEBATE - 29TH NOVEMBER 1984

(Mr Stanley)

The UPHOLDER class of conventional submarine, the first of which is now being built, will provide a much improved capability against both surface ships and other submarines - both nuclear and conventional. The first of class is now building, and follow-on orders are planned to begin next year.

DRAFT LETTER FROM CDP TO MR J W S FLETCHER, TRAFALGAR HOUSE PLC

Thank you for your letter of 4th October summarising the points you raised at our meeting on 26th September.

2. I have now looked into this matter in considerable detail and find that the information pack provided with the invitation to tender does conform to the typical package used to support tenders for early follow-on warship orders. It will of course be for you to judge its adequacy in relation to any qualifications or conditions you seek to attach to your tender, but that said I fully recognise both the difficulty of your position and the importance of the order decision.

3. The problem, as I am sure you will recognise, is the impossibility of reconciling the early order date you seek with the further round of tendering which would inevitably stem from a promulgation of additional detailed information and which would simply prolong the period of uncertainty for all the bidders. Furthermore I think it is fair to point out that Scott Lithgow's long experience of submarine building can have left them in no doubt about the position of the lead yard when tenders were first sought late in 1984; and, of course, that Yarrow Shipbuilders tendered on the same basis as yourselves.

4. In the circumstances, therefore, we believe that we should assess the tenders on the basis of the last offers, but will ensure that the comments which you have made are kept closely in mind during our assessment.



Unemployment (Greenock and Port Glasgow)

Motion made, and Question proposed, That this House do now adjourn.—*[Mr. Neubert.]*

2.30 pm

Dr. Norman A. Godman (Greenock and Port Glasgow): Throughout my constituency there is a deep anxiety about the bleak economic and social circumstances of thousands of families of unemployed people. Unemployment is souring the lives of the young, the middle aged and the elderly. My constituency is not uniquely blighted. Unemployment in Scotland has doubled since 1979, with the closure of 1,300 companies and the loss of 174,000 jobs in the manufacturing industries. Manufacturing output is still below its 1979 level. Since that year, Scotland has lost one job for every six lost in Great Britain as a whole. Although there has been some growth in employment, unemployment in Scotland has worsened more than in Great Britain as a whole.

Unemployment rates vary among areas. Strathclyde has a current figure of 18·8 per cent., whereas Shetland has a current figure approximately 5·6 per cent. Long-term unemployment is a major social problem—by that I mean unemployment of over 12 months' duration. It accounts for over 40 per cent. of all unemployed people in Scotland. The view of the Fraser of Allander Institute is, to say the least, gloomy. That institute says:

. . . "it is difficult to foresee any expansion of employment in Scotland that is likely to make any significant inroads into the problem of unemployment."

It is against that national backcloth that I wish to outline the problems in Greenock and Port Glasgow. Under the terms of the old definition of the Greenock travel-to-work area, the number of people unemployed in October 1979 was 5,367, a rate of 11·1 per cent. In October this year male unemployment was 25·4 per cent. and overall unemployment was 21·4 per cent.

There are over 10,000 unemployed people in the Greenock travel-to-work area, which embraces a small part of the constituency represented by the hon. Member for Renfrew, West and Inverclyde (Mrs. McCurley). However, over 8,800 of those people live in my constituency and of that figure 3,740 have been unemployed for more than a year. In the Greenock central area, male unemployment is above 35 per cent. and a similar figure obtains for parts of Port Glasgow.

I was given a graphic illustration of the bleak misery and poverty associated with being made unemployed last week in Port Glasgow. It concerns a constituent of mine, Mr. Andy Young, who lives in 36 Sunnyside Avenue, Port Glasgow — a euphoric name for an avenue in Port Glasgow at the moment.

He was recently made redundant and told by the Department of Health and Social Security office in Port Glasgow that he would have to wait 10 to 14 weeks for his application for a single bed for his two-year-old daughter to be processed. His other child of six months is still sleeping in her pram. In addition, Mr. Young was given the princely sum of £5.49 by the DHSS office to provide for his wife and two children for one day. On the following day, which was a Saturday, the Giro payment promised by the DHSS failed to arrive and Mr. and Mrs. Young had to seek help from the emergency unit of Strathclyde regional social department. He received £10 to enable the family to exist through Saturday and Sunday until he could seek assistance once more from the DHSS on the Monday.

Another case brought to my attention at 9.30 this morning by telephone concerned a young man of 20, employed by National Semiconductor. I am given to understand that that young man, who has completed two and a half years of a three-year apprenticeship, was told yesterday that he was to be made redundant. That is dreadful treatment, handed out by a firm that has had a good deal of financial assistance from the British state. Those two cases demonstrate the reality of unemployment for my constituents.

I return to the continuing decline of manufacturing industry in my constituency. The following firms have either closed down or drastically reduced the number of their employees in recent years. In 1979 Scott Lithgow dry dock closed, with a loss of 300 jobs. Cowal Engineering closed, with a loss of 81 jobs in the same year. In 1980 Paton and Baldwin closed, with a loss of 533 jobs. In 1981 the Kerr Group closed, with 477 job losses and in the same year VF Corporation closed, with 240 job losses. Charters Marine closed, with the same job loss in the same year. Kerr Electrical closed down with 294 job losses in 1983. Tate and Lyle reduced its work force by 84 in 1984. This year National Semiconductor has dismissed over 500 people. British Shipbuilders, a major employer in my constituency for many years, has dispensed with 4,111 jobs since 5 August 1983.

There has been some growth as well as decline in Greenock and Port Glasgow, reflecting the economic developments and trends in Scotland. For example, IBM now employs about 2,700 people, and despite the news this week of a temporary reduction in the output of its personal computer, there are to be no redundancies. On the principle that it may be easier to save than to create jobs, I should like to refer to the recent announcements by Scott Lithgow that it is the company's intention to make over 800 employees redundant and Clark Kincaid's announcement that 80 men are to be dismissed because of a lack of orders.

Let me deal with Scott Lithgow first. I have been informed by senior management that the figure of 800 dismissals is contingent upon the company winning orders in the near future. In other words, if those orders do not materialise, more men will go. That is the blunt message that I was given. Therefore, it is essential that Scott Lithgow obtains Ministry of Defence orders in the shape of new conventional submarines. The Government could assist Clydeside communities by sending Ministry of Defence orders for surface vessels to Yarrow in Glasgow and submarine orders to Scott Lithgow.

May I inform the Minister of the new circumstances of Scott Lithgow? In terms of job flexibility, productivity and industrial relations, there has been a significant change in the company. In job flexibility, the yard is ahead of all other yards in Great Britain. The Secretary of State acknowledged the positive and welcome changes that have taken place at Scott Lithgow when he recently met a delegation from the Inverclyde district council.

I would happily invite the Minister, and his ministerial colleagues at the Department of Trade and Industry and the Ministry of Defence, to visit Scott Lithgow and meet the management and work force. If they were to accept that invitation, they would quickly perceive a new sense of realism that exhibits itself in collective bargaining.

[Dr. Norman A. Godman]

I have several questions to ask the Minister, and I acknowledge that he may not be able to answer some of them today. In the light of the Cabinet's decision concerning the budget allocations for different Departments, will Scott Lithgow receive the orders, which are desperately needed, to build conventional submarines? I assure the Minister and his colleagues that those submarines would be built to first-class standards and would be delivered on or before the specified and agreed delivery dates.

Clark Kincaid—formerly John G. Kincaid, a very old and famous Clydeside engine builder—recently built the engine for the Cunard ship Atlantic Conveyor which was sunk in the Falklands conflict. Cunard was delighted with the performance of Clark Kincaid in building that engine. Clark Kincaid is now literally the last engine builder on the Clyde and the River Tyne. I was deeply and bitterly disappointed that the Cunard company chose a German marine engine builder to construct the nine engines that are to be fitted into the Queen Elizabeth II in a West German shipyard. Far too many orders go abroad, to the detriment of British industry. I should say "industry in the United Kingdom", because Harland and Wolff in Belfast or Clark Kincaid could have built those engines.

Large numbers of British industrialists and companies seem to have taken to heart Dr. Johnson's apothegm that patriotism is for the scoundrel only. Speaking as one such scoundrel, I say that orders should be placed nearer home. In that connection, I am deeply concerned at the behaviour of the members of the board of Caledonian MacBrayne and that company's chief executive. In the past 15 months, they have placed vessel orders with Humberside shipyards worth just under £10 million. Both Ferguson and Ailser of Port Glasgow and Troon and Hall Russell of Aberdeen, two excellent companies, are in desperate need of orders. Will the Minister comment on that disgraceful trend?

I received a letter recently from the Minister which seemed to accept the chief executive's claim that there was a substantial difference between the success of Humberside tenders and the unsuccessful Scottish bids. Since I received the hon. Gentleman's letter, two more orders have floated down to the Humber. Will he comment on those substantial differences? Is he concerned that Scottish yards are losing Scottish orders?

I should be grateful if the Minister would say a word or two about the circumstances surrounding the National Semiconductor company. Is he confident that it will escape from its current difficulties and expand in Greenock, as predicted by his right hon. Friend the Secretary of State for Scotland?

I and many of my constituents would be interested to hear what the Minister has to say about the Inverclyde initiative. Can he give me an assurance that the Inverclyde district will obtain a fair share of the jobs generated by the Locate in Scotland unit? There are those in Scotland who believe that the new towns benefit from positive discrimination in the creation of jobs by that unit. If that is a myth, I am sure that the Minister will be pleased to blow it away this afternoon.

During a speech last Friday evening in Greenock, Mr. Ian Wilson, the chief executive of Inverclyde district council, said:

"Inverclyde is at an economic crossroads. I believe that we can turn along the road of economic recovery. The road will be uphill and the effort required will be great, but it is not beyond our capabilities."

I share his anxiety, his faith in the community and his hopes for the future. However, a great deal rests with the Government, in the shape of the Scottish Office.

I am looking not for charity, but for assistance. Among other things, we need MOD orders for Scott Lithgow in the shape of conventional submarines—the SKK2400 type. We need a much larger state investment in the Inverclyde initiative; the state is not putting enough into it. The Scottish Development Agency must do a great deal more, rather than being brought in as a rescue agency when job losses are reported on the front pages of newspapers. We want a more sympathetic and constructive response from the Scottish Office towards those developing community businesses, self-help agencies and others seeking to promote both services and jobs in our communities. The Government must give assistance now.

Is it the Government's intention to increase the financial resources required for the renovation of Scotland's decaying council houses? Greenock and Port Glasgow, as two communities, are in desperate need of such financial assistance. If a decision to give that sort help was taken, that would improve the health and welfare of the tenants and would create more jobs.

2.48 pm

The Parliamentary Under-Secretary of State for Scotland (Mr. Michael Ancram): I am grateful to the hon. Member for Greenock and Port Glasgow (Dr. Godman) for taking this opportunity to raise a matter of some concern to his constituents, and which is also of concern to Government and non-Government agencies, which as I am sure he realises, are working hard to alleviate the unemployment problems of the area that he represents.

The Government share the hon. Gentleman's worries about the level of unemployment in his constituency. I am sure that we all appreciate some of the problems that he so graphically illustrated in terms of individual cases. He raised a series of important questions and I shall try to answer as many of them as possible in the time available. Any that I am not able to deal with will be answered in writing.

The hon. Gentleman's last question related to housing. I am sure he is aware that last year, on the housing revenue account allocation, an increase of nearly 25 per cent. was made available across Scotland. I understand that Inverclyde benefited considerably from that increase. I am sure that, in fairness, the hon. Gentleman will appreciate that that increase has been of considerable benefit to his constituency.

It is important to understand the special combination of circumstances which has brought about the situation which the hon. Gentleman has described in his constituency. It is not a new phenomenon, and certainly not one which has magically appeared since 1979. A look at the background to the problem will reveal its underlying causes and complexities and why it cannot be resolved by the simple expedient of throwing more and more money at it.

The Inverclyde area has a long history of employment difficulties. Between 1971 and 1981, during a period which saw little change up or down in the employment

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RESTRICTED

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Secretary of State for Trade and Industry

8 November 1985

1. CDP
2. pa.

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Michael,

WITHDRAWN?

Thank you for your reply on 28 October to my letter about Trafalgar House - especially for your offer to see the Trafalgar House people. I agree that an early discussion would be most useful. I hope that you will be able to encourage them to bid for Vickers Shipbuilding and Engineering Ltd (6 December is the deadline set for initial expressions of interest from prospective purchasers).

2 Their main concern (which is shared certainly by Yarrow Shipbuilders and Swan Hunter and probably by the other major warship yards) is that contracts should be let on a properly commercial basis following an assessment of the price, terms and technical quality of the bids. This is particularly important for the long-term health of the industry in the present throes of privatisation and when three major sets of contracts: the new conventional submarines; the next round of Tyne 23 frigates; and the first AORS - are all due to be let shortly. I do hope therefore that you can give the industry complete assurance on this point. The letting of the Type 22 frigate contract to Cammell Laird and the associated promise of a Type 23 frigate to Swan Hunter have affected the industry's confidence in the competitive tendering process. I do not believe that we can afford at this juncture to be seen to be doing anything other than awarding contracts on the basis of merit. If we do not stand fast on this now, we will find it increasingly difficult to hold the line in future.

3 I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer and to the Secretaries of State for Scotland and for Northern Ireland and to Sir Robert Armstrong.

Yours ever, Leon

JF4AMB

LEON BRITTAN

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CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 7 November 1985

The Prime Minister has seen the letter from the Secretary of State for Trade and Industry to your Secretary of State about BNFL's decision on a nuclear waste carrier. She agrees with Mr. Brittan that BNFL should be pressed to place this order with British Shipbuilders as he proposes.

I am copying this letter to John Mogg (Department of Trade and Industry).

TIM FLESHER

Geoff Dart, Esq.,
Department of Energy.

CONFIDENTIAL

CONFIDENTIAL

SLHAHG

c HMCT LPSO PCO
NIO BTI. LPO.
DIW CBL MOD
SO DIM CO
WO MAFF
DOE CS, HMCT

10 DOWNING STREET

From the Private Secretary

7 November 1985

The Prime Minister has seen your Secretary of State's recent minute proposing a full and comprehensive policy document on shipping. The Prime Minister is not yet convinced that the outline statement attached to your Secretary of State's minute is on the right lines: she has commented that this is a subject in which emotions run very high and we shall need a policy statement which takes account of that as well as of legitimate defence concerns. She agrees however that a draft policy statement should be prepared in order to take the matter further.

I am copying this letter to Private Secretaries to Members of E(A), the Lord President, Secretary of State for Defence and to Michael Stark (Cabinet Office).

TIM FLESHER

Richard Allan, Esq.,
Department of Transport

CONFIDENTIAL

10 DOWNING STREET

Prime Minister

Do you wish to go for

(a) a White Paper; or

(b) the low key approach as proposed by the Policy Unit.

DRS
6/11

Let us see
a draft White Paper
MG

10 DOWNING STREET

Prime Minister

Agree that BNFL should be pressed?

(D Energy tell me that BS made a disastrous job of the last vessel unfortunately.)

DCV
6/11

Yes

CONFIDENTIAL

MR NORGROVE 5 November 1985

WHITE PAPER ON SHIPPING POLICY

Reviewing the Prime Minister's comments on the papers relating to Nicholas Ridley's proposed White Paper on Shipping Policy, I thought it might be helpful to check that we had defined the alternatives clearly. The question is how best to confront the anticipated parliamentary interest in shipping policy during the next Session. Two, and possibly three, select committees will be enquiring into various aspects of shipping policy. The House of Commons Defence Committee has already asked Nicholas Ridley for written comments on the defence implications of the decline of the UK-registered merchant fleet.

In economic terms, our shipping policy, is sound. We recognise the importance of an industry which earns £3.5 billion pa and contributes a balance of payments surplus of some £1 billion pa. Internationally, we fight protectionism and champion fair competition. We prefer to let the commercial instincts of the shipping industry determine the future shape of the UK-owned fleet; we would rather see UK-owned ships earning a good return under foreign flags than UK-registered ships requiring subsidies to pay over-priced British seamen.

Defence need not be compromised by the trend towards a smaller UK merchant fleet, concentrated in the sectors of the market with the best business prospects. We have NATO pooling arrangements, and powers to requisition UK-registered ships. We could take emergency powers to requisition foreign

ships in British ports. The MoD are addressing specific areas of foreseen shortage such as deep-sea trawlers for minesweeping and general freighters displaced by the trend towards containerisation - which the forces may follow.

Plan 'A' is to confront the critics with a White Paper to explain the rationale for the Government's shipping policy. MoD officials would welcome a White Paper which draws a clear distinction between the economic and defence aspects of shipping; the MoD doesn't like defence being used as an argument for subsidising shipping. The trouble is that strong emotions will be aroused - so much so that the necessarily brief coverage of defence in the White Paper probably won't assuage them. In any case, the House of Commons Defence Committee will still expect a detailed response to their concerns.

Why not adopt the low-profile approach? Provide separate written evidence to the various select committees. You could accompany this with a renewed effort to consult the shipping industry on practical, constructive steps to reduce or remove the competitive handicaps on UK-registered ships. (Eg reduction of the cost penalties of UK registration without compromising basic safety standards, Government support in reducing ship manning levels, and reduction of the high oncosts for shippers using UK ports.) This should forestall some of the more justifiable criticism from the UK shipping industry.

JOHN WYBREW

CC BG

FROM THE MINISTER FOR INDUSTRY AND EDUCATION

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
TELEPHONE: 01-233 3000

NBPM.

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON
SW1P 3EB

5 November 1985

Dear Nicholas,

SHIPPING POLICY STATEMENT

file with DN.

In George Younger's absence abroad I am writing about the synopsis of your shipping policy document which you circulated with your recent minute to the Prime Minister.

Shipbuilding and its ancillary suppliers is still important to us in Scotland, though the numbers employed have declined steadily over the last two decades. Naturally, therefore, it seems to us important that the British merchant fleet should be at the largest possible level, and also should build its vessels at home and not abroad, though we recognise the problems over the international competitiveness of British yards.

I agree that open markets in shipping, as in other aspects of trade, are wholly desirable, and something which we should strongly support. However, our approach to this should be based on reciprocity, and we should make it clear that any nation which by any non-commercial means, whether overt or covert, blocks our access to its shipping trades, will find its entry to our own trades blocked. In saying this I have in mind especially coasting and short sea trades, and particularly the North Sea oil business; there are plenty of Norwegian vessels working in our sector, but very few of our vessels in the Norwegian sector. I find it difficult to believe that this disparity is the result solely of costs, pricing and relative efficiency.

Financial and efficiency aspects are important, and I am not suggesting that we should set up a protectionist policy to shelter an inefficient domestic industry, but we must ensure that there is reciprocal access. The paper you propose to publish should, we think, make this clear.

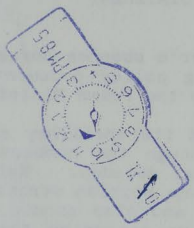
I am sending copies of this letter to the Prime Minister, members of E(A), Willie Whitelaw, Michael Heseltine, and to Sir Robert Armstrong.

Yours ever,
Allan

ALLAN STEWART

~~55~~ Not Incl: Shipbuilding Pt 8.





10 DOWNING STREET

Prime Minister

If you want to object to N Ridley's proposal, I should write before too many interested parties weigh in.

Agree to write in the sense of the Policy Unit minute?

DCV
1/11

We cannot adopt this approach. Discussion will be very sharp - much sharper than any other policy. We have to argue our policy which is what we are elected to do.

To await further pp

MR NORGROVE 1 November 1985

BNFL SHIP

BNFL want to spend £10m on a Japanese ship for carrying nuclear waste from Japan to Sellafield because the British built one is 18% more expensive on a like for like basis. Normally it makes little economic sense to burden one public sector company with the purchase of expensive products in order to support another, but uncompetitive, public sector company. This case may be the exception.

The DTI's points about BNFL's enlightened self-interest, the dangers of transferring technology to Japan, and pricing at dumping levels, are important but not overwhelming. But the critical issue is whether the Government can afford the UK's role as a Japanese "nuclear dustbin" to be highlighted in the way a row over the purchase of a Japanese ship is sure to do.

In this particular case we recommend BNFL be pressed to buy a British ship.

Peter Warry

PETER WARRY

CCBG.

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Secretary of State for Trade and Industry

31 October 1985

B/F with PW comments

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

Dear Peter,

BRITISH NUCLEAR FUELS LIMITED (BNFL)

Thank you for your letter of 22 October. I was most grateful for the information provided and the action you have taken to defer BNFL's decision on the nuclear waste carrier.

2 As I understand it, the facts are that Mitsubishi have put in a bid of £9.8 million for this vessel. Sunderland Shipbuilders bid at £13.3 million, this price taking account of the maximum normal level of Shipbuilding Intervention Fund price support at 20.5 per cent of contract price. After taking account of differing credit packages, the difference is 18 per cent.

3 BS regard the Mitsubishi bid as a clear case of dumping. The price is only US $1 million above BS material costs and 10 per cent below the Japanese bid for a similar vessel in 1983 which went to Appledore. Graham Day has told us that if the order goes to Mitsubishi, BS will make a formal and public complaint to the European Commission.

4 I strongly believe that we must do everything we can to prevent the UK losing this order. First, it is of considerable importance to BS, providing much needed work for Sunderland Shipbuilders, one of its most efficient yards. Second, it represents a technology of which the UK currently has a monopoly which would be lost if the order went to Japan. Third, I need hardly stress the political embarrassment of a wholly-owned Government company placing the order abroad.

5 To this end, my officials have explored with the BS Chairman, Graham Day, the scope for improving their offer. There is very little. BS have already priced as keenly as they can. Moreover,

JH3CIG

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BNFL have given BS to understand that Mitsubishi would, if necessary, chase the price down below any other bidder. In short, Mitsubishi are intent upon buying into this specialist area of shipbuilding and its associated technology at any price, if we allow them to do so. In such circumstances I see no point in seeking EC approval for a higher level of Intervention Fund support. Nor does Graham Day wish me to.

6 The only scope for action therefore lies in persuading BNFL to place the order in the UK not- withstanding the price differential. I think we should approach this on two levels.

7 First, we should make it quite clear to BNFL that we regard it as in the national interest that the order goes to the UK, and that we would be content for BNFL, if they wished, to make it clear that the decision was taken on that basis.

8 Second, and notwithstanding the national interest arguments, we should bring home to BNFL the very real non-price disadvantages to them of building in Japan. I would stress the following:

(i) Builder experience. BS have always built these very advanced and complex vessels for BNFL. To go to the Japanese and involve them as a new builder would be to introduce additional risk of production problems, late delivery, and operational problems.

(ii) Ease of operation. From the operator's viewpoint, having a complete fleet made by the same company means fewer problems and lower costs in operation, maintenance and repair.

(iii) Construction supervision. The nuclear waste carrier fleet is operated by James Fisher of Barrow, who will also be responsible for supervising construction. Supervision is a very expensive operation with the obvious linguistic and geographical difficulties. And the level of supervision required with a first-time builder will clearly be much higher than with BS who have accumulated considerable experience in this specialist area.

(iv) Production technology. All Mitsubishi will have is the basic BNFL design. All the production technology resides with BS. Despite a co-operation agreement with Mitsubishi, BS will not give them any access to any technology related to this vessel. Mitsubishi will have to start from scratch.

(v) Following on from (iv) above, BS believe the Mitsubishi bid was made without full understanding of the

999.49

complexities involved in construction of these vessels.

(vi) We believe that the operators of the nuclear waste fleet are unhappy about allowing the Japanese into this area. They see placing this order with Mitsubishi as inevitably giving the Japanese access to the operating technology which at present resides only with Fishers.

(vii) BS stress that they have proved over the years a reliable builder of these vessels. Though the last ship was admittedly delivered late, there have been no problems in use - a major consideration with such a sensitive cargo.

9 I recognise that BNFL will also be concerned at the Japanese reaction to the order going to the UK and in particular of any possible risk to future Japanese fuel reprocessing contracts. I think their fears can be allayed. The Japanese will very readily understand a decision taken in the national interest on the basis of Government advice - that is precisely how they operate. And I very much doubt that the loss of what is a very small order to Mitsubishi will influence thinking on future fuel contracts. The Japanese always act in their own best interests and will, I am sure, take the best deal available at the time, whether from BNFL or its competitors. May I therefore ask that you put these arguments to the Chairman of BNFL as soon as possible. In brief, I believe that we should tell him we see the matter as one of the national interest, that we are anyway concerned that BNFL have not fully considered the non-price factors mitigating against ordering abroad and that we believe the Japanese would readily understand, if not approve of, BNFL's position if it ordered in the UK. You will no doubt wish to tell him also of BS threat of anti-dumping or anti-subsidy action should the order go to Japan. The course of such an action is unpredictable, but apart from the embarrassing publicity for BNFL, it is not inconceivable that it could result in some sort of action against this vessel and any successors which would negate the price advantage of the Japanese bid.

10 The final point I would wish to make is also a presentational one. A few months ago, the decision was taken to allow Trinity House to order a lighthouse tender vessel from South Korea rather than from a BS yard. That decision brought considerable criticism, both in the House and outside. But we were able to defend the decision on the grounds that Trinity House was not a true public sector body and that other orders were available to BS at less cost in terms of intervention fund support. In this case we do not have either of these defences available to us.

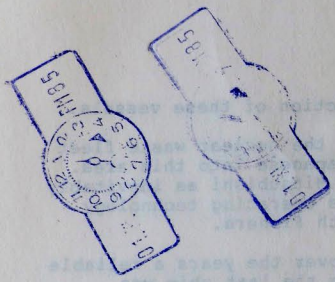
11 I am copying this letter to the Prime Minister.

JH3CIG

LEON BRITTAN

999.49

Nat Ind: Shipbuilding Pt8.



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GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

THE HON PETER MORRISON MP

COMMERCIAL IN CONFIDENCE

Norman Lamont Esq MP
Minister for Defence Procurement
Ministry of Defence
Main Building
Whitehall
LONDON SW1

30 October 1985

Dear Norman.

Thank you for your letter of 28 October agreeing to the sale of Vosper Thornycroft to the team led by Mr Usher. I announced the consent yesterday.

You raised two points with respect to guarantees which I understand your officials have been discussing with mine. I have not mentioned them again to British Shipbuilders because they are already aware of the position. In principle, I agree with you that we should be ready to apply to Vosper Thornycroft the solutions which we find for Swan Hunter. Since it would be difficult to justify using different criteria for the two yards, I think that this must apply to guarantees for new contracts as well as to guarantees for existing contracts.

I will not now rehearse the arguments on guarantees for new contracts except to say that at this stage in the privatisation of the warship yards, a process during which this Department has gone out of its way to inform and consult the Ministry of Defence, we cannot allow your Department to raise new obstacles which could prevent the sale of one or more of the yards. It seems to me vital therefore that the process you have now set in train to examine the books of the proposed buy-out at Swan Hunter will allow a solution to be found which will not cause the only remaining potential purchasers to withdraw. I would be glad therefore if you would consult me in advance if you see difficulties.

JO3AFK

34/11

As to guarantees on existing contracts, my officials will be replying shortly to yours. You will appreciate of course that the position altered fundamentally when the British Shipbuilders Act 1983 came into force. MoD are automatically protected on any contracts still extant which were entered into before 9 July 1983, but after that date there was no statutory requirement for BS to stand behind the debts of its subsidiaries and it was up to BS's customers to decide, when placing a contract with a BS subsidiary, whether to seek a contractual guarantee from BS.

I am copying this letter to John Moore.

PETER MORRISON

JO3AFK

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CC/BG

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Secretary of State for Trade and Industry

28 October 1985

Tony Kuczys Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Prime Minister 2

DLW
28/10.

Dear Tony,

I am writing to inform you that we intend to announce tomorrow (29 October) by means of a written answer to an arranged question that my Secretary of State has given his consent to the sale by British Shipbuilders of Vosper Thornycroft (UK) Ltd to a management buy-out consortium led by the present Managing Director, Mr Peter Usher. A copy of the proposed answer is attached.

The request for consent has been cleared at official level with Treasury, MOD, and the No 10 Policy Unit. The Department's financial advisers also agree that consent should be given. This management team's bid for Vosper Thornycroft, which is worth at least £18½m, was far higher than that of the next best offer.

I am copying this letter for information to the Private Secretaries to the Prime Minister, to the Secretary of State for Defence and to the Lord President of the Council.

Yours ever,
Michael.

MICHAEL GILBERTSON
Private Secretary

JF5ALU

999-1

Q. TO ASK THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IF HE WILL MAKE A STATEMENT ON THE LATEST PROGRESS IN PRIVATISING THE INTERESTS OF BRITISH SHIPBUILDERS

A. Yesterday, my Rt Hon and learned friend the Secretary of State gave his consent to British Shipbuilders for the sale of Vosper Thornycroft (UK) Ltd to a management buy-out team led by the present Managing Director, Mr Peter Usher.

British Shipbuilders will receive a basic consideration of some £18½m. In addition, BS will receive a further payment if certain contracts are won shortly but they have accepted a small contingent liability should redundancies arise.

JF5ALV

Nat Ind: Shipbuilders

2151/15

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Gilbertson Esq.
Private Secretary
to the Secretary of State for Trade & Industry
Department of Trade & Industry
1-19 Victoria Street
London SW1

28 October 1985

Dear Michael

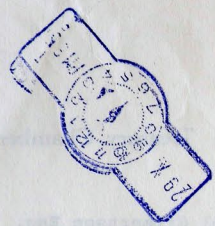
Your letter of 28 October to Tony Kuczys informed us that you intend to announce tomorrow (29 October), by means of a written answer to an arranged question, that your Secretary of State has given his consent to the sale by British Shipbuilders of Vosper Thornycroft (UK) Ltd. to a management buy-out consortium led by the present Managing Director, Peter Usher.

As I mentioned to you on the telephone today, the Financial Secretary was content with the proposal to accept the offer from the Usher team. He is also content with the arranged PQ.

I am copying this letter to the Private Secretaries to the Prime Minister, to the Secretary of State for Defence and to the Lord President of the Council.

Yours ever
Vivie

VIVIEN LIFE
(PRIVATE SECRETARY)



CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

10 DOWNING STREET

From the Private Secretary

28 October 1985

BRITISH SHIPBUILDERS' CORPORATE PLAN

The Prime Minister has seen and noted the announcement about British Shipbuilders' Corporate Plan attached to your Secretary of State's letter of 16 October to the Chief Secretary.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

FCS/85/272

SECRETARY OF STATE FOR TRANSPORT

Statement on Shipping Policy

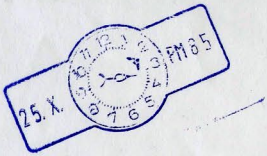
1. I welcome your proposal in your minute of 23 September to the Prime Minister, to prepare a White Paper on shipping policy which will address in particular the implications for our defence of the decline of the merchant fleet sailing under the UK flag.

2. I expect to have points to make on the international aspects of the issue and I would therefore like my officials to be involved in the drafting of the paper itself. I look forward to seeing your synopsis.

3. I am copying this letter to the recipients of your minute.

Foreign & Commonwealth Office
25 October 1985

GEOFFREY HOWE


25. X.
PM 3 5

CONFIDENTIAL

PRIME MINISTER 24 October 1985

WHITE PAPER ON SHIPPING POLICY

Nicholas Ridley believes that a rational analysis of the development and state of the world's shipping markets will demonstrate that the Government's shipping policy makes good sense. It does, but he is probably wrong in believing that, providing the Government's case is well presented, reason and good sense will triumph over emotion and prejudice.

However well written, the proposed White Paper on shipping policy will become the focus for passionate opposition from Left and Right. At one end of the political spectrum there will be outrage at the loss of jobs for British seafarers - down from 60,000 before the 1981 seamen's strike to 35,000 today, albeit significantly influenced by the luddite attitudes of the NUS. From the Right, particularly in the Lords, there will be emotional appeals to the traditions of a great maritime trading nation and dire warnings of the defence implications.

If he follows the issues at all, the man in the street will probably be left with the uneasy impression of another sick industry hastened in decline by an uncaring Government reluctant to go on administering subsidy.

The fact is that there are encouraging signs of life, for which the Government can take some credit. The British

shipping industry is not so much in a state of terminal decline, as radical and generally sensible adjustment to a tough business environment. The industry has continued to be driven by entrepreneurial business instincts which don't regard tonnage per se as a virility symbol; what counts is the potential for making a commercial return. UK shippers have concentrated on those sectors of the market which still offer such potential. For the rest, they have either withdrawn or adapted so as to compete, for example, by moving to flags of convenience and engaging foreign crews - sometimes at half the cost.

Conclusions

Nicholas Ridley wants to confront the Government's opponents head-on in a set-piece battle over the White Paper. The alternative is a number of skirmishes on specific aspects of the Government's shipping policy, notably the defence implications. For the population at large, the appeal of emotion will probably be more powerful than the appeal of reason. We would go for damage limitation and avoid the set-piece battle.

For the shipping industry, the Government's actions will speak louder than words. Most will begrudgingly concede the Government's case, but this is offset by too many instances where the actions of the Government and its officials look more obstructive than supportive. They will point to apparently slavish, and certainly costly, insistence on

superfluous standards for British-registered vessels. They need more positive Government support in reducing manning levels. They bewail the high oncosts for shippers using UK ports - four times those of continental ports. For example, a 30,000 dwt ship entering, say, Barry in South Wales has to pay £13,000 in light dues, whereas no such charge would be made for ships entering ports like Rotterdam and Antwerp. The same ship would have to pay £3,000 for overmanned and underworked pilotage.

It may be better for Transport Ministers and their officials to devote the effort they would have to put into the White Paper and the associated debates to consulting the industry and reducing some of these handicaps.

JOHN WYBREW

NAT IND

SHIPBUILDING POLICY

PT 2

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

010

cc NB PM.



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Leon Brittan QC MP
Secretary of State
Department of Trade and Industry
1 -19 Victoria Street
London
SW1E 6RB

24 October 1985

Dear Leon,

BRITISH SHIPBUILDERS: CORPORATE PLAN

WITH TF?

Thank you for your letter of 16 October. I am content with your proposed announcement to Parliament about British Shipbuilders latest corporate plan.

I am grateful to you for your latest assessment of BS's market prospects. This assessment suggests that our officials ought to continue to keep the outlook for BS's order intake under close review. We will then be in a position to identify in a timely way any risks to BS's external financing requirements should the volume of orders remain below the earlier assumptions and to consider ways of containing the impact on public expenditure.

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

Yours ever,

JOHN MacGREGOR

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

NAT IND
SHIPBUILDING
PT 8



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

23 October 1985

Dear Leon,

RE-ENGINING THE QE2

You sent me a copy of your letter of 3 October to Nicholas Ridley, and I have since seen your further letter of 21 October.

I did not comment at the time because the official paper showed no particular Scottish interest in this subject. Yesterday, however, I met a delegation from Greenock to hear their concerns about local unemployment, made worse recently by further substantial redundancies at Scott Lithgow. I understand from that meeting that Harland and Wolff are not the only UK engine-builders interested in this project, and that Clark Kincaid have an opportunity to participate if their own licensor (Stork Werkspoor) should get the re-engining order from Trafalgar House. The order would stand to benefit not only the company's Greenock works but also its Wallsend operations. The value of the work would at £8m be very much greater than the value of work which Tom King estimates would go to Harland and Wolff.

The employment situation in Greenock is very serious indeed. After the latest round of Scott Lithgow redundancies, male unemployment will be not far short of 30%. This is an opportunity which I would not want to dismiss until alternatives have been exhausted, and I therefore agree with Nicholas Ridley that we should at least leave the door open to allow Trafalgar House to discuss alternatives.

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

Yours ever,

George.

HMP29602

NAT. IND. SHIPBUILDING PT 8



CONFIDENTIAL

Keith Lovedy
to provide suppl. briefing
and a
note to
follow by
c.o.p on
Wednesday

Prime Minister

For information at
this stage.

MEA 22/10

01 211 6402

MEA 28/10

The Rt Hon Leon Brittan QC MP
Secretary of State
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H OET

22 October 1985

Dear Leon.

BNFL

The Chairman of BNFL has informed me that the Company's Shipping subsidiary PNTL will shortly take a decision on where to place an order for a new ship to carry spent fuel from Japan to Sellafield. I understand that a Japanese yard, Mitsubishi, has submitted a bid some 30% below that of Sunderland Shipbuilders. BNFL expect that the minority Japanese shareholders in PNTL will put considerable pressure on the Company to accept this bid. BNFL are also concerned about the need to maintain good relations with the Japanese because they hope to secure more reprocessing business from Japanese utilities.

Clearly, in spite of the difficulties, we must explore all possible options for securing this order for the UK. I have therefore asked BNFL not to take the placing of this contract any further until there has been time for consultation between our officials and the Company. In the meanwhile I would welcome your views on the position of British Shipbuilders.

I am copying this to the Prime Minister.

Yours

P.S. The Japanese are S own told obtaining a very large subsidy from their Government

PETER WALKER

CONFIDENTIAL


22. X
PM 8 5

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COMMERCIAL IN CONFIDENCE

cc NO

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

Secretary of State for Trade and Industry

TL Have you seen this? Martin

21 October 1985

The Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

N 22/10

Dear Michael.

RE-ENGINING THE QE2

Thank you for your letter of 17 October which was concerned with a different proposition from the one in my letter of 3 October and the note by officials. I am sorry if these have led to a misunderstanding. I note that you agree that there are no defence reasons for offering financial support.

2 The position is that Trafalgar House take the view that for the physical and commercial reasons explained in the note by officials the work cannot be carried out in the UK in the timescale they have in mind. Even if they could find a UK yard willing and physically able to take the work, the costs (and therefore the economics of the operation and the subsidy they are seeking) would be considerably higher than doing the work abroad. The only options which they are currently considering are either to do the work abroad or not to do it at all and to sell the ship. The question was therefore whether we should provide assistance to tilt their decision towards re-engining (abroad) and retaining the QE2 under the UK flag rather than sale. The only possible benefit for the UK shipbuilding industry would accrue to Harland & Wolff and, as Tom King says in his letter of 16 October, this would be of limited value and would not warrant exceptional assistance.

3 I was also grateful to Nicholas Ridley for his letter of 15 October. I note that while agreeing with the general line that no financial aid should be made available, Nicholas is keen to leave the way open for Trafalgar House to discuss any alternative ideas they might have. I know that he has been in direct touch with Eric Parker on the issues and I presume that he will wish to keep in

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999-1

touch with Trafalgar House to explore the possibilities - there is, I am afraid nothing in the way of non-financial help my Department can offer.

4 I must now as a matter of urgency tell Eric Parker of Trafalgar House of our decision. I understand that the matter is to be discussed at the Trafalgar House board meeting on Wednesday. Unless I hear to the contrary from colleagues by noon tomorrow (Tuesday) I therefore propose to write to Mr Parker telling him of our conclusion that it is not possible to offer a financial contribution to the project.

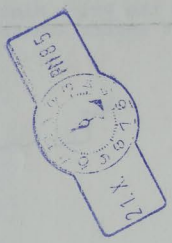
5 I am copying this letter to the Prime Minister and other members of E(A), and to Sir Robert Armstrong.

LEON BRITTAN

JF5ALF

999.19

NAT . IND : Shipbuilding : At 8



CONFIDENTIAL

Annex C-PU Advice

Prime Minister

STATEMENT ON SHIPPING POLICY

In my minute of 23 September I suggested the publication of a full and comprehensive document on shipping policy, and undertook to circulate a synopsis. I now attach the synopsis. After an introduction the document would set the world shipping scene and the UK's place in it, and go on to cover the UK's needs and our policies. The passages in square brackets are either guidance about how I intend to develop the synopsis or matters whose inclusion needs particular consideration. I want to leave the structure of Part II open until the sectoral analyses are complete; it may be better to give them more emphasis and put them before the factors important for UK shipping.

I would be grateful to know if you are now content for me to prepare for publication of a paper on these lines early in the New Year and to let it be known that a statement of policy is on its way. If you or others continue to have doubts, perhaps we could discuss briefly at an early meeting.

I am copying this minute to members of E(A), Willie Whitelaw, Michael Heseltine and to Sir Robert Armstrong.

NICHOLAS RIDLEY

23 October 1985

CONFIDENTIAL

Part I: Introduction

Why a White Paper - concern about UK shipping, reduction of the fleet, ability to move our imports and exports, defence aspects, etc. Need to explain the position and the Government's policies.

Part II: The Scene

History

Main features of world shipping scene since 1945:
technical - larger ships, containerisation, demise of passenger liners, development of highly specialised vessels, etc;
economic - growth of open registry fleets, Greek fleet, developing country share of liner trades, impact of oil-price rises, impact of development of world trade, over-development of ship-building capacity, etc.

How the UK merchant fleet has fared: for most of the century a declining percentage of the world fleet; in absolute terms a moderate increase post-war to 1968, rapid expansion then to 1975, but since decreases every year, and fleet tonnage now below 1968 level. / Impact on jobs, to show Government's concern. _/ Compare this pattern with other OECD fleet changes since 1963, show how it is related to changes in volume and pattern of trading, and comment on effect of subsidies.

Factors Important for UK Shipping

Chronic surplus of ships and of ship-building capacity
Open registries, flagging out, and third-world crews
UK trading patterns
Cross-trading activities and opportunities
Costs of operating under the UK flag - capital and current (including crew costs)
Costs of operating into the UK - pilotage, lights, and ports costs
Subsidies, tax breaks and protectionism in UK and other countries.

Sectoral Analyses

Must not over-generalise about UK fleet, which is varied and needs to be considered in sectors - liquid bulk, dry bulk, cargo liner, passenger cruises, short-sea ferries, offshore support, and other short-sea trades. Describe each sector separately, though liquid bulk and dry bulk probably together. [Use statistics. Say in each sector what can be said about prospects. Keep short.]

Bulk Most of the decline of the UK fleet in bulk sector. Still a large world surplus. Relative importance of the sector by tonnage (high) and by earnings (low). Highly competitive trading environment. Cross-trading important. Falling volume of trade (oil price rises and their consequences); changing pattern of trade (North Sea, Alaskan, Mexican oil), resulting in a substantial reduction in the average length of haul for oil cargoes. Surplus capacity also due in part to Government assistance. Resulting in laid-up tonnage, low freight rates and poor profitability, with some notable company failures. Change of role of major international oil companies. Effect on size and earnings of UK bulk fleet. Prospects of further decline.

Cargo Liners Market where quality of service is important as well as price. Cartels (conferences) have been important for a century. Less cyclical. Cargo unitisation (containers). A sector not subject to the same degree of over-tonnaging as the bulk sector. Profitability substantially better, although growth in supply running ahead of the growth in demand and beginning to put pressure on freight rates and profit margins. Prospects are for the UK container fleet to maintain broadly its present size over the next few years at expense of increase in average age of ships. Conventional general cargo sector decline will continue.

Cruise Shipping Since the later 1970s UK fleet size has remained fairly stable. Although small tonnage, important revenue-earner. Successful in the important US market. World-wide markets are becoming increasingly competitive. At lower end important competition from the Russians whose pricing may not be fully commercial. Fair prospects for expansion of the sector.

Short-sea ferries Passenger and freight ferries expanded rapidly through the 1970s, reflecting a switch in the pattern of UK trade from deep sea to European and growing leisure travel. UK companies have a good position, not threatened by any crew cost disadvantage relative to European competitors. The market likely to grow; major uncertainty is the possibility of a fixed channel link.

Offshore supply vessels Sector has expanded rapidly with the development of North Sea oil. Earnings are a better indicator of its importance to the economy than tonnage. The supply of vessels has moved ahead of demand and charter rates have been at relatively low levels for the past two to three years. Nevertheless should remain a buoyant area.

Other short-sea vessels Describe sector. Fall since sixties because of introduction of unitised services and larger bulk vessels. Lots of competition, but more from other European fleets than open-registry vessels. Influence of subsidies. UK should maintain its position.

Part III: UK Needs

Trading

In peacetime we need access to world shipping markets to carry our trades. Those markets are highly competitive, there is no prospect of our being held to ransom, and many trading nations do not have fleets large enough to serve their needs. Not indifferent to our shipping industry, but the enterprises in it have to be capable like other British industries of participating profitably in the markets they serve.

Defence

In tension and war, the UK would require certain specific vessels for military support purposes, and a substantial supply of vessels for important imports. How to meet these needs is a continuing part of UK and NATO planning.

Part IV: UK Policies

Explain why protectionism not sensible, either for trading or defence needs.

Shipping Markets

Explain why we want open undistorted shipping markets and what the consequences of a less-open approach would be - the industry still benefits from freedom world-wide and our trade in goods depends on cheap and efficient shipping services. Work, increasingly within EC, to maintain an aggressive free-market policy. Recognise developing country aspirations but use powers to protect UK industry from effects of excessive assistance to other countries' fleets. Implementation of EC policy vital, both to expand opportunities and strengthen resistance to protectionism. Relevance of UN Liner Code, US/CSG Dialogue, counter-measures against Soviets, etc. Foreign subsidisation to be combatted where possible, but unrealistic to expect complete removal; each country has its own priorities for public expenditure. /~ Ship-building capacity and OECD Working Party 6. GATT work on services. ~/

Safety and Regulation

More efficient operation of safety-related services. Drive against sub-standard foreign shipping. Efficiency in related services - pilotage, lights, ports. Reduction of unnecessary regulation - extension of trading areas etc.

Defence Needs

Continuing planning work by DTp and MOD. Recent studies on future adequacy of fleet. What will be done to remedy identified deficiencies. UK needs to be seen in NATO context. NATO's pooling arrangements. Flagged-out shipping in war-time.

Conclusions

An industry that has had and will continue to face difficulties. Much adjustment already accomplished. Will continue to be sectors where UK can operate against the competition.

Decline of UK flag fleet has not put UK security at risk. Need for constant monitoring, improved arrangements for access to flagged-out vessels, better insight into other demands on NATO pool. Specific deficiencies to be dealt with ad hoc.

No case for subsidies; tax position of UK owners subject to regular review by Chancellor in the light of developments in the industry.

Continue to work closely with industry in seeking to minimise regulatory constraints.

Liberal shipping policies still best for UK shipping and trade, but EC will help us to retaliate more effectively against unfair practices.

Shipbuilding : NAT IND.
Pt 8.



010

CC No

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/3/3L

17th October 1985

NBPM at this stage

Dear Leon

RE-ENGINING THE QE2

(NAT IND SHIPBUILDING PT 8)
FILE WITH DRN 17/10

Thank you for sending me a copy of your letter of 3rd October to Nicholas Ridley.

Although I am on the periphery of this matter (there is no defence reason for my Department to subsidise Trafalgar House in re-engining the QE2) I am bound to say that for the Government to provide something of the order of £5M from the Regional Assistance Fund to make certain that the £80M order for re-engining the QE2 is secured by one of our own shipyards, rather than a German one, seems to be an eminently sensible proposition. The British ship repair industry is almost without exception located in the more depressed areas of the country and the effect upon employment in the area of a successful British bidder for this contract, given the effects of the multiplier etc could be significant.

NTI re point at issue?

The Rt Hon Leon Brittan QC MP

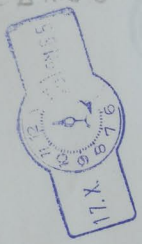
I understand that Trafalgar House are pressing you for an early decision, but I feel that it would be right for colleagues to meet to discuss this opportunity to help preserve and maintain jobs in British industry.

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

Yours ever

Michael Heseltine

NAT INDUSTRIES
SHIPBUILDING PT 2



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COMMERCIAL IN CONFIDENCE

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

Secretary of State for Trade and Industry

16 October 1985

John MacGregor Esq OBE MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Prime Minister
To be aware.
17/10.

Dear John,

BRITISH SHIPBUILDERS' CORPORATE PLAN

Following discussion in E(A) in July (EA(85)15th) meeting we received a Corporate Plan from British Shipbuilders broadly reflecting the financial framework we had agreed. I duly informed the Chairman that, subject to the Contract Support Limit guidelines we had agreed in E(A), it had our approval. I now need to tell Parliament that we have received and approved the Plan.

2 However, over the 3-4 months since the Plan was written, the situation in the shipbuilding market has deteriorated and as a result BS's short-term market prospects have become significantly bleaker. The Board have now advised me that BS is likely to obtain not more than half the planned level of new orders in 1985/6 (100,000 compensated gross tonnes against the planned 200,000 cgt).

3 As a consequence the expected closure of one yard (Austin and Pickersgill) may be brought forward to end-1986, with the probable closure of another yard in the first half of 1987. While it would be most damaging to British Shipbuilders' efforts in the marketplace for us to reveal this forecast, the announcement must take account of the deterioration in trading conditions since the plan was submitted.

4 I therefore propose to make the attached announcement by way of answer to an arranged Question as soon as possible after Parliament resumes. At the same time I will, as last year, arrange for copies of the Plan, with commercially confidential and other sensitive information deleted, to be placed in the Libraries of Parliament. If last year's precedent is followed, the Trade and

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COMMERCIAL IN CONFIDENCE

Industry Select Committee will ask BS to provide the complete Plan; I intend to authorise them to do so on a strictly confidential basis.

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

LEON BRITTAN

JF2AHE

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17. X. AM 8 5

BRITISH SHIPBUILDERS - CORPORATE PLAN

DRAFT WRITTEN PQ

Q To ask the Secretary of State for Trade and Industry if he has received British Shipbuilders' Corporate Plan?

A British Shipbuilders submitted their Plan in late July. I am placing in the library a version with commercially confidential information deleted. As last year, the Government accepts the broad thrust of the proposed strategy which is to continue to concentrate resources on a stable cost-effective mainstream merchant shipbuilding business. The pursuit of this strategy in 1984/85 enabled the Corporation to reduce its trading loss to £25m and to achieve its new order target for merchant ships of some 200,000 compensated gross tonnes.

The Corporation accepts the importance of continuing to improve its performance in the marketplace which will determine its ability to win new orders and to operate effectively within the framework of tight and degressive levels of Government financial support. Within that framework, British Shipbuilders' original forecast contained in the Plan was that its level of new orders this financial year would be similar to last year's. But conditions in the shipbuilding market have recently deteriorated and British Shipbuilders now believes that it is unlikely to be able to win this level of orders. I have asked the Corporation to keep the situation under review.

British Shipbuilders is continuing to privatise the warship building yards with the aim of completing all the sales by 31 March 1986.



CONFIDENTIAL

cc AAG

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

16 October 1985

NSPT

Dear Nick

RE-ENGINING THE "QUEEN ELIZABETH II"

I have seen a copy of Leon Brittan's letter to you of 3 October.

The Northern Ireland interest in this project lies in the possibility of work for Harland and Wolff in producing some of the engine components. This would amount to a value of only some £400,000 and I do not believe that it warrants exceptional Government assistance. Nor, despite the obvious national prestige arguments, do I believe that the overall project merits special action.

I therefore confirm my agreement to the recommendation in the paper attached to Leon's letter that Trafalgar House should be told to decide on purely commercial grounds whether or not to proceed with the project.

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

Yours

cc as last para

Lcc PS/SofS (B+L)
PS/Dr Boyson (NOL)
Dr Quigley
Mr Fell
Mr Cartwright

CONFIDENTIAL

ssd



Not Ind
Shipbuilding PE-8

CC/10

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

WBPM.

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

15 October 1985

Dear Leon

RE-ENGINING THE "QUEEN ELIZABETH II"

Thank you for your letter of 3 October about the approach from Trafalgar House on the possibility of Government financial support to help them meet the £8m cost of re-engining and other work on the Queen Elizabeth II (QE2).

If we do not give Trafalgar House any support and if as a result the vessel is lost to the UK flag, there will be undoubtedly a strong public reaction, which will feed through into stronger demands for us to intervene to arrest the decline in the merchant fleet. But the difficulties of giving help would be very great too: there would undoubtedly be public criticism of a subsidy for the most luxurious vessel in the world and the wealthy people who sail on her; it is unhelpful that the work will be done in Germany; it would be a very substantial breach in our policy of not providing the subsidies to prevent ships leaving the UK fleet; and we could expect criticism whenever we declined thereafter to take action on any case of a shipowner saying he was about to sell a vessel. I should add that in any case I have no room for manoeuvre in terms of my own Department's expenditure plans.

Trafalgar House have mentioned to me - and I think to you too - the value to BA of the Concorde/QE2 link. I have told them that this is something about which they should talk directly to BA. But the airline has enough priority investment proposals of its own to use up its capital investment allocation this year and next. It seems very unlikely that it would want to put forward this proposal or that we would be able to approve it.

The issue is, I think, important enough for us to need to leave the door open for Trafalgar House to discuss any alternative ideas they may have, but my view on the request for a significant Government subvention is that it should be refused.

I am copying this letter to the Prime Minister, other members of E(A), the Secretary of State for Defence, and Sir Robert Armstrong.

NICHOLAS RIDLEY

NAT INDUSTRIES
SHIPBUILDING
PT 9

CC(A)0

NBPM.
DLV
8/10.

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

John Mogg Esq
Private Secretary to the
Secretary of State
Department of Trade and Industry
1-19 Victoria Street
London SW1

8 October 1985

Dear John

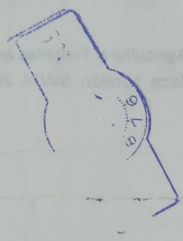
Re-engining the "Queen Elizabeth II"

My Minister has seen your Secretary of State's letter of 3 October to the Secretary of State for Transport (ATTACHED). He agrees with the recommendation by officials that no support should be given for this project.

I am copying this letter to Private Secretaries to other members of E(A) and to Michael Stark.

Yours ever
Ivor

C I LLEWELYN
Private Secretary



010

CC NP

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade & Industry
Department of Trade and Industry
1 Victoria Street
London SW1E 6RB

8 October 1985

Dear Secretary of State

RE-ENGINING THE "QUEEN ELIZABETH II" Attached

I have seen your letter of 3 October to Nicholas Ridley. I must say that I agree strongly with the view of officials that there is no case for Government assistance for the refurbishment of the QE2. Trafalgar House should base their decision to sell or refurbish on purely commercial criteria. We maintain a firm non-interventionist stance on the shipping industry: neither protecting the fleet from competition nor subsidising its operations. As Nicholas said in his minute of 23 September to the Prime Minister we do not have to maintain a merchant fleet of any particular size to guarantee our security: that is a joint responsibility with NATO.

As you know Nicholas is preparing a synopsis of a possible White Paper confirming our strictly commercial approach to the shipping industry. Any support for the QE2 would be a breach of that policy and if we go ahead with a White Paper it will give a valuable base for rebutting any accusations that it is the Government's fault if the QE2 is sold abroad.

Finally I would like to add my voice to yours on the difficulty of finding either a vehicle or funds for subsidising Trafalgar House in this way. We would be in severe political difficulties if we tried to justify a Section 8 grant for the QE2, especially if we were also publishing a White Paper explaining that there is no general case for such assistance.

CONFIDENTIAL

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

Yours sincerely

R Broadbent

for JOHN MACGREGOR

[Approved by the Chief Secretary]



Reg

FILE

10 DOWNING STREET

From the Private Secretary

7 October, 1985

RE-ENGINING OF THE 'QUEEN ELIZABETH-II'

The Prime Minister has seen your Secretary of State's letter of 3 October to the Secretary of State for Transport.

The Prime Minister believes that it would be quite wrong to subsidise the re-engining of the 'Queen Elizabeth II' for Trafalgar House.

I am copying this letter to the Private Secretaries to members of E(A) and to Michael Stark (Cabinet Office).

(David Norgrove)

J. Mogg, Esq.,
Department of Trade and Industry.

DN

10 DOWNING STREET

1

Prime Minister

I understand that the Chief Secretary and Mr Tebbit (though recognising the presentational arguments) are both against giving the money. This must be right, and I am surprised that Mr ~~Tebbit~~ Brittan sat on the fence.

Agree that, despite the presentational arguments, it would be quite wrong to subsidise the re-engining?

DRN
4/10

Agree - strongly

MR NORGROVE

4 October 1985

RE-ENGINING OF THE QUEEN ELIZABETH 2

Trafalgar House want the Government to provide up to £10m to help finance the re-engining of the QE2 in a German yard against the threat that they may otherwise sell the vessel. This is an outrageous try-on. The demand for subsidy has nothing to do with the re-engining, which even on TH's own figures shows a good return, but is merely a convenient prop on which to hang the claim. If, however, it is the operation of the QE2 as a whole that is unviable, then one would expect TH to have presented figures to show this: this they have not done.

There are no strong arguments - military, shipping, employment or otherwise - for providing this money. We strongly recommend that TH be told to go and look for a soft touch elswhere. The QE2 is even more TH's flagship than it is the country's!

Peter Warry

PETER WARRY

O/O

CONFIDENTIAL

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel: 233 3299
7471

4 October 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and
Industry
1-19 Victoria Street
LONDON
SW1H 0ET

D Leon.

RE-ENGINING THE "QUEEN ELIZABETH II"

WILL REQUEST IF REQUIRED

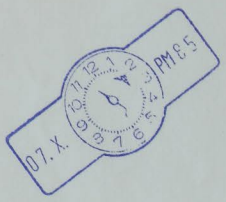
Thank you for the copy of your letter of 3 October to Nick Ridley.

I recognise, as you do in your letter, that were the QEII to be sold out of the UK flag, we could expect there to be general criticism of the damage to national prestige and the loss of employment and tourist opportunities. Nevertheless, I agree with the view reflected in your letter, that it would simply not be supportable for us to provide financial assistance in this case.

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

Yours Norman

NORMAN TEBBIT


07. X.
5 PM

cc NJO

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

Secretary of State for Trade and Industry

4 October 1985

CDD
4/X

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Dear Nick,

Thank you for copying to me your minute to the Prime Minister of 23 September proposing a White Paper on Shipping Policy.

2 Policy towards our shipping routes is of the first importance for our trade. I look forward therefore to seeing the synopsis you are proposing to circulate.

3 I am copying this letter to the recipients of your minute.

Yours ever,

Leon

LEON BRITTAN

JF4AGJ

Nat Ind. Shipbuilding A+B.

DTO

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

JU225
Secretary of State for Trade and Industry

3 October 1985

cc NO
Do you wish to comment? (NOT the deadline.)
DGS
3/10.

CONFIDENTIAL

Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1

Dear Nick,

RE-ENGINING THE "QUEEN ELIZABETH II"

Trafalgar House (Cunard's parent) have approached my Department to enquire whether Government financial support would be forthcoming to help them meet the £80m cost of re-engining and updating the "Queen Elizabeth II" (QE2). It is likely (though not certain) that if no Government support is forthcoming, Cunard would sell the ship out of the UK flag. The re-engining, if it were to proceed, would be carried out in a German yard; the UK content would be some £20-30m.

Officials from the Departments most closely concerned (Defence, Transport, Economic Development, Belfast, Treasury and DTI) have produced the attached agreed note recommending that no support should be given. Officials guess that Trafalgar House may be looking for assistance in the range of £5-10m.

Since the main work would be carried out overseas, the industrial case for support is weak, but we clearly have to consider whether other grounds would justify our taking a different attitude. I understand that officials take the view that support would run counter to our general stance on shipping policy and defence arguments do not of themselves justify support. There are, of course, arguments of national maritime prestige and the QE2's direct and indirect contributions to employment in the shipping and related sectors and to the economy as a whole. I would be glad to know if you or colleagues believe that these would justify support. I must warn, however, that there is no sure way of providing the money: Section 8 of the Industry Act, which can be used by any Secretary of State for projects of economic

benefit and national interest, is perhaps the least difficult route available but no Department has provided for expenditure of the order of £5-10m and the case for assistance would have to be cleared in Brussels (which would be far from straightforward).

If we decided not to support the project and if, as a result, Trafalgar House decided not to proceed with re-engining but to sell the QE2, we can expect them to make it plain that the Government refused the financial assistance which would have allowed them to proceed. In that event we would need to be ready to rebut that criticism, making it plain that we felt that support could not be justified on defence or industrial grounds and that it would run counter to our shipping policy.

If we did decide in principle that we would support the project it would be necessary both to test Trafalgar House's intentions and to agree on the amount of support and on the conditions to be attached to it. This would be a matter, I think, for your Department since your interests are most closely affected.

Because of the long lead times, Trafalgar House are pressing for an early reply. I would be glad therefore to know by 9 October whether you or colleagues believe that support would be justified.

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

LEON BRITTAN

999.49

D/KS/390

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

RE-ENGINING OF THE 'QUEEN ELIZABETH II'

NOTE BY OFFICIALS

BACKGROUND

The "Queen Elizabeth II" (QE2), owned by Cunard a subsidiary of Trafalgar House (TH), is now 18 years old. It remains the world's most prestigious liner, provides about 2,000 UK jobs directly and possibly as many indirectly and, with a turnover of £135m, is a major foreign currency earner. But its future is threatened by two factors:-

i. the fuel inefficiency of its engines (2-3 times as costly to run as modern equivalents);

ii. the unreliability of its engines, a problem which has dogged the vessel all of its life.

2. Trafalgar House say that the vessel is both drawing near to the end of its design life and is currently operating at low profit levels. After considering a number of options (including building a replacement) Trafalgar House have identified two principal options, either:-

i. re-engining and refurbishing the ship to extend its life by 20 years from the date of the work, at a cost of £80 million. The re-engining would be accomplished by replacing the two existing steam turbines with a unique diesel-electric power plant using 9 medium speed marine diesels to run two electric motors.

ii. if (i) looks uneconomic, selling the ship which would thus go out of the UK flag..

3. Trafalgar House have now presented the Government with an assessment of the costs and benefits of re-engining and refurbishing project. Their estimates are:

	£ million
Re-engining	63.1
Other refurbishment	17.1
Total Cost	80.2
Return before financing costs and depreciation	12.8 pa

899 00

4. Trafalgar House are seeking bonds to the value of some £60 million to guarantee completion dates and performance. Only German yards are prepared to offer these and the work would therefore be undertaken there. Tragalgar House say that some £20-£30m of the work could be sourced from or carried out in the UK. The main work for the UK would be electrical (some £9.7m if GEC won the order for the electric motors) and possibly 4 out of the 9 diesel engines (value £6.7m). The engine under consideration can be manufactured in the UK under licence by Harland & Wolff but, although discussions continue, Trafalgar House remain concerned that Harland & Wolff's other commitments could rule out completion of 4 engines in the time available.

THE PROBLEM

5. On their present assessment, Trafalgar House reckon that the project could produce a rate of return which they would just find acceptable. But they are highly concerned at two sorts of risk. First their calculations are sensitive to assumptions about oil prices and exchange rates (with most revenue in US dollars and half the expenditure in sterling).

Second, and more importantly, they are concerned that the project may not produce the full 20 year life extension they seek. They argue that it could possibly be as short as 10 years. If this was the case they would be left with £40 million of unamortised expenditure. They want the Government to take some share of that risk. They have not specified a figure, but they are probably looking for £5-10 million.

Once we start to negotiate it may be difficult to draw back.

6. We have not at this stage attempted to probe their analysis in depth or to test intentions. But we believe that their approach follows their normal approach to investment decisions. They clearly see the project as producing an insufficient return to justify the risk. The prior questions for Government therefore are:-

i. what justification is there for Government financial assistance?

ii. how could such assistance be provided?

THE CASE FOR ASSISTANCE

7. The main arguments on Government financial assistance are:-

i. Military. The QE2 played an important role as a troop carrier in the South Atlantic. TH have already approached MoD seeking support for retaining the ship under the UK flag and thus available for military purposes and have suggested modifying the refurbished liner to meet further

999 80

possible military requirements. MoD, however, take the view (with which the Department of Transport agree) that the QE2 is not a strategically essential component of the UK fleet, and that use of scarce MoD resources to ensure either its continued availability or greater physical suitability would not be justified.

ii. Shipping Policy. It is not Government policy to provide subsidies to prevent ships leaving the UK fleet. Despite the prestigious nature of the QE2, officials see no strong reason for an exception in this case, which would risk being interpreted as signalling a major change in policy.

iii. Employment. The QE2 employs 2,000 directly, with probably as many again in dependent employees (both mainly outside the assisted areas). If TH sold the QE2 it would almost certainly go abroad - and the employment lost. The conversion work itself would itself generate 500 or so jobs in the UK for about a year.

iv. National Economic Grounds. The QE2 produces an annual turnover of £135 million, additional earnings for attendant services (eg BA whose Concorde/QE2 link has generated about £35 million), and in a typical year brings about 50,000 wealthy tourists to the UK. Although the QE2's current operations are barely profitable, they should be profitable after conversion and the loss of the significant direct and indirect earnings would probably be a significant economic loss to the UK.

v. National Prestige. Trafalgar House argue that, as the successor to the Queens and the passenger flagship of the world fleet, the QE2 is undoubtedly a potent national symbol to a maritime nation. Sale abroad would be widely perceived as a significant denting of the British image.

vi We have also considered the industrial case for assistance. This is weak. Apart from the electric motors, likely to be of a type already built by GEC, the principal work for the UK would be in engine construction. Harland and Wolff is asked to break even on engine work. The Dept. of Economic Development, Belfast, does not consider the likely orders of sufficient importance to merit special assistance.

9. Officials agree that the arguments for assistance for this project, which would principally be carried out in Germany, are weak. In particular, this applies to the case for assistance on defence shipping policy and industrial grounds; the main grounds if any for assistance are the less tangible ones of national prestige and image, coupled to some extent to the national economic benefit, though while

049 50

the QE2 is a net contributor to UK wealth and employment, if considered as an isolated business (turnover of £135m, employment 2,000) it is hardly of the first rank.

THE SCOPE FOR ASSISTANCE

10. Nevertheless we have considered the possible means of providing assistance should the Government decide to support it. A possible recent precedent was the replacement for Cunard's Atlantic Conveyor. The arrangement there (in detail at Annex A) was for a package of

- Intervention Fund (IF) (the normal level of subsidy for a ship of its size)
- Subsidised Home Credit in accordance with OECD terms (again the normal level of support for a ship of its size)
- additional compensation from D. Trade (now D Transport) for the loss of the Atlantic Conveyor
- financing costs during construction borne by BS
- MoD contribution for military features

11. In this case most of these routes are unavailable. The work does not qualify for IF as it would be done abroad; it would anyway probably not have done so in the UK as it is not shipbuilding. Credit will be available from the country doing the work (Germany) and TH are already assuming OECD terms in their calculations. Additional compensation for the use of the QE2 in the South Atlantic could not be paid now (Cunard received a total of £30m compensation and charter payments; MoD arranged and paid for the installation of extra equipment and the return to normal afterwards). Bearing the financing costs during construction in a German yard is clearly impossible, at least in the direct way done for the Atlantic Conveyor replacement. MoD do not believe that an MoD contribution would be justified.

12. We have identified two other possibilities

Support for Innovation (SFI). The diesel-electric installation is highly unusual - it might just be eligible for SFI support, if GEC (competing with Siemens) won the electrical contract. However it is unlikely to fit within the present SFI guidelines, and even if that obstacle could be overcome, only a small amount of support could be made available.

Support under Section 8 of the Industrial Development Act 1982 Prima facie it is most unlikely that the case for support would meet the "exceptional national benefit test" now required for assistance using

849 00

the Section 8 General Facility. Accordingly any support would have to be sought under the General Powers of Section 8 which require a sufficient degree of economic benefit and national interest in justification. In principle these powers could be exercised by any Secretary of State (eg the Secretary of State for Transport, on shipping policy grounds). Assistance could be provided either by way of grant, or possibly by way of some sort of guarantee. Brussels approval would be required, the latter involving notification of the proposed State Aid under the procedures laid down in Article 93 of the Treaty of Rome. Success in Brussels could certainly not be guaranteed and might require a considerable expenditure of politcal capital in support.

13. There are no provisions in any Departmental budget to meet any assistance costs relating to this project.

14. If we were to provide assistance we would want to extract a quid pro quo for TH. Specifically a guarantee that the QE2 would remain under the UK flag for, say, at least ten years.

RECOMMENDATION

15. We therefore recommend that Trafalgar House be told that the Government does not see a case for assisting this project, and that they should decide whether or not to undertake it on purely commercial grounds.

Department of Trade and Industry
Department of Economic Development, Belfast
Department of Transport
Ministry of Defence
HM Treasury

27 September 1985

ANNEX A

THE ATLANTIC CONVEYOR REPLACEMENT DEAL

This note sets out very briefly the main elements of the deal reached in 1982.

	$ million	
Contract price	72.4	
Intervention Fund	10.86	
Shipbuilders Relief	1.45	
Cost of credit under Home Credit Scheme	9.77	
GIVING		
Total shipbuilding subsidy		22.1
IN ADDITION		
MoD contribution (paid to Cunard) for military features	7.04	(£4m)
D. Trade (new D Trans) contribution as additional compensation for loss of Atlantic Conveyor	4	
GIVING		
Total subsidy		33.1

In addition BS bore the entire cost of financing construction, receiving payment only on delivery.

DTI
27 September 1985



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

30 September 1985

Dear Nick

SHIPPING POLICY

Thank you for sending me a copy of your letter of 23 September to the Prime Minister. I have now also seen the Prime Minister's views reported in her Private Secretary's letter of 26 September.

From the House of Lords point of view I strongly support the proposal for a White Paper. I have had a word with John Rochdale, the chairman of the relevant sub-committee of the House of Lords European Communities Committee.

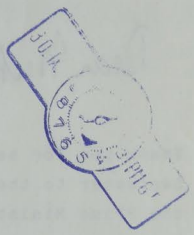
I am sure he hopes as I do that his Committee will help to head off the separate Lords Committee. Your proposed White Paper should also help, and at least serve to delay any decision about setting up such a Committee.

I am sending copies of this letter to the members of E(A), the Secretary of State for Defence, and to Sir Robert Armstrong.

The Rt Hon Nicholas Ridley MP

NAT IND PT 8

Shipbuilding



CONFIDENTIAL

MJ

bc PC.

cc JW

10 DOWNING STREET

From the Private Secretary

26 September 1985

Dear Richard.

STATEMENT ON SHIPPING POLICY

The Prime Minister has considered the Transport Secretary's minute of 23 September in which he proposes that the Government should publish a full and comprehensive document on shipping policy.

Subject to the views of colleagues, the Prime Minister is prepared to see work started on such a document though would like to consider the substance more fully before a decision to publish it is taken. She has commented that the proposed arguments, as summarised in Mr Ridley's minute, will meet with a hostile reception.

I am copying this letter to the Private Secretaries to members of E(A), to the Private Secretaries to the Lord President and the Defence Secretary and to Michael Stark (Cabinet Office).

yours sincerely

Charles Powell

Richard Allan Esq
Department of Transport.

CONFIDENTIAL

EA

PRIME MINISTER

STATEMENT ON SHIPPING POLICY

Public anxiety about the decline of the merchant fleet continues, and I know you too are concerned. Parliamentary interest will increase in the next session. Two, and possibly three, Select Committees are going to enquire into various aspects of shipping policy. The House of Commons Defence Committee has asked me for a White Paper or evidence to it on merchant shipping and defence; the House of Lords Committee on the European Communities is about to take evidence on the Commission's proposals for extensive secondary legislation to implement an EC shipping policy; and there is pressure for a separate Lords Committee to study the decline of the British merchant fleet - though we might find that these two exercies can be amalgamated.

Over the last two years I have reviewed the many policy issues which are involved and although I have still to tie up a few loose ends I have come to the conclusion that present policies are broadly right and that what we need is a major effort to explain them to the public. The problem is more a presentational rather than a policy issue. The most difficult hurdle to overcome is securing acceptance of the idea that the country does not have to have a merchant fleet of any particular size sailing under the UK flag to guarantee our security either in war or in peace-time. We have to get the message across that the UK-owned industry operating to a significant degree under foreign flags is just like our foreign investments in manufacturing or service industry - still a valuable national asset and that, beyond this, in war, we are part of Nato and it is the combined resources of Nato which matter. The arguments are many, complex and detailed and cannot be got across by broad-brush statements or speeches.

It seems to me that a full or formal exposition of the arguments is needed and I therefore suggest that we publish a full and comprehensive document on shipping policy as soon as practicable, and in any case by the end of the year. This could either take the form of a White Paper, or perhaps more tactfully a White Paper "with green edges". We will in any event need to put a policy paper to the Select Committees as a basis for their enquiries, and to make this a comprehensive public paper giving us just the sort of presentational opportunity we have hitherto lacked. I suggest it is not so firm in tone as to seem to present a fait accompli to the Committees, while being firm enough to make clear the main elements of our policy.

If you and colleagues are content with this approach I will send a synopsis of the contents round in a short time.

I am copying this minute to members of E(A), Willie Whitelaw, Michael Heseltine and to Sir Robert Armstrong.

J. Moultrie

p.p. NICHOLAS RIDLEY
23 September 1985

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

Shipping Policy

CONFIDENTIAL

NBPT
MP 248

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

2 August 1985

Dear Peter,

HARLAND AND WOLFF PLC

I have now seen the Prime Minister's, Norman Tebbit's and your response to my recent minute on Harland and Wolff.

I am grateful for your agreement with the broad thrust of my proposals, and I have notified the Company of their external funding for this year on the basis set out in your response. Rhodes Boyson will meet the full Board shortly to convey to them our dissatisfaction with their 1985-86 cash requirement and our determination that the Company must lay realistic plans to operate in future on the basis of declining EFLs.

The funding notified to the Company is net of the £1 million contingency allowance, as you sought. I must point out however that this allowance was recommended to me, not by the Company, but by independent management consultants employed by my Department to advise on Harland and Wolff. I believe that their advice was realistic and so, while I will be keeping the squeeze on the Company, I cannot rule out the possibility that either I may have to seek restoration of the cut later this year or its elimination will make achievement of a declining EFL next year more difficult.

I am also concerned that, as I had pointed out, authorisation to use the owners' early instalments as a means of reducing this year's EFL, will slacken, not tighten, financial discipline on Harland and Wolff, although I certainly see the presentational advantages. I have accepted your proposal, but I should point out that the consequent loss of revenue in the next two years will of course have to be

/taken into

taken into account when we consider whether the forecast EFLs for these show a satisfactory declining profile.

I have noted Norman Tebbit's points and have advised Harland and Wolff of the basis on which we shall expect any bids for AOR contracts to be prepared. It is indeed important that competition for these contracts should be on a demonstrably fair basis. It follows that we will have to give Harland and Wolff the sort of flexibility in negotiating with MOD that a private sector company would have and we shall wish to consider, nearer the time, in the light of past precedents, our stance on regional aids for the various bidders.

I shall also be examining ways in which our financial control over Harland and Wolff might be tightened further and the BS example, modified to allow for profitable MOD orders, may be instructive.

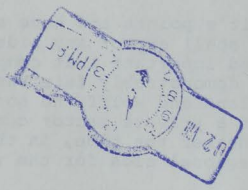
I am copying this letter to the Prime Minister, other E(NI) colleagues and to Sir Robert Armstrong.

Yours,

Doug'17.

ssd

Shipbuilding : NAT IND.
Pt 8.



NBPM CC NO
KJ 25/7

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL
COMMERCIAL - IN CONFIDENCE

26 July 1985

PRIME MINISTER

MARINE ENGINEBUILDING IN THE UK

I have seen Norman Lamont's letter to you of ~~11~~ July with the paper making proposals for future management for marine enginebuilding. As he says in his letter, these proposals have my agreement, and I would simply underline his remarks about the social and political difficulties of a choice between Greenock and Belfast if a single site for engine-building was thought to be required. The Greenock area has seen a continuous and substantial rundown in employment as the marine industries have declined. It still has major employment problems, with Scott Lithgow remaining a source of concern, as Trafalgar House have only recently warned us.

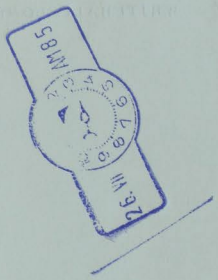
I hope colleagues will find the basis proposed in the paper an acceptable one on which to proceed.

This minute is copied to other members of E(A) and Sir Robert Armstrong.

G.Y.

G.Y.

Nat Ind. Shipbuilding Pt 8.



CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

881

(46)

bcc: P Warry

10 DOWNING STREET

From the Private Secretary

23 July 1985

E(A): MoP, HMT, MIO, DEn, SO, WO, DOE, LPSO, CDLO, DEmp, MAFF, CS(HMT), DTp, P. Gen

MARINE ENGINE BUILDING IN THE UK

The Prime Minister has seen Mr Lamont's minute of 11 July and the Chief Secretary's reply of 19 July. She has noted that it has not proved possible to develop proposals for a joint venture between British Shipbuilders and Harland and Wolff. She agrees with the Chief Secretary that Harland and Wolff's involvement in engine building should be considered as part of the strategic discussions scheduled for the Autumn - see my letter of 23 July to Neil Ward.

I am copying this letter to the Private Secretaries to Members of E(A) and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Edmund Hosker, Esq.,
Department of Trade and Industry

CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

EA

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

23 July 1985

E(NI): HMT
DOE
SO
DTI
DTp
CS, HMT
DEn

DEmp.
CDLO

HARLAND AND WOLFF

The Prime Minister has seen your Secretary of State's minute and the Chief Secretary's reply of 15 July. She is concerned about the rise in Harland and Wolff's requirement for external finance, which is a departure from the declining path agreed in E(NI) last September. She recognises that some of the factors behind this could not have been avoided. Nevertheless, she hopes the adjustment of the EFL will be kept to the minimum along the lines suggested by the Chief Secretary.

She shares the concern of colleagues at Harland and Wolff's failure to produce an acceptable corporate plan. She welcomes your Secretary of State's insistence on the production of tough and realistic plans, which should include an assessment of the "small yard" strategy. These plans should be put to E(NI) for discussion in the Autumn.

I am copying this letter to Private Secretaries to Members of E(NI), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Neil Ward, Esq.,
Northern Ireland Office

CONFIDENTIAL

PRIME MINISTER (1)

HARLAND AND WOLFF

There are two related problems over Harland and Wolff.

(i) 1985-86 EFL. Last September E(NI) set a declining path for Harland and Wolff's EFL of £37.5m in 1984-85, £32.5m in 1985-86, and £30m 1986-87. Mr. Hurd's minute (Flag A) reports that the 1985-86 EFL is likely to be exceeded. He seeks approval for an EFL of £42m. In addition, Harland and Wolff have failed to produce a satisfactory corporate plan. Mr. Hurd proposes to reject the existing plan and call for a tougher one which will incorporate a declining path for EFLs, albeit at a higher level than set last September. Mr. Hurd does, however, express his doubts about the so-called "small yard" strategy which Harland and Wolff were supposed to be investigating.

The Chief Secretary (Flag B) accepts that much of the 1985-86 over-run relates to known commitments, but argues that it can be reduced by drawing on the company's deposits. He suggests a figure of £36.5m. He too calls for a more hard-headed corporate plan.

(ii) Marine Engine Building. The Department of Trade and Industry, Scottish Office and Northern Ireland Office (Flag C) have examined the scope for a joint Marine Engine Building venture between BS and Harland and Wolff, both of whom are operating below capacity. The Departments conclude that such a joint venture is impossible, given the rivalry between the two organisations. They recommend:-

- setting break-even targets for the engineering operations for BS and Harland and Wolff;

- setting up arrangements to monitor their engine building performance;

- appointing an expert adviser to the Department on the efficiency of these engine building operations.

The Treasury (Flag D) are not seeking to challenge this at this stage, but would prefer to discuss the issue in the context of the corporate plan.

Agree:-

(i) The adjustments to the 1985-86 EFL be kept to a minimum as suggested by the Treasury.

(ii) Harland and Wolff be told to produce a corporate plan, including consideration of the small yard strategy, for discussion by E(A) in the autumn.

(iii) Harland and Wolff's involvement in Engine Building should be considered as part of the corporate plan discussions.

AT

22 July, 1985.

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NSPM KT 23/7

THE PRIME MINISTER

HARLAND & WOLFF PLC (H&W)

I must express my support for the recommendations contained in the recent submission prepared by the Secretary of State for Northern Ireland regarding the way ahead for H&W. A significant part of the yard's workload is the build of the BP SWOPS vessel and it is vital that lack of finance should not impede progress towards timely completion of the vessel. H&W's future in the offshore market will largely depend on how they cope with this major contract.

I am copying this to members of E(NI), Michael Heseltine and to Sir Robert Armstrong.

Secretary of State for Energy
22 July 1985


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D

cc PM
cc RTA

FROM: CHIEF SECRETARY
DATE: 19 July 1985

PRIME MINISTER

MARINE ENGINE BUILDING

File with AT

I have seen a copy of Norman Lamont's letter to you of 11 July about marine engine building at British Shipbuilders and Harland & Wolff.

2 As Norman says, his proposals do not tackle the problems of over capacity in the industry in a radical way nor in a direct way. However I recognise that these proposals have been formulated against a difficult background of competing commercial and political interests. I am prepared to accept his judgment that in these circumstances a more radical response would not be practicable now and that the solution which is recommended is the most likely to secure early action by both companies to reduce over-capacity. While I am prepared to go along with the general approach I have a number of observations on aspects of the proposals.

3 First, we are due collectively to discuss Harland & Wolff's corporate plan in the autumn. These discussions will raise fundamental issues about Harland & Wolff's strategy including the future of their engineering operations. My agreement now to Norman's proposals should not in any way constrain these strategic discussions.

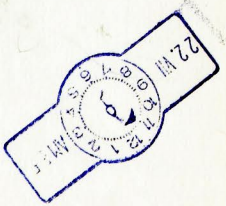
4 Second, Norman does not indicate when he proposes to establish the financial regime which he is recommending. I assume that if his proposals are accepted the targets will be set and will come into effect immediately. The discipline of the financial target on British Shipbuilders would presumably be reinforced if their engine building operations were to be included in their future Contract Support Limits. I suggest that we proceed on that basis. I also suggest that it would be appropriate to review the operation of the arrangements Norman proposes in a year's time and for Norman to report on how effective these arrangements have been in reducing capacity and whether any change in approach seems justified.

5 Finally, I have a number of doubts about the bureaucratic arrangements which are to complement the financial framework. I am not certain how the bureaucratic arrangements add to the discipline of the financial target in promoting the necessary contraction. Indeed the combination of a financial and a bureaucratic solution could reduce the industries' incentive to consider rationalisation. They could find it convenient to assume that it was for the independent adviser or for the Government to initiate rationalisation proposals and decision making could be slowed down and muddled. I do not want to insist that these bureaucratic arrangements are dropped if others consider them to be essential but I hope those administering these arrangements will do so in a way which guards the risks I have mentioned.

I am copying this letter to members of E(A). + RTR

PETER REES

Shipbuilding. Nat. Ind. P 6-8.



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P 01602

PRIME MINISTER

E(A)(85)15th MEETING ON 23 JULY
British Shipbuilders: Corporate Plan 1985/86-1987/88
E(A)(85)48

BACKGROUND

This paper is concerned with the merchant shipbuilding business of British Shipbuilders (BS). The warshipbuilding yards are being privatised by 31 March 1986.

2. EA(A)(85)19th Meeting on 18 July 1984 agreed that BS' mainstream merchant business should be placed on a downward "glidepath" from an annual order intake of 230,000 compensated gross tonnes (cgt) in 1984/85 to 115,000 cgt in 1987/88. They did not, however, set an explicit capacity target. Instead, a new financial control system, the Contract Support Limit (CSL) was subsequently established in addition to the External Financing Limit (EFL). The CSL puts a strict limit on the amount of subsidy available for orders and thus constrains their ability to take new orders. It was set at a level that, on the assumptionsthen made, was consistent with the agreed annual order intake of 115,000 cgt by 1987/88.

3. In May this year it became clear that BS had constructed a draft Corporate Plan that was not consistent with the above "glide-path" strategy. They had assumed higher - though not unreasonable - ship prices and higher CSLs than the Government had envisaged. Mr Tebbit therefore asked Mr Day, the Chairman of BS, to present a Plan based on the assumption that the CSL would fall from £55 million in 1984/85 to £25 million in 1987/88 and lower still in 1988/89. Mr Tebbit minuted you about this on 20 June 1985 (copied only to the Chancellor of the Exchequer).

Flag A

4. The Memorandum by the Secretary of State for Trade and Industry (E(A)(85)48) now summarises the revised plan. Its key elements are:

Flag B

MAINSTREAM BUSINESS (MERCHANT AND ENGINEBUILDING COMPANIES)

	Actual 1984/5	1985/6	1986/7	Forecast 1987/8	1988/9
External Finance (£m)					
Requirement	134	75	73	65	43
EFL baseline	137	75	75	59	60
Contract Support (£m)					
Contract Support	51	47	35	26	20
CSL baseline	55	47	35	25	not set
New Order Intake (kcgt)					
	223	203*	168	168	164
Employment (annual Average)					
	10,900	10,300	10,100	9,900	9,100
Operating Subsidy (Trading Loss plus Contract Support) (£m)					
	91	64	54	39	25

Proposals

5. Mr Tebbit proposes:

(a) to accept the Plan as far as 1987/88 but to indicate that for 1988/89 and beyond BS should assume that CSLs will be reduced by £10 million a year, and eliminated entirely by the end of 1990;

(b) to set tough EFLs consistent with CSLs of £35 million in 1986/87, £25 million in 1987/88, and £15 million in 1988/89;

(c) to take no final decision now on the fate of BS but continue to review its progress year by year.

* Likely to be 5-10 per cent lower on latest estimates of CSL available.

I understand that the Treasury accept these proposals.

MAIN ISSUES

6. The main issue is whether BS should continue on the downward "glidepath" set last year, and if so, at what rate. Relevant factors are:

(a) Prospects of commercial viability;

(b) Annual Order Intake;

(c) EC Implications.

Commercial Vaibility

7. BS have not changed their basic view that the industry cannot operate without subsidy in the foreseeable future. There seems no reason, therefore, to question Mr Tebbit's view that the Government should maintain the approach of "managed decline" by steady reduction in subsidies.

Annual Order Intake

8. The BS Plan is now consistent with the agreed EFL and CSL baselines. But BS believe that these baselines would also permit a higher annual order intake of 168,000 cgt in 1987/88. This is because although their productivity assumption (32 per cent gain over the Plan period) is broadly the same, they now assume a real price increase of 5 per cent over the Plan period. (Deflating 168,000 cgt to a zero price increase produces 128,000 cgt, some 10 per cent greater than the expected 115,000, but within the margin of error of the original calculation).

9. This level of order intake is very sensitive to price, including the £/yen exchange rate, which BS forecast will fall by 18 per cent

over the Plan period. BS will face continuing price pressures from market leaders in Japan and Korea. If price levels in 1987/88 are 4 per cent lower than in BS's new base case, the achievable order intake within the CSL falls to 114,000 cgt; a 4 per cent price increase over BS's new baseline would make the CSL consistent with an order intake of 222,000 cgt.

10. The size of merchant business will thus depend heavily on price levels. Most yards have work to the end of 1986. But if BS' assumptions on performance and prices hold true, the declining level of activity will probably lead to the closure of Austin and Pickersgill (A&P) in Sunderland in the second half of 1987. If the outturn is better than expected, closures may be avoided altogether; if it is worse (which BS believe more likely), further closures would occur (probably Appledore (Devon) and possibly Smiths Dock (Teeside) along with A&P closing in the first half of 1987. Such closures, and attendant redundancies, would give rise to short-term cost increases and increase BS' External Financing Requirements (ERFs) over the Plan period. BS' best, but tentative, estimate is that the EFL increase resulting from a price level 5 per cent below their base case assumptions would be:

		£ million
1986/87	1987/88	1988/89
1.6	12.6	6.1

On this basis employment would reduce to 6,900 in 1988/89, compared with 9,100 on the base case assumptions.

11. DTI and the Treasury believe that there would also be a net cost to the Exchequer if the CSL baseline were further reduced in an attempt to produce the agreed 115,000 annual order intake by 1987/88. Savings on the CSL would be outweighed by the extra costs arising from restructuring, redundancy and closures.

EC Implications

12. The EC have agreed to a new Intervention Fund (IF) regime raising the maximum intensity (the proportion of aid made available to the cost of a contract) to 20.5 per cent with £100 million available to BS and the private sector between July 1984 and December 1986. In exchange, the UK have agreed privately with the Commission to reduce BS' merchant capacity (the Commission expect this to fall by 40 per cent by December 1986, which can be achieved because of the withdrawal of the warship yards from subsidised merchant work) and their order intake by 20 per cent a year. This strategy seems defensible in Brussels, although we should need to be a little more persuasive if the annual order intake proved higher than the base case.

HANDLING

13. You will wish to invite the Secretary of State for Trade and Industry to introduce his proposals and the Chief Secretary, Treasury to respond. The Secretary of State for Scotland may wish to comment on any implications for BS yards in Scotland (Ferguson Bros (Grennock); Ailsa (Ayr); and Govan (Clydeside)). The Foreign and Commonwealth Secretary or his representative may wish to comment on the EC implications.

CONCLUSIONS

14. You will wish to reach conclusions on:

(i) whether to accept the BS Corporate Plan as far as 1987/88 and to indicate that BS should plan for 1988/89 and beyond on the assumption that CSLs will continue to be reduced by £10 million a year with the elimination of all subsidies by the end of 1990;

(ii) whether to set EFLs consistent with CFLs of £35 million in 1986/87, £25 million in 1987/88 and £15 million in 1988/89

(iii) whether to continue to review the progress of BS year by year.

J B UNWIN

19 July 1985
Cabinet Office

CONFIDENTIAL

cc BKUP

PRIME MINISTER

19 July 1985

BRITISH SHIPBUILDERS CORPORATE PLAN

MS

This is a sensible Plan which we support. In an inherently loss-making industry, Graham Day is achieving speedy privatisation: BS have sold or closed 15 commercial businesses; sold 17 surplus properties; and of the warship yards, 2 have been sold, 2 are under negotiation, and sales documents for the remaining 2 have now been issued, or will be shortly. Moreover, BS has met its EFL target.

Shipbuilding is riddled with special support schemes, and DTI have introduced a useful control mechanism which encompasses them all - the Contract Support Limit (CSL). The "true loss" in any year is therefore the reported trading loss plus the CSL credited (closure costs would be additional). The table below shows the downward glide path in CSL, "true loss" and cash requirements.

	Actual				£m
	1984-5	1985-6	1986-87	1987-88	1988-89
CSL	51	47	35	26	20
"True Loss"*	91	64	54	39	25
EFL Requirement	134	75	73	65	43

The reducing amount of CSL subsidy forces order intake to fall from 223 kcgt in 1984-85 to 164 kcgt in 1988-89. This necessitates the closure of Austin & Pickersgill in Sunderland in the second half of 1987, with the decision perhaps being taken a year earlier. The CSL money yields a cost per job year saved of very very roughly £3,000 which compares favourably with other nationalised industries.

Sensitivity to Ship Prices

The major concern is the sensitivity of the plan to ship prices. Following a sharp fall, BS optimistically forecast

* Called Operating Subsidy in the E(A) papers.

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ship prices to increase by 5% in real terms over the plan period. But any small change in prices dramatically affects the size of the gap between ship prices and ship costs, and therefore the number of ships over which a fixed amount of CSL will spread. If instead of increasing, prices merely held steady, then the fixed CSL would finance roughly only 60% of the planned order level. This would make further closures unavoidable (although decisions should not be needed before next Summer), and these closures would in turn increase the EFL Requirement.

Recommendations

1. We recommend that you endorse the Plan, but ask to review the CSLs next year in the light of market conditions.

2. Graham Day's contract has a year to run. He has implemented difficult government decisions without complaint and got firmly to grips with his management. He ought to be approached now for a bigger nationalised industry job when his contract expires.

Peter Warry

PETER WARRY

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FROM: CHIEF SECRETARY
DATE: 15 July 1985

PRIME MINISTER

HARLAND AND WOLFF (H & W)

It is disappointing that H&W are coming forward for a substantial increase in public funds so soon after getting agreement to the very generous subsidy terms for the BP and BSC contracts last September. These latest problems must call in question the credibility of the declining EFL profile we were led to expect at that time.

2 The 1985-86 EFL relates mainly to known commitments so there is virtually no option but to agree to an increase unless we cut capital investment on which major productivity gains depend. However I think we should minimise the public expenditure cost this year by removing the contingency allowance and allowing the company to use £5 million of funds on deposit. I recognise that this will reduce forecast income in 1986-87 and 1987-88 but we must register our expectation that future years' performance will be much better than this. Accordingly I propose that we agree to an EFL of £36.5 million this year on condition that H&W should be back on course for a sustained decline in annual funding from this year's figure of £36.5 milion.

3 We are not asked to take decisions now on the longer term options but we need to be clear about the parameters for the corporate plan discussions in the autumn. In response to Douglas' proposal that we hold to control through declining EFLs 'where practicable' I would reiterate that a sustained reduction in public support must be a precondition of keeping H&W in operation. If the revised corporate plan does not provide a realistic strategy for achieving this reduction we shall be forced to look for more drastic alternatives. I note Douglas' view that a

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major reduction in capacity would not be worthwhile. (I reserve judgement on this but my officials have registered their scepticism about the H & W study). However if that is the conclusion we reach, and if the corporate plan does not produce an acceptable rate of decline in public support, on realistic assumptions, we shall have no option but to consider seriously once again the option of closing the yard.

4 I am copying this to members of E(NI), Michael Heseltine and to Sir Robert Armstrong.

PETER REES

Shipbuilding. Nat. Inst.
PtB

AT — have you seen this? Margo 2/7

CC PO

NDPM

AT

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PRIME MINISTER

HARLAND & WOLFF PLC (H&W)

File with AT

I have seen Douglas Hurd's recent minute to you on this subject. I share his concern that H&W have failed to put forward a realistic plan that explains how they will achieve the reducing EFLs we agreed in E(NI) last year.

2 I have two particular concerns:

I understand that the rejected plan assumed that all major orders in the Plan period would come from MOD for naval auxiliary and other ships. H&W's mainland competitors for these orders will by that time be in the private sector. It will be essential therefore that H&W are not allowed to compete unfairly for such orders and that their bids are not only unsubsidised but contain proper profit margins;

second, shipbuilding generally is an awkward industry to control solely by means of EFLs. We have therefore as you know devised a system of decreasing contract subsidy limits for British Shipbuilders as a means of reducing the risk of future unacceptable losses of the kind we have had from them in the past. While the system may not be applicable as it stands to H&W I think it vital

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that something comparable should be applied to H&W which reduces the risks of future losses while offering the management a real incentive to improve the yard's performance. Unless there is an effective financial control system the management at H&W will have little incentive to produce a more realistic plan in the Autumn than they have hitherto.

3 I am copying this minute to the Secretary of State for Northern Ireland, the other members of E(NI) and Sir Robert Armstrong.

NJ

NORMAN TEBBIT
15 July 1985

Department of Trade and Industry

JH1CPW

Shipbuilders.
Mat. Ind. 1948.

D/F with PM response dt 11/7 CC NO CO IA&W (CO)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

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COMMERCIAL IN CONFIDENCE

The Prime Minister
10 Downing Street
LONDON
SW1

11 July 1985

Dear Prime Minister

MARINE ENGINEBUILDING IN THE UK

At E(A)(84) 19th meeting it was agreed that the Secretary of State for Trade and Industry, together with the Secretaries of State for Scotland and for Northern Ireland, should bring forward recommendations for the future of marine enginebuilding in the UK.

The principal problem we faced was overcapacity at British Shipbuilders (BS) and Harland and Wolff (H&W) for the manufacture of slow-speed engines. The underlying question was whether we should concentrate their manufacture on one of the two present sites, Greenock and Belfast, and if so which one.

Since then the position has changed significantly. Both BS and H&W firmly believe that they must remain slow speed enginebuilders for strategic industrial reasons. But equally both have made substantial cuts in capacity, with the result that in the short term at least UK capacity is roughly in line with demand. The problem has thus moved to the right, but will of course return as the UK shipbuilding industry, and BS in particular, contracts over the next 3 years along the route we envisage.

While the commercial need for moving to a single site has receded, the social and political difficulties of a choice between Greenock and Belfast have become if anything more acute. While a radical solution remains intellectually attractive, we do not believe it is practical at present. The obvious intermediate route of a joint venture between BS and H&W leading eventually to a single site operation is also in our view rendered impractical by commercial animosity between BS and H&W. A joint venture can only succeed

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with total management goodwill and, with two organisations competing in a limited market for survival, that would clearly not be available.

In these circumstances, we have concluded that the right approach is to set a primarily financial framework which will both effectively force BS and H&W into closer co-operation as the industry contracts and put us into a much better position to make hard decisions over the next 2-3 years.

Specifically we propose:

i. setting breakeven targets for the engineering operations of BS and H&W;

ii. setting up comprehensive arrangements to monitor their enginebuilding performance, and to bring them round the table regularly to discuss cooperation;

iii. augmenting these arrangements with the appointment of an expert adviser acceptable to all parties, who would advise us on the physical efficiency of the operations and other aspects of enginebuilding and purchasing.

... I attach a paper, agreed with the Secretaries of State for Northern Ireland and Scotland, which sets out the arguments in depth. The Secretary of State for Northern Ireland has some reservations which are explained in Dr Boyson's letter of 9 May appended to our paper.

Subject to your views and those of E(A) colleagues, to whom I am copying this letter, we propose now to go forward on this basis, which we firmly believe to be the right and indeed the only practicable approach to this longstanding and difficult problem.

Yours ever

Norman

NORMAN LAMONT

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MARINE ENGINE BUILDING IN THE UK

INTRODUCTION

At E(A)(84) 19th meeting on 18 July, it was agreed that the Secretary of State for Trade and Industry should, in conjunction with the Secretaries of State for Scotland and for Northern Ireland, bring forward recommendations for the future of marine engine building in the United Kingdom.

BACKGROUND

The Original Problem

2. The problem, as set out in Annex F of E(A)(84)43, was twofold. The foreseeable UK demand for slow-speed marine diesel engines (from British Shipbuilders (BS) and Harland and Wolff (H&W)) looked to be about 10-12 engines per year if BS obtained 200 kcgrt new merchant orders per year. If that fell to 150 kcgrt, engine demand fell to 7-9 engines; at 100 kcgrt it fell to 5-7 engines. Against that, physical capacity in the public sector appeared to be about 20 engines per year. This suggested considerable continuing over-capacity and the Secretary of State therefore proposed with his colleagues to consider whether the industry ought ultimately to move to engine-building on one site for the United Kingdom as a whole.

3. The second problem was the potential conflict with private sector interests in medium-speed engines. Mirrlees-Blackstone had at one stage sued BS, claiming that BS lacked a statutory basis for building engines for land-based power generation, (the suit has since been withdrawn). They have more recently complained that they have been squeezed out of the running for the engines for the BP SWOPS vessel by Harland and Wolff.

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Current Position

4. Since July, the action by both H&W and BS to reduce capacity, coupled with the approach which they both have adopted towards mixing engine-building and general engineering work has considerably reduced the size of the capacity problem.

5. BS have now rationalised their engine-building into a single company on two main sites, Clark Kincaid Ltd, and plan to reduce their overheads by £7½m a year (against anticipated losses this year of £10m with an exceptionally low order book). They now reckon that they can break even with a load of 7-8 slow-speed engines a year coupled with general engineering work using 35% or so of capacity. They claim that in some respects their engineering facilities are now unique in Great Britain and that as a result they are winning profitable sub-contract work which would otherwise have gone abroad. They regard Clark Kincaid as a medium/heavy engineering company whose main business is providing low speed marine engines.

6. H&W has undertaken rationalisation of its engineering division. 60% of facilities have been closed since 1980, employment has dropped by almost 40% to around 700 and overhead savings of £1½m have been achieved, reducing their annual loss on enginebuilding/engineering to £1.9m. H&W now estimate that an addition of 2 or 3 slow-speed engines or equivalent per annum to its present workload would allow its engineering division to break-even (though like BS its plant could comfortably handle more). H&W regard its engineering division as a general engineering unit which also produces marine engines. The integrated shipbuilding and engineering facilities at H&W are unique to the UK and are seen by the company as essential to its drive towards improved shipbuilding techniques. H&W also claims to have the only heavy electrical and heavy machinery facility for its type in Ireland, providing unique market opportunities.

Slow-Speed Capacity

7. Both organisations have thus moved their engineering operations drastically away from their former, almost total, dependence on engine-building work. Between them, 9-11 slow-speed engines a year will provide a viable load. To the extent that short-term demand falls below these levels, then they would aim to move to increase the engineering content of their work to compensate.

8. Optimum loading of the rationalised plants is thus now broadly in line or slightly below the forecast UK requirements for slow-speed engines if BS take orders for some 150 kcgrt or more per annum. In the longer term, however, further contraction by BS will reduce the requirement for slow-speed engines and further rationalisation to bring down capacity is likely to be necessary.

Medium-Speed Capacity

9. Medium-speed engine-building is also important to both organisations. BS builds only very large medium-speed engines (under licence from Sulzer and Stork Werkspoor), similar in dimensions to the smaller slow-speed engines. BS-produced large medium-speed units have of recent years been almost entirely for land-based power generation. Their last marine orders were for the Polish ships, and their only current possibility is the re-engining of the QE2. They regard the business as essential to offset the lumpy demand for slow-speed engines by providing a degree of load smoothing. Like general engineering, it makes an important contribution to overhead recovery during periods of low demand for slow-speeds.

10. H&W build a range of smaller engines under licence from MAN and regard this activity in a similar way to BS although medium-speed orders for the BP SWOPS vessel will entail a higher than normal level of medium-speed production until 1986.

11. The principal problem remains competition with the private sector, and allegations of unfair pricing. When Mirrlees Blackstone withdrew their court case against BS they said that they were satisfied that BS were now pricing fairly. But they have since complained to Ministers tht they have been squeezed out of the running by H&W for the engines for the SWOPS vessel which H&W are building. Consultants have examined H&W's engine costing systems at the request of the Northern Ireland Office, and are satisfied that no unfair pricing is being employed. Mirrlees however continue to press their complaints of unfair competition.

Discussion

A - SLOW-SPEED ENGINES

12. Both BS and H&W see slow-speed engine building as strategically essential to their shipbuilding operations. There is undoubtedly a high risk that reliance on foreign engines would become reliance on Far Eastern competitors who would control prices and delivery. (Sulzer, one of the main licensors, have imported 29 Japanese slow-speed engines into Europe in the last 12 months). We accept that if the UK is to be in the merchant shipbuilding business, it has to be in the slow-speed engine business. And in present circumstances, with extremely depressed levels of demand, and a recent history of large losses, there is no sign that the private sector wishes to become involved. Even if Clark Kincaid is brought to break-even it will remain unattractive to the private sector while it remains dependent for so much of its work on a reducing demand for merchant ships from BS.

13. The question is whether more needs to be done now to rationalise production of slow-speed engine-building in the United Kingdom. It is clear that the companies have taken major strides to deal with the worst of the previous over-capacity problem. Both have also made strides towards achieving break-even. There remain however two key issues:

i. whether the contraction of British Shipbuilders will create a new over-capacity problem;

ii. whether there is scope for future savings through co-operation between the companies.

14. The problem of over-capacity as the merchant shipbuilding industry contracts is not likely to recur until late 1986/7 or 1987/8. But we need to establish now the right framework within which it can be addressed at that time.

Options

15. This might be achieved by co-operation between the two companies leading to further reductions in capacity and at our request they have considered the scope for early savings through exchanging work. But they have not come up with any mutually acceptable proposals. BS has offered H&W orders for medium speed auxiliary engine frames which they would otherwise place abroad in exchange for a slow speed engine order(s) from H&W to equivalent value. H&W has rejected this idea as it would exacerbate the problems of direct competition with the UK private sector. They have instead proposed a full blooded joint venture with BS. Neither finds the other's proposal acceptable - with the present low workload, both companies are naturally keen to

retain as much work at possible in-house to utilise machine capacity. While we believe that there is scope for greater co-operation and rationalisation of capacity, it is clear that it will not come about voluntarily and that we must look for powerful incentives to bring it about.

16. There are two ways in which this might be done. The first is to introduce controlled conditions of equal tendering between BS and H&W to ensure that engine orders are placed with the more efficient manufacturer, rather than each shipbuilder automatically placing orders with its own enginebuilder. This might be achieved by insisting that both organisations, as shipbuilders, invite both Clark Kincaid and H&W, as enginebuilders, to bid for slow-speed engine orders and to insist that they accept the most competitive bid on price, delivery and quality, save in very exceptional circumstances. (At present, each organisation seeks tenders from the other only when it suits them). The aim, which would fit well with our policy of encouraging competition, would be to open the UK market so that the more efficient producer became the most successful; any subsequent rationalisation would thus bear principally upon the less successful of the two. To ensure fair competition, an adjudicating mechanism outside the control of BS or H&W would be necessary; it might consist of an independent Chairman, of some standing, and two other independent members, who might form the nucleus of the board of a joint engine-building operation. They could meanwhile be asked to bring forward constructive suggestions for co-operation in the manufacture of slow-speed engines.

17. There are, however, a number of problems with this approach. Prices of engines are heavily dependent on the extent of bought-in components, particularly from Japan whose engine prices are well below European levels. Either organisation could thus artificially reduce its price by raising the proportion of Japanese content. Moreover, once one organisation had a reasonable workload, it would

have established a permanent advantage in terms of overhead recovery and its subsequent bids would always be lower as a result. Even if cross-tendering occurred, it would still often be in the interest of each organisation to place orders internally in order to contribute to overheads. The prospect of every single UK engine order becoming the subject of a Government-run adjudication is unattractive. It runs completely counter to our general policy towards BS of requiring them to make commercial judgements within overall financial limits. It would almost certainly require a direction to BS, who would regard any such arrangement as one sided since H&W have a lower requirement for slow-speed engine orders.

18. Although many of these difficulties are containable, especially with goodwill on both sides, we do not on balance believe that the idea is likely to prove sufficiently workable to be attractive at least in the short term. This is however the solution preferred in principle by Northern Ireland Office Ministers; Dr Boyson's letter to this effect is annexed.

19. The obvious alternative approach, preferred by the Secretaries of State for Trade and Industry and for Scotland, would be to go for a stringent financial framework for the engineering operations of both organisations. Breakeven targets would be set, performance monitored and appropriate action taken. But to judge either organisation on strict profit criteria would be too harsh. Some of the technical objections to the "open tendering" proposal still apply, such as the possibility of either organisation artificially increasing its margins by raising the Japanese content of its engines. Equally, whichever organisation has the larger workload would have the better chance of breaking even because of better absorption of overheads. But its chief merit is that it would place the management of the engineering businesses, within the breakeven criteria, firmly with BS and H&W, and would avoid the potentially enormous difficulties of direct Government involvement in the placing of engine orders.

Proposal

20. What is needed is a realistic framework which well lead to a structured concentration of UK capacity on the most efficient core. Our conclusion is that this can best be achieved by a balanced mix of the two approaches outlined above, with tight financial control complemented by wide-ranging arrangements for monitoring and assessing the performance of both organisations and the scope for greater co-operation between them. Specifically we propose:-

i. that we set break-even targets for the engineering businesses of both BS and H&W;

ii. that we institute arrangements for six monthly reviews of the engineering businesses by DTI and NIO with which the Scottish Office would be associated, coupled with equally regular meetings between BS and H&W to review the scope for co-operation;

iii. that we reinforce these arrangements by the appointment of an independent adviser, acceptable to both BS and H&W, whose role would be to advise us on the enginebuilding performance of the organisations, their pricing policies and the scope for greater co-operation.

21. Such a framework would provide a straightforward financial incentive to perform, complemented, through the independent adviser, by a mechanism for making a wider assessment of the manufacturing and marketing efficiency of the operations. Thus, when further rationalisation becomes necessary, we shall be better placed to judge any proposals in the overall interests of the UK industry. Norther Ireland Office Ministers are ready to accept that we should follow this path, despite their reservations, based on their concern that breakeven targets alone would favour the busier, but not - necessarily the physically most efficient, operation.

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22. In the short term these mechanisms would put substantial pressure on both companies to overcome their present commercial hostility and to begin to co-operate. In the longer term as the industry contracts, the break-even targets will bite even harder, forcing rationalisation and increasing co-operation if they are to be met. Thus the market forces/public expenditure constraints on the industry will be transmitted directly to the enginebuilders who will in turn be forced to rationalise their capacity for slow-speed engines. This will provide the framework we need to address the overcapacity problems when they recur in 1986/88.

B - MEDIUM SPEED ENGINES

23. The principal issue on medium-speed engines is the accusation of unfair competition with the private sector. Although this problem only currently affects H&W (and the Secretary of State for Northern Ireland is satisfied that H&W do not compete unfairly), we cannot altogether rule out the possibility that the problem will recur with BS. Nevertheless, if either or both organisations withdrew from medium-speed engine-building, the cost to the public sector of supporting their slow-speed operation would rise.

24. We believe therefore that we should allow both organisations to continue to build medium-speed engines in accordance with their current plans. But we must remain vigilant to ensure that the interests of the private sector medium-speed engine builders are protected. The primary mechanism would be the breakeven target. But we would also keep a watch on individual contracts through the proposed mechanism of regular review and with the benefit of the advice of our independent adviser on pricing policy. And in particular, while we should encourage increased co-operation between BS and H&W on enginebuilding we must make it clear to them that this should not be at the expense of the private sector, ie any exchanges

between them on medium-speed engines should only be allowed if it is clearly to the mutual advantage of both and if the private sector is not artificially excluded.

Recommendations

25. In summary, we recommend that:-

i. we endorse the broad thrust of BS and H&W's present strategies for rationalising their engine-building operations;

ii. we provide both organisations with a framework of incentives to encourage further cost-saving through co-operation and to encourage further rationalisation as the UK merchant shipbuilding industry contracts, through:

- setting each organisation the target of running their engineering operations at no worse than break-even;

- setting up regular review arrangements designed to inform us as to their performance, the scope for co-operation and to bring both parties regularly round on table to discuss the issues;

- augmenting these arrangements with the appointment of an independent adviser acceptable to all parties;

iii we remind both organisations of the importance we attach to ensuring that their medium-speed business in no sense competes unfairly with the private sector; and ask the independent adviser we propose to appoint to keep their pricing policies accordingly under review.

DTI/NIO/SO
8 July 1985

Conqueror

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FROM: MINISTER OF STATE

COMMERCIAL IN CONFIDENCE

DEPARTMENT OF ECONOMIC DEVELOPMENT

NETHERLEIGH
MASSEY AVENUE
BELFAST
BT4 2JP

Telephone 63244

RECEIVED IN
13 MAY 1985
OFFICE OF THE
MINISTER OF STATE

TO MR DURIE (Draft)	Copies To
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE) PLEASE BY: 21/5/85	P/S JB MR MOUNTFIELD MK TREADGOLD (Sgd)

Norman Lamont MP Esq
Minister of State
Department of Trade and Industry
1/19 Victoria Street
LONDON
SW1H OET

9 May 1985

Dear Mr Lamont,

MARINE ENGINE-BUILDING IN THE UK

At our meeting on 20 March, we discussed the problems of over-capacity in public sector marine engine-building in the UK and considered a paper being drafted by our officials for consideration by E(A).

I have to say that I remain concerned at the approach you are suggesting - primarily financial pressure on both businesses complemented by a review mechanism with an independent adviser. I fear that your proposals will merely entrench the advantages of the big battalions at the expense of the small, and with little regard for competitiveness or efficiency. In particular, your approach will, I fear, result in pressure for capacity reduction bearing principally on the less busy rather than the less efficient producer.

As the shipbuilding divisions of both BS and H&W tend to place orders with their own engine works without genuinely seeking a tender from the other (and I acknowledge that H&W are at least as guilty as BS on this point), the busier producer is not necessarily the more efficient. I am also concerned that BS, with its recent large influx of slow-speed engine orders will find it easier to comply with a break-even obligation than H&W whose slow-speed engine order book is much smaller, but without BS necessarily demonstrating greater efficiency. This amply confirms my fears about the advantages of the bigger organisation.

I realise that Allan Stewart and you are not prepared to support my compromise solution of injecting a greater element of genuine competition by the introduction of controlled conditions of equal tendering, as we discussed on 20 March. It still seems to me that this option would ensure that the more efficient producer of engines would win the lion's share of future orders and so any subsequent restructuring will fall mainly, and properly, on the less efficient of the two producers. As such, it would fit well within our policy of encouraging competition.

Norman Lamont MP Esq

9 May 1985

I appreciate however that we must reach a modus vivendi on this matter and I am prepared to accept your proposal, with the addition of two clear and explicit understandings. First, it would clearly be inadequate if the independent monitoring expert were to have access only to BS and H&W engine-building divisions; he must be able to review decisions on placement of orders ex post facto and for this he will need full access to the shipbuilder, whether H&W or BS, placing the order. Secondly, if he has grounds to believe that an order has been placed by a shipbuilder for reasons other than price, quality, delivery, customer preference etc, the expert should have the right to report (again ex post facto) to us, so that we can be kept continually appraised of any impediment to either business achieving break-even.

If you are prepared to accept these qualifications to your proposal, I am ready to accept that the paper being prepared by our officials, to which this letter can be seen as amplification, may be presented as a joint memorandum. I would also make the request that this letter be appended to the memorandum as a reflection of my concerns.

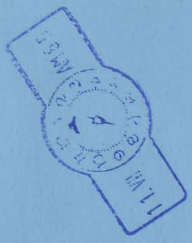
A copy of this letter also goes to Allan Stewart.

Yours sincerely

Damian McAuley
(Private Secretary)

for DR RHODES BOYSON MP
/Approved by the Minister
and signed in his absence/

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DIP with CST response

MR TURNBULL

5 July 1985

HARLAND AND WOLFF

Last September E(NI) agreed a 1985/6 EFL of £32.5m for H&W, Douglas Hurd now wants this increased to £42.2m. E(NI) also asked that H&W should develop a new corporate plan with improved productivity targets and within this EFL. This has not been done. Their corporate plan is the worst I have seen, and assumes that in an industry suffering from endemic over-capacity, H&W capacity will be fully utilised, at good prices, such that their still higher overheads will be fully recovered. Northern Ireland Office (NIO) considered this wholly unrealistic and Douglas Hurd has rejected the plan.

Because of their increasing concern, the NIO asked H&W to develop a 'small yard' strategy to dramatically reduce their costs. PA Management Consultants, reporting on this work by H&W, said that they had deliberately set out to prove that such a strategy 'wasn't on'.

Whilst there may be some need (but no justification) for part of the increased EFL that H&W are requesting, it would be folly to give any increase until there is evidence that the management is squarely facing up to their problems. EFLs were intended to exert private sector cash disciplines on run-away nationalised industries; they should not be increased each time an industry comes forward three months into the year with a ragbag of commonplace troubles that form part of the normal swings and roundabouts of business life.

But H&W do have a real problem: a big peak of work next year and then nothing other than the hope of MOD work. But all of the privatised BS warshipyards will rightly scream foul if a heavily subsidised and highly inefficient H&W is given

any warship orders, let alone the three envisaged in their plan, until they are seen to be competing on a fair basis.

The logical solution would be for H&W to negotiate with its customers to spread their existing workload over a longer time period (even if this involved price reductions). They should also save money by pulling out of marine engine building: British Shipbuilders and H&W share this market and there is inadequate business for one, let alone two, suppliers. BS are more efficient and generally seem to have done more to face up to economic reality.

Recommendations

H&W should be given no more money until they produce a plan that is at least faintly believable. Douglas Hurd would like to give them the money now and press for a sensible plan in the autumn, but once they have the money he has lost his leverage.

Rather than argue this in correspondence, would it not be better to have a brief discussion at the end of July when E(A) is due to discuss the Shorts corporate plan? You could ask that the question of continued engine building should be covered in that discussion.

Peter Warry

PETER WARRY

Press Notice

Copies to: Nick Towers · Press Office
Andrew Turnbull : Private Office

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 5069
Out of hours: 01-215 7877

Ref: 423

5 July 1985

NORMAN LAMONT WELCOMES NEW SHIPBUILDING INTERVENTION FUND ARRANGEMENTS

Norman Lamont, Minister of State for Industry, welcomed today (5 July) an increase of over one-third in the rate of Shipbuilding Intervention Fund support agreed with the European commission. In addition the commission stood ready to consider higher rates in exceptional cases. These new arrrangements would help to safeguard jobs in the industry.

Replying to a parliamentary question from Gerald Malone MP (Aberdeen South) Mr Lamont said:

"The new arrangements, which apply to orders taken from July 1984 and last until December 1986, permit an increased rate of up to 20½% Intervention Fund plus 2% shipbuilders relief. For vessels over 70,000 dead weight tonnes built in Northern Ireland, the maximum may be increased to 25½% plus 2% shipbuilders relief. The commission have indicated also that they will be prepared to consider payments above these levels on a case by case basis particularly for orders where there is no EC competition.

"I believe these new, more generous arrangements provide a satisfactory basis for the industry until the end of next year. The UK industry must use the opportunity offered by these measures to continue to improve its competitive position, so that in the future it may survive with steadily reducing levels of assistance.

MORE/....

THUAAD

Intervention Fund assistance is essentially intended as a temporary aid to merchant shipbuilding and it is provided only for contracts taken on a non-profit basis. Aid of this kind will thus not normally be appropriate for, nor provided to, yards which have been, or are to be, privatised by British Shipbuilders. The commission have, however, agreed to consider any case where exceptionally, for reasons related to the maintenance of defence capacity, Intervention Fund support might be given".

These new arrangements which will last until December 1986 followed commercially confidential discussions with the commission about the future of merchant shipbuilding in the UK. The new Intervention Fund arrangements are fully in line with the industry's current plans.

No capacity reductions are called for beyond those in hand as a result of privatisation and BS's plans for regional re-organisation.

ENDS

NOTE TO EDITORS

Since 1979 total financial support, both direct and indirect, amounts to £1290m.

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cc PM

SECRETARY OF STATE FOR NORTHERN IRELAND

A/R with Board's response and PM's advice

(A)

Rec'd 1.7.85

Prime Minister

HARLAND AND WOLFF PLC (H&W)

Introduction

I need to consult you and other colleagues on proposals for handling the financial requirements of H & W in the immediate term.

2. We agreed in E(NI)(84)5th Meeting on 18 September last to authorise subsidies for orders from BP and BSC, specifying that the company should (a) live within EFL targets of £37.5m in 1984/85. £32.5m in 1985/86 and £30m in 1986/87; (b) develop explicit targets for improved productivity; and (c) produce a new corporate plan showing how (a) and (b) could be achieved.

1985/86 EFL

3. I have now had an opportunity to examine the company's new plan. This has had to reflect a variety of adverse factors beyond their control which have arisen since our decisions last September. Senior management has been seriously weakened by the death of the company's young Marketing Director and the resignation of its Production Director. The chief operational problems have been a fire aboard one of the ships for Blue Star and the delay of several months encountered in signature of both BP and BSC contracts - in the BP case because of the owner's design problems and complexity of the contractual documentation, in the BSC order because the Corporation felt obliged to clear some financing points with Department of Trade and Industry colleagues.

4. Although H & W met our cash limit of £37.5m in 1984/85, the company is unable to adhere to the financial limits which we imposed in the current and subsequent years. The main reasons which put our 1985/86 limit out of reach are as follows:

- direct consequences of the Blue Star ship fire (presently estimated by the company at some £1m). This is a somewhat speculative sum as negotiations with Blue Star on re-scheduling of deliveries of the remaining three vessels

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are still to be concluded and Blue Star are using their undoubted legal rights on the damaged ship to drive a very hard bargain on all three;

- loss of contribution (£2.6m) due to slippage of programme as a result of delays in the signing of the BSC and BP SWOPS contracts, and delays in completion of the Blue Star vessels;

- development costs up from £1.0m to £2.4m in connection with design and tendering for the MOD's AOR requirements and with changes in working methods on the BSC ship to promote productivity;

- other miscellaneous costs including the loss of certain assumed grants from the European Social Fund (£0.3m) and increased maintenance costs (£0.5m).

5. At present the company is working with an interim EFL of £9.4m agreed by officials which will expire in early July. (It seems inevitable that I will have to extend drip-feed arrangements for a brief period pending colleagues' decisions.) Our advisers, P A Management Consultants, now forecast an EPR of £42.2m in 1985/86. The company has put forward a somewhat lower figure of £39.5m (produced under considerable pressure from my Department to keep the EFR as close as possible to the level previously agreed by Ministers). I believe, like PA, that this is optimistic; but I am also concerned that it makes insufficient provision for investment in key productivity measures such as CAD/CAM. Although the company has been unable to achieve planned progress on productivity, PA have endorsed its steps to improve efficiency in the medium-term as ambitious but attainable. If this company is to have any future, it must press ahead with investments in productivity. I propose therefore to provide the company with a further £1.7m for capital expenditure and a contingency of £1m - totalling £42.2m with the full provision (£4m) for capital expenditure to be used solely for that purpose.

6. I realise of course that the figure of £42.2m for this year breaches the principle of declining EFL's; but I am convinced that,

if it is to continue its investment programme in new technology, this is the minimum that the company can be realistically expected to achieve. The company's order book means that it must retain its current shipbuilding capacity. Some 400 redundancies have recently been notified, under pressure from my Department. It has recently reached a pay settlement for this year - at somewhat less than BS - and the company intends to continue tight cash management. We could of course authorise the company to apply a sum of up to say £5m from sums on deposit from BP and BSC (part of the terms authorised last September), in order to reduce this year's EFR but this would merely be cosmetic, being at the expense of subsequent years' EFR, and tend to slacken our financial discipline on the company. I do not recommend this.

Strategy Options

7. The company's 1985/86 cash forecasts are therefore disappointing, despite several meetings involving the Chairman, Rhodes Boyson and senior officials at which intense pressure was put on the company to find means of reducing its financial requirements. Given the difficulties which the company has faced and the impact which these could have on future years, the company's medium-term plans and forecasts must be subject to a most searching and rigorous examination before I submit them to colleagues for approval The company has been left in no doubt about the crucial importance of achieving declining EFL. In the light of recent developments much more work has to be done by the company to produce a revised Corporate Plan in which I could have confidence.

8. When we have such a revised Corporate Plan we will, of course, have to consider whether there are any other options for the way forward. In July 1983 colleagues took Jim Prior's advice against closure because of its ramifications for political, economic and social developments in Northern Ireland. I am sure that this course would create unacceptable problems for our policies across a broad front in the Province. You may however wish to have my initial views on the option called the "small yard" strategy which, at the Chief Secretary's instigation, we commissioned from the company. (An analysis of this course, which would require a virtual halving of the company's employment and output, was completed and with officials last December). This would probably not make sense in shipbuilding

strategy terms and might produce only limited savings. Since the Board is opposed to it, I would have to impose it on the company. We have felt constrained in avoiding this sort of direct action in relation to BS, and the same or stronger arguments apply.

9. Harland and Wolff dominates the Belfast landscape in more ways than one. I am bound to be anxious about its future. We should hold to the concept of controlling H & W through declining EFL's where practicable, and this has been achieved each year since 1982/83. With an EFR of £47.6m, £40m and £37.5m over the three years, an effective reduction of over 21% was achieved in that period.

Recommendations

10. My recommendations are therefore as follows. We should -

(a) approve an EFL of £42.2m for 1985/86, with a ring-fence placed around the capital expenditure provisions of £4m within that sum;

(b) insist on a revised corporate plan. I have already told the Chairman that I would not be able to accept the existing Plan and that I wish to meet the full Board to convey my determination to require tougher and more realistic plans; and

(c) agree to reconsider the new plan in the Autumn at which time I shall also put before colleagues a full assessment of the small yard strategy.

11. I am copying this minute to other E(NI) colleagues, Michael Heseltine and to Sir Robert Armstrong.

N Bland
Private Secretary
for DH
(Approved by the Secretary of State and signed in his absence in Belfast)

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PRIME MINISTER

BRITISH SHIPBUILDERS CORPORATE PLAN

I am writing to explain how we plan to deal with Ministerial consideration of the British Shipbuilders (BS) Corporate Plan.

2. Although we had expected BS to have submitted their Corporate Plan to us by now, it became apparent last month that they would need to revise their draft Plan if it was to accord with the financial constraints consistent with last year's E(A) decision (E(A)(84), 19th Meeting). For this and other reasons they do not now intend formally to submit their Plan until August (which will be after their appearance before the Committee on 24 July).

3. I am anxious nevertheless that we should complete our consideration of the BS proposals before the Summer Recess even although we will not have received the Plan by then. I believe that, with the co-operation of BS, we will have sufficient information to do this. It is my aim therefore to have a paper ready for discussion by E(A) in the week beginning 22 July.

4. I am copying this letter to members of E(A) and to Sir Robert Armstrong.

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26 June 1985

Department of Trade and Industry

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PM

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10 DOWNING STREET

From the Private Secretary

21 June 1985

BRITISH SHIPBUILDERS CORPORATE PLAN

The Prime Minister has seen your Secretary of State's minute of 20 June and is content to handle the BS Corporate Plan as he proposes.

I am copying this letter to Rachel Lomax (H.M. Treasury).

ANDREW TURNBULL

John Mogg, Esq.,
Department of Trade and Industry.

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PRIME MINISTER (2) To note AT 20/6

BRITISH SHIPBUILDERS CORPORATE PLAN

I am writing to explain how we plan to deal with Ministerial considerations of the British Shipbuilders (BS) Corporate Plan.

2. You will remember that last year (E(A)(84) 19th Meeting) E(A) agreed that we should set BS on a downward "glidepath" of order intake by constraining their finance so that, on last year's assumptions, their order intake in 1987/8 would be no more than 100,000 compensated gross tonnes (cgt) against their annual target of 200,000 cgt (which they largely achieved in 1984/85). The means which we subsequently devised for controlling their order intake was to supplement their EFL with a system of Contract Support Limits (CSL). This puts a strict limit on the total amount of subsidy available for orders and thus constrains their ability to take new orders.

3. E(A) decided, however, not to set an explicit capacity target (which could have caused management and industrial relations problems which might have had an adverse impact on privatisation) and although I privately told the Chairman of British Shipbuilders, Mr Day, of the Government's intentions

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they were never announced publicly. When Mr Day gave us a presentation late last month of his draft plan, it became apparent that it was not consistent with our glidepath strategy, largely because BS had assumed higher CSL and thus subsidy levels in later years than would be compatible with the glidepath. I therefore asked him to present a Plan based on the assumption that the CSL would fall by well over 50% from £55m in 1984/85 to £25m in 1987/8 and lower still in 1988/9. This he is now doing but the Plan will not be submitted to the BS Board until 10 July and BS do not propose to transmit it formally to the Government until after BS are due to appear before the Trade and Industry Select Committee on 24 July.

4. I am anxious nevertheless that we should complete our consideration of the Plan before the Summer Recess even although we may not formally have received it by then. I believe that, with the co-operation of BS, this will prove possible; my officials are in touch with officials in the Policy Unit and in the Treasury to discuss how this can be achieved. It is our aim therefore to have a paper ready for discussion by E(A) in the week beginning 22 July.

5. Because of the sensitivities involved I am copying this minute to Nigel Lawson only. I will send a second minute to you which does not go into such detail which I shall copy to EA colleagues.

NT

N T

20 June 1985

Department of Trade and Industry

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Shipbuilding A8

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SCOTT LITHGOW

Line to Take

When British Shipbuilders sold Scott Lithgow, we agreed to "wipe the slate clean" and balance the books to give the new owners a clean start. The figures provisionally agreed at the time were based on Scott Lithgow's unaudited management accounts. The auditors of British Shipbuilders and Trafalgar House have now agreed that a further payment of some £30.65 million plus interest should now be made mainly to meet the much larger than expected costs of completing the rig for BP. Other matters are being referred to an independent expert. Although the extra costs now agreed are a sad indictment of the state of affairs at Scott Lithgow at the time these costs would have arisen whether the yard had been closed or sold. They do not invalidate the decision to sell.

SBP
18 June 1985

PRIME MINISTER'S QUESTIONS

TUESDAY 18 JUNE

SCOTT LITHGOW - PAYMENT OF £35 MILLION

Background

When Scott Lithgow (SL) was sold to Trafalgar House (TH), it was on the basis that the Government would "wipe the slate clean" and balance the SL books, in return for a £12 million purchase price and the deferred repayment of certain loans to British Shipbuilders (BS).

2 The payments made at the time of sale (£82 million gross to TH plus £7 million damages to Britoil, £71 million net of income) were on the basis of provisional management accounts. Since then the auditors of BS and TH have been arguing over the final accounts. The position now reached is

- both sides are agreed that £30.65 million plus interest (total £35 million) is due to TH, almost entirely in respect of the costs of completing the BP rig, partly built at the time of sale. These costs arose because the rig took much longer to complete than expected. Since the rig had to be completed to avoid very large contractual penalties, these are costs which would have arisen whether the yard was sold or closed;

BS and TH remain in dispute over a further series of claims, which are now being referred to an independent expert for determination.

3 Meanwhile BS have agreed to pay the £30.65 million plus interest (inter alia to reduce the interest burden currently sustained). This is being funded by an injection of public dividend capital. Provision is being sought for £35m in the Summer Supplementary Estimates (published today) and meanwhile the funds are being provided by a repayable advance from the contingencies fund (a PQ was answered yesterday).

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
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JF8112
Secretary of State for Trade and Industry

21 May 1985

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

Dear Geoffrey

SHIPBUILDING INTERVENTION FUND

Colleagues will recall that E(NI)(84) 2nd meeting agreed the lines of our negotiation with the European Commission on a new Intervention Fund (IF) regime. The negotiations have been extremely protracted, because the Commission were not prepared to move until the Fifth Directive on shipbuilding aid had been extended nor to agree further IF regimes with any Member State without securing in return some commitment to restructuring.

2 I am now writing to inform colleagues that we have secured the agreement of Mr Sutherland, the Commissioner concerned, to a regime which I believe is fully in line with our policy towards the UK shipbuilding industry. Mr Sutherland will put the proposal to the Commission. Their formal approval is likely to be given early in June, at which point I propose to inform Parliament by means of a written PQ.

3 The general level of the regime is an IF intensity of 20.5 per cent compared with 15 per cent under the previous arrangement. The level is 25.5 per cent for vessels over 70,000 dead weight tonnes built at Harland & Wolff, compared with the previous 18 per cent for vessels over 100,000 tonnes. In all cases Shipbuilders Relief at 2 per cent will, as previously, be added. Additionally, Mr Sutherland has undertaken that the Commission will consider applications for approval of significantly higher levels of aid on a case by case basis for orders where there is no Community competition.

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4 Our original negotiation sought approval for a two-year regime running from July 1984, the expiry date of the previous tranche. We have now agreed with Mr Sutherland that the regime should run until December 1986 and that the volume we envisaged for the two-year regime - £100m for British Shipbuilders and the private sector and £40m for Harland & Wolff - should cover this extended period. This is compatible with the outcome we foresaw at E(A)(84) on 19th last July.

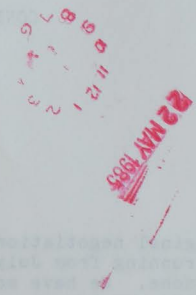
5 In order to secure this deal it was necessary to convince the Commission that, during the period in question, there would be substantial restructuring - i.e. moves towards reduction in capacity - in British Shipbuilders. We outlined to Mr Sutherland in strict confidence the financial constraint approach we had decided upon at E(A) last July, resisting his strong preference for the setting of specific capacity or order intake targets. To conclude the deal, however, it was necessary to set a limitation on the use of IF support by the privatised warshipyards. We told Mr Sutherland that in practice we would not expect the question to arise on a significant scale - IF support is linked to non-profit making contracts. But if, for exceptional reasons related to the maintenance of defence capacity, an application came forward, the Government would seek the prior approval of the Commission before acceding to it. This arrangement may be less that some prospective purchasers might have wished but I believe that it is entirely justifiable. It may well be necessary to give to the prospective purchasers of Swan Hunter and Hall Russell some confidential indication of this arrangement ahead of the parliamentary announcement.

6 Finally, I should stress that the regime I have outlined above merely sets the framework for IF support. The actual rates and amounts paid will be determined by our overall policy towards shipbuilding and by our decisions on British Shipbuilders' and Harland & Wolff's corporate plans.

7 I am copying this letter to the Prime Minister and other E(A) colleagues.

Yours ever,
Norman

NORMAN TEBBIT


22 MAY 1985

Trafalgar House | Press Release

1st May 1985

Issued by the Group Public Relations Department
1 Berkeley Street, London W1X 6NN. Tel: 01-499 9020.

TRAFALGAR HOUSE/SCOTT LITHGOW

Trafalgar House acquired the business of Scott Lithgow in March 1984 when it was envisaged that the workforce would fall from the 2,800 employed by British Ship Builders at handover, to a possible level of 1,500 by December 1984, in the absence of further orders. The fall in the numbers employed did not take place due to commitments to extra work on the existing contracts in the yard. The levels employed at the start of this year were well over original anticipations.

The management of Trafalgar House and Scott Lithgow have been aggressively seeking new orders for offshore structures. In addition, tenders for refitting and new building of submarines have been sought for the Navy. Trafalgar House is seeking to establish the long-term viability of Scott Lithgow as an important national facility for building offshore floating structures to match the aggressive competition from the Far East and elsewhere. Competition for naval orders is equally intense in the UK and the company are endeavouring to win a share of the submarine business to keep this expertise and resources on the Clyde in Scotland.

Following successful completion and handover of HMS Challenger ahead of time and the completion of the BP rig "Sea Explorer" and of sub-contract work for the Sun Oil contract, it was necessary to reduce the numbers employed to levels which match the remaining work on the Britoil "Ocean Alliance" semi-submersible which is the only order now under construction in the yard.

.../2...

In view of the severe shortage of new orders at Scott Lithgow and the necessity to improve efficiency and competitiveness in Scott Lithgow, representatives of the workforce were notified yesterday that Scott Lithgow requires to achieve further reduction of 415 hourly paid employees and 173 staff, and are attempting to achieve this through voluntary redundancy.

Since Trafalgar House took over Scott Lithgow and integrated it into the total offshore capability of the group, extensive investment in retraining and re-equipment has been undertaken to improve the skills and facilities available in Scott Lithgow and to re-establish Scott Lithgow in the forefront of the offshore and naval industries.

Speaking today Mr Eric W Parker, Group Chief Executive Trafalgar House, said:

"When we took over Scott Lithgow after an intense political debate in the early months of 1984 to save it from complete closure, we warned that it was essential to re-establish the reputation and efficiency of the company in order to win new orders from the offshore industry and the Ministry of Defence. It was always envisaged that this would be a long-term process which would only successfully be completed if Scott Lithgow were to secure new orders.

"In the short-term, despite enormous efforts, orders have not been obtained and it is therefore, with regret, that we need to implement reductions in the workforce."

For further information contact James Poole, extension 203

1.5.85

NBTT AF 245

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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Telephone (Direct dialling) 01-215 5186
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(Switchboard) 215 7877

Private Secretary to the Secretary of State for Industry

AT
Reverse of this was missing from your first copy.

Norman Lamont MP

Margaret O'Mara
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1

1 May 1985

Dear Margaret

As you know, British Shipbuilders has recently requested consent to the disposal of Brooke Marine Ltd to a management buy-out consortium.

Officials here have cleared the request for consent with Treasury, MOD, FCO and the Number 10 Policy Unit officials. In the light of that, and also in the light of advice in favour of consent from Schroder Wagg, Mr Lamont has agreed that consent should be given. Your Minister might therefore like to know that this will be announced by way of a written PQ tomorrow. A copy of the question and answer is attached.

I am copying this letter for information to Andrew Turnbull (No.10) and Richard Mottram (MOD).

Yours sincerely
Edward Hosker

E N R HOSKER
Private Secretary

1WEAJZ

Q.

To ask the SoS for T&I if he will make a statement about progress on the privatisation of British Shipbuilders' warshipbuilding yards.

A. (Mr Lamont)

My rhf announced on 25 March that he had given his consent to the sale of Yarrow Shipbuilders. He has now also given his consent to the sale of Brooke Marine Ltd to a consortium led by part of the company's present management. The sale proceeds are £100,000 plus 1% of monies received from customers in respect of both certain specified potential export contracts and any other significant contracts obtained by the company within one year of sale. British Shipbuilders have accepted responsibility for the cost of a limited number of redundancies, should these arise within one year of sale.

PRIME MINISTER 19 April 1985

SHIPPING POLICY

Nicholas Ridley's note on shipping policy was prompted by concern that the decline of the UK-registered merchant fleet, if not checked, could impair the Government's marine transportation capability in times of war or emergency. He foreshadows the outcome of consultant studies on this question with a brief explanation of the factors which have led to the decline of the UK merchant fleet and a résumé of the Government's shipping policy.

Presented in aggregate, the picture is depressing. In 1975 the UK-owned and registered fleet exceeded 1,600 ships (above 500 gross registered tons) with a total tonnage of some 50 million dwt. We had the third largest fleet in the world with nearly 9% of world tonnage. By the end of last year the fleet had shrunk to less than 700 ships and the UK had dropped to 8th in the world league, with about 3% of total tonnage. Some analysts foresee that in 2 years time the UK merchant fleet could be as small as 400-500 ships, above 500 grt.

The Government is striving by good example - which some would say is too lily white for the good of British shipping - to remove protectionism, and promote fair competition and orderly marketing. For all that, the UK shipping industry would seem incapable of surviving without heavy subsidy in the face of over-capacity and stiff competition. There the

Jeremiahs would rest their case - a sick industry hastened in decline by an uncaring Government reluctant to go on administering the medicine of subsidy.

They are wrong. There are encouraging signs of life. The British shipping industry is not so much in a state of terminal decline as radical, and generally sensible, adjustment to a tough business environment. Although handicapped by some of the complacent assumptions that went with Britannia ruling the waves, British shipping has continued to be driven by entrepreneurial business instincts which don't regard tonnage per se as a virility symbol; what counts is the potential for making a commercial return. UK shippers have concentrated on those sectors of the market which offer such potential. For the rest, they have either withdrawn or adapted so as to compete, for example, by moving to flags of convenience and engaging low-cost foreign crews.

The most striking example is the rundown of UK-registered oil tankers. In 1975, following the stimulus of extremely favourable fiscal arrangements in the late 1960s, the British tanker fleet exceeded 30 million tons. The oil price increases of the 1970s transformed world oil supply patterns and led to a halving of the requirement for tankers. British owners wisely cut their losses and withdrew. Over half the decline of the UK merchant fleet has been in this sector. Much the same goes for the low-tech dry bulk carriers, where the competition has been particularly fierce.

The better news is up market where British marine expertise and capacity for innovation has been at a premium. The prime example is the container revolution for the regular carriage of high-value goods in liner trades. This has become part of an integrated transportation service. High-tech container ships with 5-6 times the productivity of their predecessors ply between purpose-built terminals. Computers control the operation from source to destination. Successful pioneers like OCL make good money - £50 million profit last year. Competition will intensify, but British companies are well established.

Another lucrative up-market sector with long-term growth potential is cruise liners. P&O and Cunard, with 13 ships between them, are doing well, particularly in serving the rich North American market. Success and staying power in this sector are important from a defence point of view (troopships). Meanwhile, entrepreneurs like Jim Sherwood and Jeffrey Sterling are transforming unglamorous ferry services into profitable businesses. Roughly a quarter of the 38,000 UK seafarers work on ferries. The development of North Sea oil and gas, requiring an armada of specialised vessels, has been a valuable springboard for British marine expertise and technology which now has the capability to win business around the world.

Another quiet success story close to home is the 400 odd small to medium-size cargo ships, plying short-haul routes around the UK. Although we are unusual in keeping our coastal

waters open to foreign competition, British Shippers are giving good account of themselves - achieving big productivity gains through modernisation and profit sharing with small well-disciplined crews. Again, there are positive implications for the Government's marine transportation capability in times of war or emergency. (Such ships played a useful part in the coal dispute.)

Conclusions

1. Over the last decade the world fleet has increased by 15%, whilst physically world trade has decreased by 15%. The advent of high-productivity ships has compounded the imbalance between supply and demand. Contrary to what many believe, we conclude that the British shipping industry deserves credit for the way it has adjusted in this tough, competitive business environment. Significantly, no major British shipper has crashed. They are survivors not basket cases.

2. Our minority view can answer some of the political attack mounted against us. It probably bodes well for future defence and emergency back-up, although the current studies may reveal some tight spots.

3. Although there is not yet a case on security grounds for more Government support for British shipping, it would be worth asking Nicholas Ridley to commission a survey of the extent to which British-owned ships are handicapped

in relation to foreign competition by being registered in the UK. After all, the British Government, more than any, espouses free international competition on an equal footing between ships.

Some would plead for a return to more favourable fiscal treatment for shipping. However, it may be less obvious factors like the high oncosts for shippers using UK ports (4 times those for continental ports) which should be the primary targets. For example, a 30,000 dwt ship entering, say, Barry in South Wales has to pay £13,000 in light dues, whereas no such charge would be made for entering ports like Rotterdam and Antwerp. The same ship would have to pay £3,000 for over-manned and under-worked pilotage.

Separately, we will be briefing you on the extent to which dockwork in the UK is a handicap to British shipping and the economy as a whole - whether perhaps the time is approaching to make a stand for change.

JOHN WYBREW

File

cc/61 cc/50
B/f with response
AT 16/4

PRIME MINISTER (2)

For a different perspective you should look at the Policy Unit note. No action for the time being
AT 19/4

SHIPPING POLICY

At recent meetings of Cabinet and OD there has been reference to studies into the future availability of merchant shipping. I think it might be helpful if I explained to you and colleagues what those studies are aimed at, and also to set out our overall policy on the UK merchant fleet, and the actions we are taking to assist.

The reduction of the UK fleet over the last ten years from its artificially inflated size in 1975 has been due to powerful and unavoidable economic forces: the switch of much UK trade to Europe from the Commonwealth, containerisation, the development of North Sea and other new oil sources, over-supply of ships (too many subsidised shipyards, including ours), growth of developing country fleets, sustained competition from low-cost open-registry fleets (notably Liberia and Panama) with third-world crews, and competition from non-commercial Comecon fleets. The main factors are chronic low market rates because there are too many ships and third-world crews cost less, posing an adjustment problem of the kind we have faced in textiles, steel and simple manufactures. Direct state support to competitors is important but less so. Some further decline over the next year or so of the UK fleet is to be expected, though perhaps not at the same rate as in recent years.

Our policy has been to secure the widest and fairest world-wide markets for British shipping to compete in, not to subsidise British shipping or use protectionist measures to assist the industry. This must continue to be our policy unless there is a clear change in the balance of advantage as now seen. Moreover:

Who does their shipping? Market. U.S? France? who else?

it is in line with our broad economic and industrial policy;

the UK fleet is still one of the largest in the world, still gets around half its business from cross-trading, and much of its future depends on world shipping markets staying open;

as an island nation with a high proportion of our GNP taken up in external trade we need competitive and reliable shipping services, and these interests could be threatened by constrained dependence on UK suppliers (there is no sign or prospect of other states monopolising any part of world shipping);

the scale of subsidy needed to fill the gap between the returns UK shipowners "need" and are in fact getting from the ships they are giving up would be unbearable.

When Edward du Cann saw you last month he rightly emphasised the importance of the European Community in shipping matters. The EC should have become a major liberalising force in world shipping long ago but for far too long it has failed to set its own house in order by tackling protection and subsidies within the Community. Largely due to UK pressure, the Commision has now put to the Council a package of proposals that will eliminate all forms of cargo-reservation within the Community and put the Community in a position to tackle jointly the problems of protectionism and subsidisation created by third countries. One important side-benefit of the package is the fact that it will greatly reduce pressure on HMG to introduce protectionist measures of our own, e.g. in the field of cabotage where we are under a lot of pressure at present. We may face difficulties

similar to those we have on the other service industries where we are pressing for full liberalisation within the EC, but I am committed to it, and I hope that my colleagues will make this a high priority in their exchanges with other Member States, both in EC meetings and bilaterally.

We have worked hard with the USA and other developed countries with strong maritime interests to resist protectionism in world liner shipping, and detailed negotiations on an agreement should be put in hand later this year. Such an agreement would be of great benefit to UK liner comnpanies, who get much of their earnings from trading between other countries.

David Mitchell has had continuing discussions with our industry and with Norwegian Ministers about the difficulties UK offshore support vessels have in getting business in the Norwegian sector of the North Sea and the distortion their over-expanded fleet gives rise to in ours. The Norwegians have under pressure made a concession on pilotage requirements in Norwegian waters - the one area in which there is clearly discrimination against us (and others); he is pressing for something better, and continuing to look for other ways to help.

The changes in capital allowances introduced in last year's Budget were particularly unwelcome to the UK shipping industry, who argued that completely free depreciation was the one fiscal advantage they enjoyed against the many and varied forms of assistance given to their competitors. I discussed these difficulties with the Chancellor, and he has included in his Budget proposals this year an extension to second-hand ships of the particular concession announced last year for new ships of free depreciation of writing-down allowances.

One measure in particular that will I hope help to reduce the costs of the shipping industry is the proposed reform of marine pilotage described in the consultative paper I published last December. Unfortunately the proposed legislation failed to secure a place in the 1985/86 programme. This has meant that marine pilotage, instead of being an issue to which we could point as a positive achievement for the benefit of the industry, has remained a continuing irritant. The damage could be repaired if we could secure a commitment to the proposed legislation in 1986/87. We shall continue to do what else we can within the Department to lighten the burden of regulations on the industry, though here too I have to say that the deferment and uncertainty of the Bill to update our Victorian legislation on ship registration is an embarrassment.

We shall accede to the UN Liner Code later this year, and secure UK interests in the UNCTAD conference on ship registration.

I shall in my visit to India this month press for India to abandon its reservation to Indian ships of goods bought with aid from us.

Sir Peter Lazarus is negotiating with his opposite number a fairer UK contribution to the costs of Irish Lights, and we are also improving the efficiency of our other light services.

This programme of action will not however guarantee any particular size or composition of the UK merchant fleet, and therefore not guarantee that the fleet will be able to meet defence requirements. In fact, the UK merchant fleet continues to be able to meet foreseen defence requirements, though the requirement for auxiliary mine-sweepers can no longer be met from our deep-sea trawler fleet. A detailed review of the position up to 1992 to

see whether gaps are likely to develop is in hand. Conclusions should be available early in the second half of this year, when we have received and assessed the results of the study referred to in the Defence White Paper by consultants of what the future availability of ships of defence interest is likely to be. (The review is also covering crews.) If gaps develop, we shall tackle them as best we can. The particularity of defence requirements, and the need to be sure that action taken to meet them will in fact be effective, mean that such steps should aim to ensure the availability of specific vessels, rather than assisting UK shipping generally. Michael Heseltine and his staff are participating fully in this work, and we shall act when the needs are clear.

Consultants are also studying the availability of merchant shipping to meet UK civil supply needs in times of emergency and war. The first part of their work, into bulk shipping, was completed last year; it was broadly reassuring. The second part, into general cargo shipping, is due to be completed soon; it is likely to show greater difficulties. This is not surprising; the amount of shipping needed to shift men and materials across the Atlantic and from the UK to Europe during tension and war would be considerable. And it should be more amenable than any defence shortage; timing would not be so critical, and NATO's plans to pool merchant shipping should work to our advantage. Studies and planning on this aspect are being carried forward as part of our civil emergency planning.

I am copying this minute to the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Energy, Defence, Scotland, Trade and Industry, Employment, the Minister for Agriculture, and Sir Robert Armstrong.

Henry Dorsett (Private Secretary)

for NICHOLAS RIDLEY (Approved by the Secretary of State but signed in his absence)

4 April 1985

5 F

File SUBJECT cc master VC (12)

10 DOWNING STREET

From the Private Secretary

21 March 1985

Dear Henry.

BRITISH MERCHANT FLEET

The Prime Minister saw Sir Edward du Cann, MP this evening at his request.

Sir Edward said that he had come at the request of the Parliamentary Maritime Affairs Group to make two points. First the Group thought that a senior Minister should be appointed with overall responsibility for Merchant Marine questions. The decline in the Fleet could only be halted if a very senior member of the Governemnt were to be given specific responsibility for action. He stressed that he intended no criticism of those who were dealing with these problems at present. It was a question of focussing efforts at the highest level. Secondly, the Government should take a lead in stimulating action within the European Community. Sir Edward du Cann continued that he recognised that there were no instant answers. He and members of his Group were also very grateful for the steps announced by the Chancellor in the Budget.

The Prime Minister said that she would reflect on the points made by Sir Edward du Cann. Work was being done on the consequences of the decline in the Merchant Fleet, particularly the strategic consequences. She would prefer to await the outcome of this before reaching any conclusions. Sir Edward du Cann seemed content with this. He would say to the Group that he had spoken to the Prime Minister, that she was alive to the problems and shared the general concern, and that work was being done on the problem.

I am copying this letter to Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury), Callum McCarthy (Department of Trade and Industry), Peter Ricketts (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

(CHARLES POWELL)

H.C.S. Derwent, Esq.,
Department of Transport

881

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Charles Powell Esq
10 Downing Street
LONDON
SW1

Prime Minister
CDP
20/3.

20 March 1985

Dear M. Powell.

You have asked for briefing for the Prime Minister's meeting with Sir Edward du Cann tomorrow on the decline of the fleet and appointing a senior Minister to reverse it. FLAG A I attach a copy of a background note we prepared in January for you. It has only dated in one respect, Budget tax changes, and I deal with that briefly below. The central points are that although the UK fleet has declined it remains large (when end-84 figures come out next month it will still be the seventh or eighth largest); and that the decline is basically due to economic reasons - over-supply of ships has depressed charter rates, and ships with third-world crews have cheaper operating costs.

As for the Budget, the supplementary in the attached note dealt with the unwelcome (to shipowners) changes in the 1984 Budget. The 1985 Budget has only one feature special to shipping, and that is favourable: the free depreciation arrangements for new ships announced last year are to be extended to secondhand vessels with effect from 1 April 1985.

Yours sincerely,

for H C S DERWENT
Private Secretary

BRITISH MERCHANT FLEET

BACKGROUND NOTE

1 In considering the position of the fleet, the statistics have to be considered carefully. In tonnage terms the fleet has halved when measured from its peak in 1975. But 1975 is not a good base for assessing long term trends, for statistics back to the 1950s show 1975 to have been the peak of a growth period which then reversed. The exceptional fiscal conditions in the UK in the late 1960s led to an expansion that was not sustainable in the longer term.

2 The artificially large fleet in 1975 had to face the effects of the changes which were then taking place in the UK and world trading patterns and shipping conditions: the switch of UK trade to Europe from the Commonwealth; the development of containerisation; falling UK oil imports; and, on the supply side, a world glut of shipping due largely to subsidies to shipbuilders; the growth in developing country fleets, with low cost crews. In tonnage terms the UK still has the 7th largest world fleet.

3 The industry itself is predicting a further halving of the fleet over the next five or six years - a process which it claims will be accelerated by the 1984 budget changes (loss of 100% first-year depreciation allowances and of overseas earnings relief).

4 The fleet is not an homogeneous entity. It is comprised of a number of sectors, operating in different markets. UK tanker tonnage has fallen sharply and accounts for 55% of the total tonnage lost in the last decade. Ferries and passenger shipping have just held their own, whilst our container fleet, which is fifth largest in the world, has slightly increased in size. But the continued availability of cheap shipbuilding finance worldwide is perpetrating over-supply in the industry and for most Western operators the prospects of making profits from shipping over the next few years are poor.

5 British shipping carries about 35% of British trade by value, but the larger part of its earnings are in the cross trades (trades between foreign countries). The balance of payments contribution from UK owned ships has fallen by half over the last couple of years.

6 The majority of governments, to differing degrees, subsidise or protect their shipping industries. The UK does not; the main aim of our policy is to secure the widest and fairest world-wide market for British shipping to compete in, and thus to fight the development of protectionism, subsidy, non-commercial competition (eg from Eastern Europe) and unsafe vessels in international shipping, coastal (cabotage) trades and offshore markets. In this we find it best to take action in concert with other countries (EC and/or OECD) since unilateral action is too easily circumvented.

7 The European Commission have recently agreed a paper covering a common shipping policy for the Community. This goes some way

towards what the UK sees as the objectives for such a common policy - the elimination of all restrictions and distortions to competition. The paper includes proposals to apply the freedom to provide services provisions of the Treaty of Rome to shipping (including cabotage), measures to deal with unfair competition, proposals to apply the State aids provisions of the Treaty, and proposals to enable the Community to take concerted action against the protectionist measures of third countries.

8 We also endeavour to reduce those of the industry's external costs over which we have influence - eg light dues, pilotage - and ensure, so far as is possible commensurate with our responsibilities for safety and international obligations, that the burden of our regulations is kept to a minimum.

9 The Department of Transport maintains and regularly exercises detailed contingency plans for the use of merchant shipping in times of emergency and war. The main defence requirement is not for a fleet of a given size but for the right types of vessel. Although the situation today is still satisfactory, the decline of the fleet has reached a point at which serious doubts are beginning to arise about whether in certain particular categories, the necessary vessels will continue to be available in future.

Shipping Policy Directorate
DTp
8 January 1985

1. Q. When will the Government bring forward a comprehensive maritime policy?

A. I am satisfied that our present range of policies are those which best serve the various maritime interests. The Department of Transport is the lead Department in coordinating maritime policies, while Ministers in other Departments have the primary role in some specific areas. On those maritime policy issues which cross Departmental boundaries, it is normal Government procedure to ensure that all interests are taken into account.

2. Q. What does the Government intend to do about protectionist measures which restrict the trading opportunities of the British merchant fleet?

A. The Government believes that a freely competitive environment in shipping is in the best interests of UK shippers and shipowners alike, and we are prepared to take whatever action is necessary to protect these interests. Such action is most effective in concert with others. The European Commission has made proposals on joint countermeasures, and discussions are going on with the USA about coordinated resistance to protectionism.

3. Q. What is the Government's view of the Commission paper on a common shipping policy?

A. The paper goes some way towards the objectives we would want to see in a common shipping policy, namely the removal of all restrictions and distortions to competition. We therefore welcome the paper, although some proposals will require a good deal of work.

4. Q. Will the Government press for the opening up of the closed cabotage trades in the EC?

A. We believe cabotage reservation is contrary to the provision of the Treaty of Rome. The Commission paper on a common shipping policy covers cabotage, but disappointedly concludes that opening cabotage trades may well take a long time. We will be pressing strongly for these trades to be opened up as quickly as possible.

5. Q. Adequacy of the merchant fleet for defence purposes?

A. Defence requirements for merchant shipping and the ability to meet those requirements are kept under review. The merchant fleet remains capable of meeting these needs.

6. Q. What about auxiliary minesweepers?

A. The use of other vessels to meet the auxiliary minesweeper role not now fully met by trawlers is being considered.

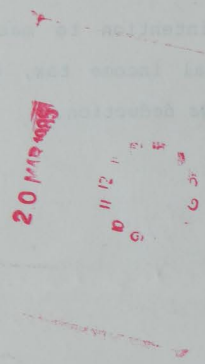
7. Q. What about meeting defence requirements in the future?

A. Consultants have been appointed to investigate the future match of defence requirements and merchant shipping.

8. Q. Effect of Budget tax changes? (1984)

A. The changes in capital allowances and withdrawal of foreign earnings deduction were part of a package of wider tax reforms. Mainstream corporate tax rates will now be lower, and ships can effectively be written off over a shorter period, in UK than under the regimes most of our competitors enjoy. In

addition it is the Government's intention to make further reductions in the burden of personal income tax, offsetting the withdrawal of the foreign earnings deduction.



BILL PRESENTED

TRUSTEE SAVINGS BANKS

Mr. Chancellor of the Exchequer, supported by Mr. Peter Rees, Mr. Giles Shaw, Mr. John Moore, Mr. Barney Hayhoe, Mr. Ian Stewart, Dr. Rhodes Boyson, Mr. Allan Stewart and Mr. Alex Fletcher presented a Bill to make provision for the purposes of or in connection with the reorganisation into companies incorporated under the Companies Acts of the institutions regulated by or existing under the Trustee Savings Banks Act 1981 and for the treatment for the purposes of the Banking Act 1979 of any Scottish savings bank established before 28th July 1983 which has not since become a trustee savings bank: And the same was read the First time; and ordered to be read a Second time tomorrow and to be printed [Bill 45].

Statutory Instruments

Mr. Speaker: By leave of the House, I shall put together the Questions on the four motions relating to statutory instruments.

Ordered,

That the Sale of Optical Appliances Order of Council 1984 (S.I., No. 1778) be referred to a Standing Committee of Statutory Instruments, &c.

That the Agriculture and Horticulture Grant (Variation) (No. 2) Scheme 1984 (S.I. 1984, No. 1923) be referred to a Standing Committee on Statutory Instruments, &c.

That the draft Dangerous Substances and Preparations (Safety) (Amendments) Regulations 1985 be referred to a Standing Committee on Statutory Instruments, &c.

That the draft Novelties (Safety) (Amendment) Regulations 1985 be referred to a Standing Committee on Statutory Instruments, &c.—*[Mr. Archie Hamilton.]*

British Shipping Industry

4.1 pm

Mr. Michael Colvin (Romsey and Waterside): I beg to move,

That this House recognises that the shipping industry is not only of great importance to the United Kingdom's trade and commerce, but also to the United Kingdom's defence needs and North Atlantic Treaty Organisation commitment; notes with concern the decline of the British merchant fleet in terms of tonnage and share of world markets; and asks Her Majesty's Government to state its policies for helping the industry to improve its international competitive position.

Both the constituencies that I have had the honour to represent have strong maritime connections, and that is one reason for choosing the state of our Merchant Navy as the subject for my private Member's motion. The other is that since the Conservative Government took power in 1979 there has been no opportunity, in either Government or Opposition time, for a general debate on an industry which is crucial to this country's economic prosperity and its strategic defence.

It is true that we have had Adjournment debates about the Merchant Navy, and I pay tribute to the hon. Member for Kingston upon Hull, East (Mr. Prescott), who had an Adjournment debate on this subject in March 1983. I am sure that the House will also applaud my right hon. Friend the Member for Taunton (Mr. du Cann) for his Adjournment debate on the Merchant Navy in October 1982, for the general way in which he has spoken up on behalf of the merchant shipping industry and for the way in which he drew attention to the state of our merchant fleet during the recent debate on the Royal Navy. The House will also salute my right hon. Friend the Member for Taunton for taking over the chairmanship of the all-party merchant shipping group, which has just come into being, and not a moment too soon.

I am afraid that apart from those debates and occasional "quickies" on small matters of shipping legislation, the Finance Bills have offered the best opportunities to say things about shipping. Perhaps that underlines the importance of fiscal policy for this vital industry. It is a pity that all the Treasury Ministers who were here a moment ago, and to whom many of our remarks this afternoon will be directed, are not here to listen to this debate.

The debate is necessary because the British merchant fleet, in spite of being one of the world's most modern and efficient, is declining at the rate of about two ships per week, which could nearly extinguish it by the end of the decade. Cruise ships and ferries may be doing all right, but by the year 2000 we may have a fleet which consists only of cruise ships and ferries, and that would not be good enough for our trading position. As recently as 1966 our fleet was the largest in the world, representing 12·5 per cent. of world tonnage.

When I first went to Bristol as a candidate in 1975, our merchant fleet was still at an all-time, but somewhat exceptional, peak. However, our position in the international league table was then already beginning to slip because our overseas rivals, often with massive state aid, were outgrowing us and adding to the excessive world tonnage. For the last decade the gap between available tonnage and cargoes has been steadily widening. Symbolic of the mounting shipping surplus is the fact that two of the

[Mr. Michael Colvin]

earliest ships which I saw use the new Royal Portbury dock in Bristol, which were recently launched OCL container ships, are now laid up because there is no demand.

As I look out from the Waterside part of my constituency acros the Solent, I see the horizon blanked off by the huge hulk of the Burma Endeavour standing idle in Southampton, not on account of the industrial dispute in the docks, although there is plenty of that, with dockers determined to scuttle the port of Southampton, their jobs and the jobs of many of my constituents who are working in the dock-related services, but because there is no economic demand for its 500,000 tonnes oil-carrying capacity. It is cheaper for BP to pay £1 million a year in wages, maintenance and mooring fees to keep her idle in dock.

Therefore, I hope that today I can, first, convince the House that Britain needs the Merchant Navy. Secondly, I shall explain why our share in world shipping is down to 3 per cent. and still falling fast. Thirdly, I shall try to suggest what we should be doing to halt and perhaps reverse this dangerous downward trend.

Why do we need a Merchant Navy? In answer to that question I shall quote from a pamphlet entitled "British Shipping—the Right Course", of which I am the joint author with Mr. Jonathan Marks, a shipbroker, a good Tory and one day, I hope, a Member of Parliament. In the introduction to the pamphlet we said:

"Britain's economic prosperity depends on our success in international trade. It generates a third of our national income and employs a corresponding part of our workforce.

As a major exporting and importing nation, it is essential for us to have free access to world markets to sell our goods and services.

It is equally vital to be able to purchase raw materials and finished products abroad.

We need the freedom to invest overseas and to attract foreign capital into Britain.

No other leading industrialised country has so clear a stake in open trading markets.

The prosperity of our country rests upon this foundation."

Our shipping industry is of critical importance in sustaining Britain's competitive performance in these world markets. The comparative advantages which a British-owned and registered fleet once enjoyed have made it one of the largest national flags and provided a major contribution to our overseas earnings. Even now, an industry which employs more than 40,000 officers, ratings and cadets on about 800 vessels, which earns about £3·5 billion per annum and which in total contributes a surplus of £1 billion to the balance of payments each year is clearly vital to our economy. Threats to its prosperity constitute a danger to our long-term interests.

Our shipping industry is now in a state of crisis. The advantages which we once enjoyed in supplying shipping services have long since ebbed away and our fleet has shrunk accordingly. The world recession has compounded our problems. It has cut British shipping traffic with disproportionate severity. It has been argued that if our fleet continued to decline at the present rate it would be impossible to mount another Falklands expedition and could cast into doubt our ability to fulfil our NATO commitments.

While this has been happening, we have seen the growth of unfair competition. We have seen Governments in developing countries build up their fleets. We have seen moves by our overseas competitors towards protectionism and, even more, state subsidies. We have seen the massive growth of the Comecon fleet, which, as well as being part of the Soviet Union's naval might, is in a position to wage economic war on this country. Nor should we forget that it is our maritime tradition that helps to make the City of London what it is. Sink our merchant fleet and untold damage will be done to the maritime service industries such as insurance and the Baltic Exchange, ship forwarders and travel agents which today provide world-wide services to shipowners everywhere. They are very important, too.

There are many reasons why we need a merchant fleet, and it is important and appropriate to mention at this stage three independent organisations which think likewise—the Nautical Institute, the Greenwich Forum and the British Maritime League—and pay tribute to the work that they have done and are doing to broaden and to deepen the debate on merchant shipping.

It is not surprising that voices have been raised within and without the shipping industry calling for drastic action to prevent a further decline of our fleet. One purpose of this debate is to ask the Government what they are doing to bring forward maritime policies which will halt and reverse that downward trend.

Before looking for remedies, it is important to examine the reasons for the decline. There has been no shortage of analyses, but diagnosing the ill is very much more difficult than prescribing a cure.

The British Maritime League has completed the most recent in-depth study in response to a request from my hon. Friend the Parliamentary Under-Secretary of State. The league rightly concludes that the main underlying cause of our fleet's decline is the impractibility of trading fairly in a market which is no longer governed by economics alone. Our competitors will do anything to survive when far too many ships are chasing far too little cargo. I know that it is a cliché, but it is the old case of Britain playing cricket while the rest of the world perform karate.

More specifically, the causes of the decline of our fleet can be either international, over which we have no direct control, or national, over which Britain — the Government or the shipowners or the unions — have some significant influence. The causes also apply either generally to the whole of the British merchant fleet or to particular sections of it.

Internationally, the world recession has reduced the demand for seaborne trade, and the debts of many developing countries and also the Comecon countries have put a high priority on acquiring foreign exchange. Our trade with Europe has grown at the expense of long-haul trade. Shipping requirements have been grossly overestimated by Governments, shipowners and banks. There were, for example, too many tankers in the early 1970s before the oil crisis, and too many bulk carriers in the late 1970s. The growth in protectionism is both national and international and includes national subsidies, direct and indirect, national flag discrimination or preference, national Government interference in conferences, multilateral and bilateral financial aid to developing countries for shipping projects and, of course, the UNCTAD 40-40-20 liner code for freight. More efficient ships have been introduced. there has been a growth in competition from flags of convenience, with lower taxation, minimal regulation, lower crew costs and, in some cases, less costly safety standards.

Another international cause for the decline of our cargo liner fleet is the development of the Trans-Siberian railway, which is now taking an increasing share — nearly 30 per cent. —of the trade between Europe and the far east.

Further threats to our liners are, first, the growth of the massive Taiwanese Evergreen and United States lines' fleets, which will be operating round-the-world container services outside the conferences; secondly, the increased practice of cargo reservation by countries such as Latin America, India and Sri Lanka; and, thirdly, reserved cabotage exercised in various forms by France, West Germany, Greece, Spain, Italy, all the Comecon countries, the United States, Canada, Australia, Japan, Finland, India — at least we can beat the Indians at cricket, even if we cannot beat them at shipping — Panama and most countries in south America and south-east Asia. The list is a very impressive one — *[Interruption.]* I am glad to see the hon. Member for Kingston upon Hull, East here now. I was paying credit to him earlier in my remarks.

To sum up, it is a very inhospitable and unfair market in which British shipowners have to compete, and we cannot afford to have any self-imposed handicaps. I know that it is dangerous to generalise, but it is nevertheless true to say that shipowners, both British and foreign, choose to fly the Red Duster because of the fiscal policies and tax regimes of successive Governments, and they have registered elsewhere—or "flagged out" as it is called—because of excessive operating costs, particularly crew costs. Until recently there were extreme cases where British crews were twice as expensive as Chinese crews, not only because of wage levels, but because of the related welfare payments — the so-called social wage which owners have to meet. British ships also tended to be overmanned, and it is greatly to the credit of the seamens' unions that at least on new ships our manning levels are now comparable internationally.

I cannot be as complimentary about the Government. Until recently our fiscal policies and tax regimes were an incentive to "flag in". Now, it is quite the reverse. In his 1984 Budget my right hon. Friend the Chancellor of the Exchequer did his best to torpedo what was left of the British-registered fleet. Apart from adding to crew costs by removing overseas tax relief, he ended the 100 per cent. first-year allowance coupled with free depreciation. Admittedly, thanks to some tough talking during the passage of the Finance Bill, the Government recognised that shipping was a special case and introduced instead free depreciation on a 25 per cent. writing-down allowance, but this is thought by shipowners to be totally inadequate when compared with what other western European Governments are doing to increase their financial support for their shipping. The Red Duster is now being put at a competitive disavantage against nearly every other fleet.

With due respect to my hon. Friend the Parliamentary Under-Secretary of State, I think that there is a very good case to have the debate answered by a Treasury Minister. Indeed, I should like to see my right hon. Friend the Chancellor of the Exchequer at the Dispatch Box. I do not suppose that he would be able to say very much, because we have to accept that between now and Budget day he is in purdah, but I hope that he will read the debate and take action on what is said during it.

Mr. John Prescott (Kingston-upon-Hull, East): That is true of every Department.

Mr. Colvin: We shall hear what my hon. Friend the Parliamentary of State Under-Secretary says. We are looking for action by the Department of Transport, too.

It is appropriate, therefore, that in suggesting policies to halt and, if possible, to reverse the decline of our merchant fleet I should start with fiscal policies. Even if the General Council of British Shipping has slightly overplayed its hand in years gone by, I believe that its new proposal, which formed part of the industry's submission to the Government for the 1985 Finance Bill, for a 50 per cent. ship allowance on new and secondhand ships in addition to the 25 per cent. writing-down allowance should be considered most seriously. There are other proposals on balancing charges, consortium group relief, the business expansion scheme and overseas earnings tax relief. I know that they sound a lot, but they do no more than bring us into line with some of our main overseas competitors.

On manning, I have paid tribute to the way in which seamen have helped to improve productivity. Of course, most of the reductions that have already been made through the joint efforts of shipowners and unions are in discretionary manning. It needs the Department of Transport to adopt a more innovative and flexible attitude towards statutory manning levels, particularly for officers, if further progress is to be made.

I welcome the recently agreed research into manning and technology which the Department of Transport is sponsoring, and the efficient ship project, at present the subject of a feasibility study being sponsored by the Department of Trade and Industry, could show us how to make further progress in combining high technology and lower manning, and Britain is very good at that.

Related to manning are the subjects of regulation and safety. Britain has taken a lead in improving safety at sea. In 1959 we helped to set up what is now the International Maritime Organisation and have consistently applied safety standards which are stricter than those required by the IMO convention. As a result, the casualty rate for British-registered ships is now only one eighth of that of the world fleet for similar ships. That is good, and it is very welcome, but many of the requirements, both for safety and other equipment, may be unnecessarily restrictive and saddle British operators with unreasonable additional costs. Mr. Iain Sproat, when he was Minister, began to get to grips with this problem, but the task of removing petty regulations is far from complete and remains a major deterrent in terms of money and time to owners and operators wishing to "flag in" and sail under the Red Duster. We also want to see the rules tightened and enforced internationally to prevent our overseas competitors sacrificing safety in order to cut costs and therefore to underquote us.

I have mentioned the unfair protectionist policies of many of our overseas competitors. Unfortunately, our partners in Europe are among the worst offenders. Two things have happened which might help to put that right. The first is the appointment of Mr. Stanley Clinton Davis as Transport Commissioner. Those of us who knew him in this place will welcome the arrival in that office of someone with such knowledge of transport matters. The second is the publication by the European Commission of

[Mr. Colvin]

its comprehensive paper outlining a possible common shipping policy. Our shipping industry has already welcomed that and I do to. It is long overdue.

Shipping is excluded from the competition articles of the treaty of Rome. That is why the Commission's proposal to open up existing restrictions within the Community concerning cabotage and cargo reservation is welcome. I understand that it is also to make proposals for defending British and Community shipping from protectionist measures and unfair practices in other countries throughout the world, particularly the Eastern bloc and the developing nations. How about subjecting the Comecon fleet to a quota system for calls at European ports if those countries continue to refuse to allow European ships to call at their ports?

Can my hon. Friend the Minister tell us whether Her Majesty's Government support the view that if we in Europe could get our house in order and adopt a common policy toward the rest of the world we could negotiate from a position of far greater strength for the open trading system upon which the prosperity of our shipping industry depends? For example, the Brussels package, which was a European response to the UNCTAD liner code, will go a long way towards securing access to the crucial cross trades for British shipowners.

The United Kingdom cannot deal with the problems of unfair competition single handed. If we reacted against protectionism by closing our ports to liners of the offending countries, it would do us no good at all unless the ports of Rotterdam, Antwerp and Le Havre were also closed. There is obviously a role for the Community here, but I hope that it will be a constructive one, aimed at keeping trade open, rather than retaliating against the outside world. Can my hon. Friend tell us how the Government will react to the idea of a common shipping policy?

One target for united European action is the United States. I understand that a dialogue on a broad range of shipping policy issues has been going on for two years now between the United States and the Consultative Shipping Group, which includes the European countries and Japan. That dialogue has been mainly concerned with preserving free access to trades in the liner shipping sector in the face of protectionist restrictions in other countries. Is it not about time that we started straight talking with the Americans about the repeal of the Jones Act, which reserves all their cabotage for their ships?

It is not, of course, all gloom and despondency in every sector of our shipping industry. The cruise liner business is reasonably healthy and ferries are doing well, thanks to the growth of trade with Europe, which has hit our deep sea cargoes. Until recently the offshore oil market has been a growth sector, with the British offshore support fleet of some 150 vessels now accounting for nearly 20 per cent. of the United Kingdom-owned and registered fleet. But British supply-shipowners are extremely dissatisfied with their position vis-a-vis foreign flag supply boats operating in the North sea, particularly our Norwegian allies.

At any time one would find that out of 180 supply ships in the United Kingdom sector, about 40 per cent. would be flying a foreign flag and half would be Norwegian. Contrast that with the position in the Norwegian sector where, out of about 80 ships, rarely more than a couple fly a foreign flag. Today there is only one British flag ship in the Norwegian sector, and that is beneficially owned in Norway.

Two financial inquiries have been carried out in recent months, one by the joint shipowners and the other by the joint Governments. Why are Norwegian ships able to offer lower rates? If it is true that the Norwegian financial assistance gives them the edge over the British, surely our financial system should be changed. At least, British shipowners should be given the chance to requote for business in the Norwegian sector.

Before concluding, I want to mention briefly the conference system, registration and defence. I am sure my hon. Friends will agree that the idea of the liner conference system—in effect, one of cartels—is anathema to our free market economy ideas. But we are dealing with a business which is neither free nor fair. Therefore, any immediate tinkering with the system would quickly lead to disaster, with the break-up of much of our fleet and the consequent loss of influence world-wide.

The conference system is still needed to ensure stability and regularity in the provision of liner services. However, I am critical in my pamphlet of the way in which conferences have repeatedly increased rates without consultation. How does my hon. Friend feel about the conference system? The House would particularly like to hear whether the idea that was being canvassed a little while ago on loyalty arrangements is still being pursued. That was, in effect, that no individual shipper could be required to put more than 70 per cent. of his custom with the conference in order to qualify for the rebate available in many trades in return for loyalty.

I noted that the Department of Transport recently issued a consultative document on registration suggesting changes in the criteria for registration under the United Kingdom flag. That contains valuable proposals for regularising the position in relation to Commonwealth countries where we have no jurisdiction. I hope that the Government will legislate along those lines. Will they go further and establish a register of ships owned by British companies, but registered under foreign flags, so that at least we know the real size of the British beneficially owned fleet? Most importantly, perhaps, will the Government stand firm against demands from the developing countries that open registries should be outlawed?

Lastly, I want to mention the Merchant Navy's defence role, which was touched on during the recent debate on the Royal Navy and about which the Under-Secretary of State had just given evidence to the Select Committee on Defence. Is today's British flag fleet really adequate for our defence needs? We were only just able to assemble 54 merchant ships in 1982 to support the 53 Royal Navy ships in the Falklands task force. Even then, some of those had to be chartered foreign flag carriers. Will my hon. Friend tell us today what he told the Committee last week? Will he also say something about the Government's review of future requirements for merchant ships in support of defence plans? As there is now general agreement that if the decline of our fleet continues our defence capability will be greatly weakened, what kind of arrangements will the Government be prepared to make when gaps in our strategic reserve are identified?

Even if the Government can requisition foreign ships to make up any gaps in our own provision, what will they do to ensure that we have an adequate supply of trained

British crews to man such ships when foreign nationals are not prepared to face hostilities? Can the Government cross their hearts and echo the words of G. W. Hunt in 1875, who said:

"We don't want to fight, but, by jingo if we do,
We've got the ships, we've got the men, we've got the money too."

What has my hon. Friend to say about that?

Our Merchant Navy is a big and somewhat technical subject for debate. I have spoken for far too long already. Nevertheless, I have left a multitude of items for hon. Members to cover.

Mr. Bryan Gould (Dagenham): I have been listening with great interest and some sympathy to what the hon. Gentleman has had to say, but does he not find it surprising —I certainly do—that neither of his hon. Friends who represent Southampton is present in the Chamber to hear what he has to say?

Sir David Price (Eastleigh): I represent part of Southampton. Eastleigh now includes the Woolston ward of Southampton.

Mr. Colvin: The intervention of the hon. Member for Dagenham (Mr. Gould) does not do him credit. My hon. Friends the Members for Southampton, Itchen (Mr. Chope) and for Southampton, Test (Mr. Hill) have repeatedly taken part in debates, and I am sure that they will be in the Chamber later to participate in this debate.

With the exception of the hon. Member for Dagenham, who has made a facetious intervention, I thank those hon. Members present for their patience and their supportive noises during my speech. The decline of our merchant shipping industry from the pre-eminent position that it occupied so recently is truly a melancholy story. Our fleet faces extinction, and we should be fighting for its survival at least as passionately as we fight for the preservation of the whale. The trouble is that it is not until the species is about to be extinct that anyone takes any notice. My right hon. Friend the Secretary of State for Transport and my hon. Friend the Under-Secretary of State now face a challenge and an opportunity. If they fail, and if our merchant fleet disappears, they, like the Cheshire cat, may disappear too—the only differences being that there will be no smile left behind.

4.31 pm

Sir Paul Bryan (Boothferry): I declare my interest as deputy chairman of Furness Withy and Company Ltd. I start by congratulating my hon. Friend the Member for Romsey and Waterside (Mr. Colvin) on his choice of subject, which is not only important but under-debated.

I shall not recite again the figures that tell the sad story of our merchant fleet since 1975. The reason we Members of Parliament are debating shipping today is that each one of us is deeply concerned that the fleet has fallen in size, is still falling steeply and is expected to fall still further. Britain is now losing merchant ships at a greater speed than at the height of the second world war. They are victims not of torpedoes but of ever-rising costs, far eastern competition, and subsidised shipbuilding which makes ships too cheap to buy and thus leads to a surplus that in turn means uneconomic rates and cut-throat competition.

That general situation was exacerbated by the oil crisis, which led to a recession and to countries drawing their oil supplies from fields nearer home, thus making large tankers redundant. No one has escaped the biggest shipping slump for 50 years. Even the spectacularly successful Hong-Kong shipowners, Y.K. Pao, C. Y. Tung and Frank Chao have reduced their ship numbers and diversified into property, container terminals, support vessels for oilfields and so on. The great BP and Shell tanker fleets are a fraction of their former size.

In those worldwide conditions the British fleet, with its high costs, was bound to suffer more than most. Many famous shipping names have disappeared. Others, such as British and Commonwealth, and Furness Withy have been selling off ships during the past five years at an almost hectic speed, and have diversified into other areas. P and O has had to write off £77 million in its balance sheet in respect of gas carriers.

However, there is a brighter side to the picture. For example, 20 per cent. of the merchant fleet—150 ships in all—is servicing North sea oil and other more distant oil fields with some of the most sophisticated ships in the world such as the Orelia, which was fitted out on Humberside and is now in the Persian gulf. We lead the world in luxury cruising. The commissioning of the Royal Princess took one back to the launching of the Queens, except that, regrettably, the Royal Princess was not built on Clydebank. The Atlantic Conveyor, a third generation combined container roll-on roll-off ship is about to join the Cunard fleet. As my hon. Friend the Member for Romsey and Waterside has said, the ferries are also prospering.

Nevertheless, the ugly truth is that new tonnage on order for the United Kingdom fleet is running at an annual rate of about 200,000 tonnes—in other words at less than the tonnage of just one very large crude carrier. With dropping ship prices and plenty of modern ships on the market, there is no temptation to build anything but specialist ships.

So much for the past and present. What of the future? The bulk carrier and tanker trades are still depressed, but over the past few months, after a vicious struggle in the north Atlantic, the liner trade has been moving into profit in most parts of the world. But just as the horizon begins to brighten storm clouds loom up in the shape of 14 huge new container ships almost twice the size of what is at present considered large, which are owned by United States lines, and of an even bigger fleet of new container ships of slightly smaller size from the Evergreen line of Taiwan.

Both of those lines are starting round-the-world services, increasing world container capacity by about 40 per cent. Whether or not those huge ventures prosper, they must have a devastating effect on rates and hence on the profits of the main world container lines, such as OCL of Britain, which are preparing in other various ways to meet this challenge.

We are moving into a world of huge investment in which only the strongest will survive. It is against that background that the Government have to make their Budget decisions and industry must make its business decisions. The main firms in the industry—Cunard, P and O, British and Commonwealth, Ocean and Furness Withy—are not heading for bankruptcy. They are firms with access to capital and they have to decide how to invest it. In recent years that investment has inevitably been in the direction of diversifying away from shipping.

The Government, in turn, will have to decide whether shipping really is to be a special case, with no guarantee that fiscal measures will stop the rot. My hon. Friend the

[Sir Paul Bryan]

Member for Romsey and Waterside has described the fleet's tremendous commercial value, which goes well outside the industry itself. But another obvious justification for Government action might be defence, and an inquiry is already promised. This is surely unnecessary. The General Council of British Shipping is already deeply involved with Government in contingency planning for defence purposes, both in respect of NATO and nationally. There are also two Standing Committees dealing with this issue, and three statistical studies are now in progress.

We shall duly be told that the Merchant Navy is adequate for a Falklands-type operation. But we know that the whole British defence set-up is ideal for such an operation. We probably have the most efficient forces in the world, but they are small and — owing to lack of conscription, recent wars and, in the case of the Navy, a waning merchant marine — we lack reserves. In the Falklands, casualties were light and reserves were uncalled for. We had to use only our crack troops, and the mix of our Merchant Navy, with its accent on cruise ships, ferries and RO/RO ships was particularly suitable. It is in a more protracted campaign, in concert with our allies, that our reducing merchant fleet with its corresponding reducing core of trained personnel will be found wanting.

None of that was taken into account at the last Budget, when, for the first time, shipping lost its status as an exceptional case. By Committee or Report stage of the Finance Bill, even the Treasury was slightly frightened at what it had done and some small concessions were made. However, by then confidence in the industry was badly shaken.

At that time the Chancellor's no-distortion rule was new and shining bright. Since then student grants, pensions and the like have shown that nothing in this political life can remain rigid and survive. Every other country of any consequence is supporting its shipping in one way or another. When Britain did that foreigners invested in our fleets as a flag of convenience. Now the opposite is true. Our shipping is actually discriminated against since it cannot enjoy regional grants, enterprise zones and the other titbits offered to land-based industries.

The GCBS has made its proposals and my hon. Friend listed some of them. In my eyes the most important of these is a ship allowance. To enable companies to write off their ships more quickly, in addition to the 25 per cent. writing-down allowance, there should be a 50 per cent. ship allowance for new and second-hand ships.

The underlying argument is that the continued existence of a substantial British merchant fleet is of sufficient national importance to warrant special assistance. The Chancellor may find help given discreetly through the tax system repugnant. He knows that if the new tax rules are bent even slightly for shipping, he will be besieged with special cases.

If the Chancellor can be persuaded that assistance is required, it may be better if the arguments are discussed openly and any resulting subsidy is explicit. A shipping allowance would come exactly into that category. It would show that the Government were convinced, without doubt, of the importance of shipping. It would do something to restore confidence in the industry.

4.41 pm

Mr. Donald Stewart (Western Isles): I congratulate the hon. Member for Romsey and Waterside (Mr. Colvin) on his good fortune in the ballot and on fixing on the merchant service as his subject. I had begun to think that the future of the British merchant marine was a minority interest in the House, although a number of hon. Members, such as the right hon. Member for Taunton (Mr. du Cann) and the hon. Members for Jarrow (Mr. Dixon) and for Kingston upon Hull, North (Mr. McNamara), have recently made speeches on the subject.

I am surprised at the Government's attitude because the merchant fleet plays a vital part in defence. Even if the Government were indifferent to the trading and employment aspects of the subject, the connection between the merchant fleet and defence should be in the Government's mind.

The disappearance of the fleet is startling. "Disappearance" is a fair word. People of my generation remember how thin the lifeline was in the early 1940s. My war service was in the Royal Navy, so I am not scratching my own back when I pay tribute to the vital link that the Merchant Navy provided. When one recalls that, one is more than ever surprised at the Government's lack of interest in the erosion of the merchant fleet. We experienced a great humiliation in the Falklands war when we had to charter foreign merchant ships to make up the numbers.

Once we had 50 per cent. of the world's commercial shipping. We are now down to 700 ships or a tonnage of 21 million. The Greeks have more than five times that number in their merchant marine. In 1975, we had 1,614 ships or a 50-million tonnage.

Ships have disappeared to take up flags of convenience for various reasons. I refer to lower taxation, lower manning levels or odd watchkeepers' certificates — where they exist — as opposed to the British mariners' certificate which is demanded under the Red Ensign. Reduced safety regulations elsewhere are also an attraction, but it is a mistake to think that all ships sailing under flags of convenience have lower standards. Some of them are up-to-date.

A restriction applies to our coastal trade. Our so-called partners in the Common Market bar our shipping from their coasts while we have no recourse to the same practice here.

On the invisibles side, the decline of the United Kingdom fleet between 1980 and 1983 reduced the trade balance on sea transport by £1 billion. That is confirmation of what I and some other hon. Members have said for a considerable time — that the Government do not appear to care about the merchant fleet. Their lack of concern has cost the country £1 billion.

In addition, the Chancellor is withdrawing fiscal aid and putting the competitive position of the merchant service at an even greater disadvantage. As the hon. Member for Boothferry (Sir P. Bryan) said, the last budget did considerable damage to the merchant fleet when it proposed the withdrawal of depreciation allowances.

The position of our seamen was made worse in the same Budget by the withdrawal of the allowance on foreign earnings. That can mean as much as £10 for an able-bodied seaman and up to £40 a week for senior masters. Seamen

who work outside the country incur extra expenses; they are away from their homes and do not enjoy the amenities available to people living in the United Kingdom.

That ill-judged imposition will inevitably lead to a demand for bigger pay increases. That will make the position even worse. It will reduce the Merchant Navy's competitiveness, although the Prime Minister told me recently that that was essential for the continued existence of the fleet.

I hope that the Minister will convey to the Chancellor what I have said about the availability of fairer allowances for depreciation and restoration and the overseas earnings allowance.

For a maritime nation, the Government's indifference is astounding. In the last war the deep-sea trawling fleets and experienced seamen were the backbone of the navy. That has gone. The only reserve of trained seamen is in the merchant fleet. Any maritime nation neglects that at its peril. The problem has received little attention in the House. It involves trade, employment and defence. If we neglect those matters, the United Kingdom will be placed at a disadvantage.

4.48 pm

Mr. Roger Stott (Wigan): It might be convenient if I intervene briefly now. I do not have a declaration of interest to make other than happy memories. I am not a vice-chairman of a shipping company, but I am an ex-able seaman. I joined the Merchant Navy 24 years ago when the size of the British fleet, of the shipbuilding industry and of our port industry was very different. It is a sad reflection on Government policy that we have reached such a terrible demise in our shipping, shipbuilding and ports industries.

I thank the hon. Member for Romsey and Waterside (Mr. Colvin) for choosing the plight of the British merchant fleet as the subject for debate today. As he has already reminded us, it comes at an important stage in the development of the decline of British shipping. Unless we take some drastic action, this once proud maritime nation may have no maritime fleet remaining.

Two years ago, the National Union of Seamen—of which my hon. Friend the Member for Kingston upon Hull, East (Mr. Prescott) is the only sponsored Member of Parliament—produced two documents which outlined the dramatic decline of the British merchant fleet. One was entitled "Flags of Convenience" and the other "British Shipping: Heading for the Rocks." I recommend the Under-Secretary to read them both.

It would appear that singularly little action has been forthcoming from the Government on the demise in which Britain currently finds itself. That inaction has provoked a storm of protest from the General Council of British Shipping. I note that in the brief that it sent us today, it commented that the 1984 Budget was a disaster for United Kingdom shipping.

Mr. Jim Slater, the general secretary of the NUS, wrote to the Prime Minister on 8 November spelling out in the plainest terms—one might say with a touch of mess deck language — the dramatic decline of Britain's merchant fleet, and suggesting remedies to halt that decline.

In the business section of *The Sunday Times* on 2 December, Philip Beresford and John Huxley wrote an article entitled "Britain's abandoned ships." No doubt the Minister read that. There was also an article in *The Guardian* by Andrew Cornelius entitled "Facing a fight to the death." That graphically outlined the problems being faced by British shipping. Given the state of British shipping today, it is hardly surprising that the hon. Member for Romsey and Waterside, together with his colleague Jonathan Marks — who I understand is a shipbroker and member of the Conservative party — should publish a report entitled "British Shipping, The Right Course." I reiterate that the House should be grateful to the hon. Gentleman for choosing the subject of shipping for today's debate.

I shall do the hon. Gentleman the honour of discussing the report of which he was co-author. I have read it. The report attempts to analyse the reasons for the decline of the fleet and makes recommendations for halting and reversing that decline. Much of the analysis echoes the examination by the NUS of the problems of the United Kingdom shipping industry. Despite some hysterical and factually incorrect sections on manning, collective bargaining and trade unions, the report makes a worthy contribution towards getting the Government to give serious consideration to shipping.

The General Council of British Shipping has reacted to the report in an extremely hostile manner, because it attacks two of the fundamental elements of protection for existing companies involved in shipping — the conference system and the fiscal reliefs peculiar to shipping. It is clear that the authors of the report believe that the GCBS and the shipping companies have, on the one hand, looked for every form of advantage available, including the elimination of competition, but, on the other hand, have publicly espoused free competition.

I believe some of the suggestions in the report to be wrong, but some of its recommendations are certainly worth pursuing. Some of its comments are a direct criticism of the Government's performance thus far. The hon. Gentleman and his colleague outlined graphically the decline of the British fleet and set out certain measures to halt that decline. I shall not bore the House by detailing them, but I subscribe to many of them.

In addition to the points made by the hon. Gentleman in his speech, there has been a process of concentration through the merger of shipping groups, diversification by shipping companies into other areas and a build-up of foreign ownership. Apart from manning restrictions, which I believe to be factually incorrect, the factors mentioned in the report were also identified by the NUS in its pamphlet in 1982. The report demonstrates a belief that the United Kingdom can act alone against these trends. It implies that support for existing shipping companies would not be in the nation's interests.

I wish to quote a number of passages from the report. It states:

"the temptation to go behind the fence to reach bilateral agreements with the developing countries in order to buttress the position of established companies must be resisted . . . If we succumb to [this temptation] we head towards complete regulation of shipping . . . the survival of the British merchant marine depends upon the creation of a broader base of entrepreneurial ship-owners, free from unnecessary and burdensome fiscal and regulatory constraints, and thus in a position to face fair competition and the changing trends of the shipping markets of the world. Government should use its powers to create a fairer environment for international competition."

Mr. Colvin *rose*——

Mr. Stott: I shall give way in a moment.

[Mr. Stott]

Acknowledging that the British people play cricket while other countries play karate, the report's basic solution is that everyone should be persuaded to give up karate and play cricket. That reveals a very slim grasp of the realities of international trade and the commitment of other Governments to protect their interests, rather than the fixation of a single ideology, which I understand from the report is based upon unfettered competition——

Mr. Colvin *rose*——

Mr. Stott: The hon. Gentleman should be patient.

Mr. Colvin: The longer that the hon. Gentleman continues, the more I shall have to answer. He criticised the idea of a wholly regulated market, which is precisely what the bilateral agreement between Britain and Sri Lanka would lead to and which would be anathema to the whole principle of free trading.

The hon. Gentleman failed to acknowledge that in the NUS paper and brief, which I have read, the NUS recommended a totally controlled environment. It wants to control everything. It would nationalise everything—the shipping lines, the shipments, the forwarding agents, the docks and the shipbuilding companies. The whole lot would be integrated on a national state-owned basis. The NUS thinks that that would solve the problem. But it would not. It would lead to retaliation from our competitors overseas. The hon. Gentleman must appreciate that the cross trades are vital to our shipping industry. If we do anything to weaken our position, we will fire the equivalent of more than one Exocet at our fleet.

Mr. Stott: With respect to the hon. Gentleman, I do not know to which pamphlet he has referred. The NUS document does not mention the nationalisation of shipping companies. It certainly mentions a firmer degree of Government control, and I go along with that. Prior to the election the Labour party produced a document referring to a national shipping line. I do not think that the hon. Gentleman will find what he has suggested in the NUS document.

The hon. Gentleman is not a reluctant critic of the role of the Government. His report states:

"A long-term policy for British shipping is hard to detect. If there is an official view on the structure of the industry, on its tax regime, on its requirements for registration and regulation, it has yet to be made public as a coherent whole."

That is absolutely right.

The report continues:

"A general view has been promulgated neither by Ministers nor officials on the structure of the industry."

Again, the hon. Gentleman is spot on.

The report is critical of a lack of any real regulation over the conferences. It states:

"Despite a political belief"—

that is the belief of the hon. Gentleman and his friend—

"that the conference system is ripe for reform . . . we have accepted the argument that any immediate dismantling of the system would quickly lead to disaster with the break up of much of the fleet and a consequent loss of influence worldwide."

The pamphlet sets out certain suggestions in respect of the conference decisions. I subscribe to the recommendations, which are absolutely right.

The hon. Gentleman talked about cabotage and state aid and said that the Government should be prepared to go to the European Court, if necessary, to ensure that other EEC countries do not breach the treaty of Rome on cabotage. The report makes a dramatic leap from having ended cabotage in Europe to pressing the United States Government to abandon cabotage and reversing Government-generated cargoes to United States flag ships. The demonstrates a degree of naivety. The chances of getting Greece to abandon cabotage are extremely remote, especially now that it is the dominant shipping industry within the EEC. Italy is trying to obtain EEC approval for a package of credit measures that would encourage Italian shipowners to order new ships in Italian yards. The United States Government have categorically stated that they will not alter the principles of the Jones Act, which provides for United States cabotage.

The blind faith of the hon. Member for Romsey and Waterside in free trade leads him to confuse the ideal world of free trade and entrepreneurial endeavour, which he would like to see, with the real world of shipping. Cabotage exists and will continue to exist in the real world.

Mr. Colvin: When I suggested that it was about time that we talked seriously with the Americans, I went on to explain that we are already taking that approach. As is stated in my pamphlet and as I said earlier, we shall be more capable of acting internationally to try to remove some of the unfair practices of competing nations if we act jointly with our European partners. That is why my question to my hon. Friend the Parliamentary Under-Secretary of State was so important. I referred to the shipping policy document that has been produced by the commissioners and I to Mr. Stanley Clinton Davis, who was an Opposition spokesman and who is now a transport commissioner. Mr. Davis should be in a strong position to be able to do something about cabotage and the evolution of a common shipping policy. We can tackle the problem of unfair competition elsewhere in the world only if we act in concert with our European partners. I hope that the hon. Gentleman will endorse the idea of a common shipping policy. If he does not, he will sign the death knell of the British merchant fleet.

Mr. Stott: What a tangled web we weave. I do not subscribe to what the hon. Gentleman has said. I do not think that we are likely to achieve any common cause with our European partners, for the reasons that I have outlined. I cannot envisage the Greeks, the Italians, the West Germans or the French agreeing to what the hon. Gentleman proposes. I redirect the hon. Gentleman's mind to a document produced by the NUS in 1984 in which it proposed that, in the first instance, coastal shipping should be regarded as domestic transport. It suggested that it was valid for every nation to reserve its coastal trade for its own flagged ships. However, if the EEC were to adopt new regulations within the terms of the treaty of Rome, it would be more appropriate to lift restrictions within the Community but to reserve the coastal trade to vessels registered within EEC states than to abandon coastal shipping to all comers. That is a proposal that would probably find acceptance.

I support the attack of the hon. Member for Romsey and Waterside on the Government's taxation measures. That attack has been taken up by others, so I shall not rehearse his arguments on taxation. However, it greatly concerns the shipping industry that it is not treated in a way that would encourage it to keep British ships under the British flag.

The hon. Member for Romsey and Waterside has repeated the analysis that is set out in the document produced by the NUS on registration by acknowledging that foreign investment represents about half the ownership of the United Kingdom fleet. However, rather than seeing this as a source of insecurity and questioning more deeply why United Kingdom investors have been reluctant to put their money into shipping, the hon. Gentleman suggests that the development of a coherent shipping strategy depends on foreign investment. Surely he is aware that the whims of foreign investors are influenced by factors outside the control or influence of the British Government. The abandonment of United Kingdom shipping to their whims hardly demonstrates a commitment to ensure that United Kingdom shipping recovers from its current appalling decline.

The report of the hon. Member for Romsey and Waterside draws attention to the need to ensure that substandard vessels do not obtain British registration without complying with British safety standards. That is to be applauded. However, the suggestion that more inspection work should be delegated to private sector classification does not make for an adequate system of ensuring that common safety standards are met and maintained.

The hon. Gentleman's pamphlet can be applauded also for its call that eligibility to register vessels should be confined to those over whom jurisdiction can be exercised. However, that contradicts other statements which support flags of convenience operators. Countries which operate the flag of convenience arrangement offer a major attration, because they do not exercise effective jurisdiction.

The hon. Member for Romsey and Waterside referred to manning. The hon. Gentleman would not expect the Opposition and the NUS to agree to, participate in or countenance levels of manning which would clearly be unsafe. He would not expect us to allow the status of our seamen to be undermined by reducing wages and conditions to levels at which other seamen have to operate. The status of our seamen is a cost to the industry and it is one that the industry has to bear. We cannot, will not and should not be expected to agree to the lowering of the standards that our seafarers have obtained through negotiations with shipowners. We cannot allow that to happen.

The hon. Member for Romsey and Waterside was right when he mentioned the role of the merchant fleet and the defence of the nation. The defensive role of merchant shipping has long been recognised and supported by the Opposition and the NUS. It is to be welcomed that others adhere to the union's position. However, the hon. Gentleman's pamphlet seems not to take into consideration the link between shipping, shipbuilding, ship repairing and Government support in maintaining a defensive capability. It is important that we recognise the link.

I apologise to the House for spending some time responding to the issues that the hon. Member for Romsey and Waterside sets out in his pamphlet. I thought it only right to extend to him the courtesy of demonstrating that I have studied his pamphlet and taken some care in trying to understand what he has written and said. A number of sections are flawed, and I cannot agree with the conclusions that he has drawn in those respects; but his pamphlet and the suggestions that he has made, together with the debate that he has initiated, are to be greatly welcomed.

The decline in British shipping is serious. There is a general recognition throughout the House of that fact. In the last decade, the British merchant shipping fleet has declined from 50 million tonnes to 20 million tonnes. During the past 10 years, the number of seamen working on British ships has been halved to about 37,000. During the past two years, the balance of payments contribution from merchant shipping has been cut in two. The reason is simply that there are too many ships chasing too little cargo. Unfortunately, that is a fact of life.

We have heard and shall continue to hear the appropriate plaudits for our merchant seamen. With some regret I have to say to the Under-Secretary of State that the tax relief measures for our seamen undertaken last year by the Chancellor of the Exchequer in his Budget were a pretty poor reward for their service in the Falklands war. I hope that if the Under-Secretary of State has some influence with the Chancellor of the Exchequer, he will tell him that that measure went down badly in the shipping world, and certainly with those brave men and women who manned our merchant fleet during that crucial time.

Our merchant fleet is in bad shape. The Government have presided over 4 million of our citizens on the dole and over our industrial decline. Will they preside over the sun setting on the Red Ensign? I very much hope that will not happen. The House expects the Under-Secretary of State to recognise that there is serious trouble ahead unless the Government do something about it.

5.11 pm

Mr. Edward du Cann (Taunton): Following the admirable precedents set by the right hon. Member for Western Isles (Mr. Stewart) and the hon. Member for Wigan (Mr. Stott), I should like immediately to congratulate my hon. Friend the Member for Romsey and Waterside (Mr. Colvin) on his choice of subject. This debate was certainly timely, and I should like to congratulate my hon. Friend on the excellent speech to which we had the pleasure of listening. I much appreciate the kindly things he said about the all-party parliamentary maritime affairs group and appreciate his consistent support of that body.

I have a single statement to make and a single question to put. I believe that I shall make common cause with the hon. Member for Wigan, my hon. Friends the Members for Romsey and Waterside and for Boothferry (Sir P. Bryan) and the right hon. Member for Western Isles. Indeed, I should be surprised if the House is not unanimous in these matters.

Britain is faced with an alarming decline in her merchant fleet which is now assuming crisis proportions. That is undoubted. The present condition of Britain's merchant navy is the Achilles' heel of our economic and defence policy. The question that was posed immediately by my hon. Friend the Member for Romsey and Waterside was: what do the Government propose to do about it? The need for action now — action this day, as Winston Churchill used to say—is undoubted.

Every right hon. and hon. Member who has participated in the debate so far has given the facts. In 1967, the British fleet was the largest in the world; by June 1983 it had dropped to eighth place in the world league, and it is still declining. What is worse, during the past three months no

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orders for merchant ships have been placed in British yards. Picking up a point made by the right hon. Member for Western Isles, in 1970 Britain had 160 distant water trawlers, last year it had 10, and this year it has none. The loss of trained seafarers is now running at a rate of 5,000 officers and men a year. Educational and training establishments are being closed, and the cadet schemes are virtually extinct. In 1970, the annual number of entrants of engineering cadets was about 1,000; last year it was 70. It does not matter which aspect of the scene one examines —the picture as a whole is horrifying.

It is possible to say that there is a world surplus of ships and shipbuilding capacity and a world recession, as my hon. Friends the Members for Romsey and Waterside and for Boothferry pointed out. Of course that is true, but it is only part of the story. Since 1945, world trade has grown eightfold—with 99 per cent. or more carried in ships. As my hon. Friends have pointed out, other nations have substantially expanded their fleets. They include China, Korea and, not least, as my hon. Friend the Member for Romsey and Waterside pointed out, Comecon and the Russians.

Soviet Russia is now a formidable maritime state while, in comparison, the United States is a naval power only. The Soviet naval fleet is now larger than the British fleet. Russian warships are second in number only to those of the United States. The Soviet submarine fleet, with 400 ships in service—a new submarine completed every 40 days—is larger than the one Dönitz commanded, which so nearly brought our country to its knees in the 1940s. The Russian fishing fleet—also used from time to time for military purposes—is the largest in the world, as is the Russian fleet of ice-strengthened ships. The Soviet Union's hydrographic capability is by far the greatest in the world while ours—potentially the finest in the world — is disgracefully neglected, as I have often complained. I cannot get out of my mind the words of Admiral Gorshkov:

"Soviet seapower . . . has become the optimum means by which to defeat the imperialist enemy and the most important element in the Soviet arsenal to prepare the way for a Communist world."

It is not unimportant to ponder those words while we are in the midst of this successful visit, which I greatly welcome, by Mr. Gorbachev.

What about our friends and allies? It is a fact that the United Kingdom's merchant fleet is declining faster than that of any of our allies in NATO or in the European Community. We can, therefore, safely deduce that the dominant cause of the decline of our Merchant Navy is not the recession but the way in which our country has reacted to it.

It has been common ground among every right hon. and hon. Member who has spoken in this debate that a national shipping capability is vital in peace time, for numerous good commercial reasons — for instance, its direct contribution to our balance of payments, which is still running as high as £1 billion a year, although, as the right hon. Member for Western Isles pointed out, it had gone as high as £2·5 billion in 1974. Such capability is vital for the security of availability of cargo space, and for some control over freight rates. After all, 98 per cent. of our trade goes by sea.

It would surely be extreme folly to be exclusively or nearly dependent on foreign carriers and to put Britain's life support system in the hands of our competitors, or perhaps even our enemies. This process has already done pretty far. I cite three instances, one of which was given by my hon. Friend the Member for Romsey and Waterside when he pointed out that, of 180 supply ships in the British sector of the North sea, only about 100 fly the Red Ensign. Clearly, that is different from the Norwegian sector, as my hon. Friend rightly said. Secondly believe it or not, three quarters of our oil and gas from Sollum Voe in the Shetlands is carried in foreign ships. Thirdly, in total, less than one third of our imports are now carried in British registered ships. Some may think, as I do, that the process has gone too far already, but there are many indirect reasons for supporting a substantial British Merchant Navy capability. A thriving and substantial British merchant fleet is the key to and basis for a British shipbuilding industry, a British ship repairing industry, a prosperous marine engineering and equipment industry, and substantial invisible earnings in the City through brokerage, insurance and so on.

London is currently the world maritime centre. I believe it to be of great benefit to the United Kingdom that we should maintain that position. In an emergency our national merchant fleet, as the hon. Member for Wigan said is, in effect, Britain's fourth arm of defence. Its military task is to transport men and supplies; its economic task is to keep our people fed and supplied. Besides that, as the right hon. Member for Western Isles and my hon. Friend the Member for Boothferry said, it is the Navy's reserve of manpower. Adverting in particular to what the right hon. Member for Western Isles said, a comparison with the years gone by that he and I remember is interesting. In 1934, there were 200,000 British men at sea upon whom the Navy could call for reserves. Today, there are a mere 45,000

All those benefits to the United Kindgom ecomomy and employment are at risk. They should not be. They need not be. My hon. Friend the Under-Secretary is a great friend of mine whome I much admire. He is serving our country well in Government. I must tell him that in the face of the most worrying circumstances I regard the inertia and complacency of successive Governments as intolerable. I remember raising the subject on the Adjournment in November 1982 The Minister then replying, who is not now in the House, said that he shared the concern that was expressed. He further said that he would come forward in the almost immediate future with some measures. Nothing happened. Now, even the OECD is sounding a clear warning in its publication "Maritime Transport" which states:

"OECD Governments . . .must take a more active part in shipping and can no longer rely on the resolution of problems between shippers and ship owners while limiting themselves to the role of observers".

Those are wise words. Someone said to me the other day that he thought the attitude of successive Governments to the provision of the Merchant Navy was the equivalent of the man who leant out of a window halfway up a skyscraper to watch a man falling from the top. As the man who was falling went past him he said, "How are you getting on?" The man replied, "So far, so good."

The Government cannot any longer just stand by. What is the right course for Ministers? I do not believe that policy is difficult to decide. I believe that all in the House

would agree upon it. We should declare loudly and certainly that Britain needs its Merchant Navy. We should accept that the Government have a responsibility to provide the political, diplomatic and fiscal climate in which shipping can survive and prosper.

Now to practical proposals. In the past 25 years—I am sure that we would all agree — shipping has advanced technically, it would seem, about as far as practicable. what with megaships, containerisation, integration with land transport and a substantial reduction in crew numbers, it is right to claim that the industry has done its part. Now, it seems, is the time for Government to back the United Kingdom commercial effort. I say now —I am sure I speak for the whole House—how much the presence of my right hon. Friend the Secretary of State for Transport to listen to part of the debate is welcomed.

What does Government backing of the United Kingdom commercial effort mean? I believe that what it means, above all, is all Government Departments acting together. We have listened to a torrent of complaints—I believe entirely justified—about the changes introduced in the last Budget by my right hon. Friend the Chancellor, with depreciation and tax allowances for seamen being removed. He could not have hit the industry a harder blow than he did with those two measures.

One is entitled to ask what consultation there was with the Department of Transport before those measures were introduced. What is the Department doing, on its own account, to influence other Government Departments to stop the chartering of foreign ships? What are we doing chartering foreign ships when so many of our seamen are out of work? Adverting to a point that has been made several times already, and which is in the minds of us all, I do not recall seeing Swedish, Danish and Norwegian ships in the Falklands when the Exocets were flying around. Out duty is to support our people.

Like my hon. Friend the Under-Secretary and my right hon. Friend the Secretary of State, I believe in the virtues of competition, but what our shipping companies are facing in world markets, as my hon. Friend the Member for Romsey and Waterside said, is anything but fair competition. For instance, five European Community countries ban United Kingdom ships from their coastal waters while we allow free access. That was a point brilliantly brought out by my hon. Friend the Member for Eastleigh (Sir D. Price) in a question to the Prime Minister a little while ago. Whatever the method is for dealing with it—we have been arguing across the House about it—why do we allow it at all? Why do we allow such a state of affairs to continue? A further 25 nations actively discriminate against British shipping using their ports although, again, their ships use our ports without hindrance. Why do we allow such things to happen?

Discrimination, to which my hon. Friend the Member for Romsey and Waterside referred, can take many forms. I have a note of about 68 different examples, many by developing countries. It is particularly odious when developing countries discriminate against British shipping when United Kingdom-financed cargoes are being delivered to their shores. Governments all over the world disregard the virtues of fair competition. It is therefore incumbent upon my right hon. Friend the Secretary of State to ensure that the Government mount a determined political and diplomatic offensive to counter discrimination.

Retaliation may even be called for. In my view, it is justified in the context of the United Kingdom's present employment position. We should have the courage and realism to do it. Since quotations have been the order of the day, not least from my hon. Friend the Member for Romsey and Waterside, who gave a particularly appropriate one, perhaps I could quote John Stuart Mill who said:

> "In labouring for one's own country in the right principle we labour for all humanity."

What we need, in a sentence, is a national maritime policy designed to defend and advance the British industry and the British interest. We want that campaign carried forward with imagination and pertinacity. That is the message that will come from the debate. We look to the Government to provide it. I have every confidence that my right hon. and hon. Friends will take that initiative. Heaven knows, in the national interest, it is badly needed.

5.27 pm

Mr. Ted Garrett (Wallsend): The hon. Member for Romsey and Waterside (Mr. Colvin) spoke one significant sentence of which I took note. He claimed that British shipping was facing extinction. That is nothing new for the House to hear. Hon. Members have been saying year in year out that shipping was facing extinction, but successive Governments have done little or nothing about it. That is a sad fact, but one which we must accept.

On Friday morning I shall be at the Swan Hunter yard in Wallsend. I shall be on board the Atlantic Conveyor, to have a final look at that ship before it goes on its maiden voyage. Unfortunately, that is the last merchant ship on the river Tyne, as the hon. Member for Tynemouth (Mr. Trotter) will confirm. It means that for the first time since the 1930s no commercial shipbuilding will be taking place on Tyneside, and it does not seem as though there is any possibility of receiving any orders within the near future. Therefore, not only merchant shipping but commercial shipbuilding is facing extinction.

My hon. Friend the Member for Wigan (Mr. Stott) asked the Minister a series of questions, during which he placed his finger on the dilemma that faces us. In the House there are basically two distinct political philosophies: one is the virtue of free competition, and the other is the principle of state intervention. Some would call it Socialism but I prefer to call it state intervention. That is the dilemma. The shipping industry is facing the same dilemma as the cotton, textile, machine tool and steel industries and the fishing fleet—I could go on and on. We have not resolved the dilemmas of those industries. For that reason, this country faces a desperate situation with regard to its productive and manufacturing basis.

The Government have distanced, and continue to distance, themselves from those problems. Because of a lack of state intervention, or at least a move by the Government of the day towards a more careful analysis of the problems, we continue to drift. The chances of any good coming out of today's debate are not great, because of the basic philosophy of the Prime Minister herself, so ably backed by some members of her Cabinet. She has often said that one cannot solve a problem simply by throwing money at it. The root cause of the problem is how we finance the British shipping industry in the context of the role that it performs, as has been said by Conservative Members, including the hon. Member for Romsey and

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Waterside. We are no nearer an answer to the problem than we were when I started my political career in the House some 21 years ago.

I am proud to represent Wallsend in the north-east. There are strong and traditional maritime instincts in that area. People not only built the ships, but sailed in them. The port of South Shields, which my hon. Friend the Member for South Shields (Dr. Clark) has the honour to represent, suffered the largest loss of life among men lost at sea in both world wars. Men have also been lost in peacetime, sailing in ships that have provided the lifeline to our nation.

There are training facilities and technical colleges. There is one at Southampton, and one on the north-east coast, at South Shields, where men have been trained for service in the Merchant Navy—marine engineers, radio operators, deck hands and, of course, officers. When they went to sea, those men performed good jobs. They learnt traditional skills, and when their service ended they came ashore to play a highly valued role in industry because of their skills. The mere fact that there will be fewer vacancies for the positions that I have mentioned means that the skills referred to repeatedly in the House over the past few months will go. Is it any wonder that the recently reconstituted Engineering Council has decided to run a series of advertisements emphasising the role of engineering skills, which are so essential to this country's future?

In our shipping industry, this country has been to the fore in introducing regulations to improve safety, and these are being applied more and more in other nations' merchant ships. However, at the end of the day we must believe in ourselves and ask whether we want a shipping industry. The answer is still unclear.

Admittedly other countries are in a worse state than we are, but some are better off. I should like to refer to China. It is appropriate that I should do so, because this afternoon the Prime Minister left on a very important mission to China. China recognises that there is overcapacity in shipbuilding and has delivered a pledge not to disrupt world shipbuilding markets any further. China has told international shipowners and builders that for the time being it does not intend to become a major shipyard power. If that is so, one of the items on the Prime Minister's agenda, in addition to signing the agreement on the future of Hong Kong, should be to ascertain whether there is a market in China and, if so, what aid we can give British Shipbuilders or the private sector to obtain orders from that country.

Some five or six years ago I attended a lunch in the City of London given by the General Council of British Shipping. The then chairman was Peter Walters, who is now the head of British Petroleum. He forecast that there would be a surge of orders by British shipowners because of the aging of the British Merchant Navy. Regrettably, that has not happened, yet the prospects in other countries for more shipbuilding orders are not too bad. It would be foolish to think that no ships are being built anywhere. Many ships are being built in other countries, and we must look more thoroughly at the market; for example, in India.

It is estimated that one third of the Indian merchant fleet of over 10 million tonnes deadweight will be due for replacement by modern fuel-efficient container ships during the seventh plan for the years 1985-90, according to informed sources in New Delhi. I might be straying from the motion, but I am sure that people in British Shipbuilders will read the debate, and I should like them to bear in mind that there is a market there and they can go out and get it. Just as I make no apology for asking for public assistance to get those orders, so I make no apology for asking for direct intervention to save the British shipbuilding industry.

It is often said that if one is a Socialist there is some doubt about whether one is as patriotic as those in the Conservative party, who make great claims to patriotism. But where is the patriotism? It should be applied in view of the simple fact that the British merchant shipping industry is essential to the defence of this country. There is a lack of patriotism by Conservative Members who have to make the decisions about whether we are to have a shipping industry. We cannot carry on just letting industries decline. That has to stop, in the interests not only of the people whose livelihoods are affected but, more importantly, of the whole nation.

Conservative Members who have participated so far in the debate have shown a remarkable awareness of the problem facing the industry, and they have displayed a certain amount of courage when they have had the temerity to criticise the fundamental policy that motivates the Government. If they can change that policy, they will get total support from the Opposition.

5.39 pm

Mr. Neville Trotter (Tynemouth): The situation is indeed grave. Britain's historical background to its maritime traditions and links is so great that it is staggering that two thirds of the Merchant Navy has disappeared in just nine years. Given that the history of the United Kingdom has been built up on our maritime endeavour, that is indeed staggering. I can only reflect that as a country we have failed to give more attention to the staggering decline in one of our great historical industries simply because employment in it has not been concentrated in particular parts of the country.

I believe that the man in the street—whether he lives at the seaside or inland—believes that Britain needs a Merchant Navy and that there is increasingly national concern about the decline in, and even the collapse of, this industry.

One newspaper recently published interesting figures about the size of individual companies. My father worked for P and O before the war, when I remember that it had more than 200 ships. That was a long time ago, but today P and O has just 24 ships. Furness Withy has 13 ships, Ellermans six, and British and Commonwealth only four. I appreciate that some of these companies are also members of container consortia, but these figures represent a staggering reduction in the British fleet. It is right that the House should debate this subject today, and I join in the congratulations to my hon. Friend the Member for Romsey and Waterside (Mr. Colvin) on choosing it.

Other hon. Members have referred to the reasons for this decline, one of which is the fall in coastal trade. Coastal traffic has practically ceased as a means of communication. In the days when the hon. Member for Wallsend (Mr. Garrett) and I were at school, the Tyne was crowded with colliers taking coal to the south. Nowadays that coal goes to power stations near the collieries and is conveyed by electric line to the south of the country.

Britain now trades far more with Europe, and consequently less of our home trade is taken on long-distance journeys by sea. Less oil is now brought into the country from overseas. Every 1 million tonnes of additional output from the North sea means that one tanker fewer is required. Some tankers are still needed to carry oil from some of the wells to the ports, but the oil also comes ashore by pipeline, and we should contrast the demand for tankers to bring the oil ashore from a few miles out in the North sea with the demand required to bring it around Africa from the Gulf. That sector has also witnessed a great fall in demand.

Container ships are now being made more efficient than the ships they replaced. As well as being larger, each spends only a short time in port. In the old days the ships spent a long time in port, but those days have gone because container ships unload in 24 hours and are off again. One such ship now does the job of seven or eight of its predecessors.

The world depression has also had an effect on our trading situation. The first effect was on the tanker industry, when a flood of cheap ships from the low-wage shipyards of the far east were bought up in vast numbers. Having destroyed the tanker market, those shipyards began to construct bulk carriers, with the result that that sector was also destroyed. We have heard earlier in the debate about the way in which the container business is in turn about to be affected by a vast over-expansion in the number of container ships. Huge fleets of new container ships are ready to come into service in the near future, and one of the sectors that is still doing quite well will be badly affected.

World trade by sea has grown by 28 per cent. in 14 years, but in that time the tonnage of ships available to carry the trade has more than doubled. That has had an appalling effect on freight rates, which are now lower than six years ago. While 1984 was a bad year for world shipping, and for western shipping in particular, it looks as though 1985 will follow the same sad pattern.

Several hon. Members have referred to the defence implications of the Merchant Navy, and it is on that that I wish to concentrate. The developments in the Falkland Islands a couple of years ago dramatically focussed attention on the requirements for the Merchant Navy. There is, however, a danger that as time passes we shall lose impetus. It is, therefore, with relief that I congratulate my right hon. Friend and his colleagues in the Ministry of Defence on setting up an inquiry into the adequacy of the Merchant Navy in a war or crisis. I hope that that inquiry will investigate "out of NATO area" operations as well as operations in the north Atlantic. Should some terrible circumstances again require Britain to act alone—God forbid that it will ever happen—we shall have to look to our own resources. We shall be unable to count on our NATO allies in that situation.

During the Falklands crisis, 20 product tankers were sent south to support the Royal Navy. At that time, BP had 25 or 30 such ships in its fleet. I understand that now it has only eight, far fewer than would be needed to support another Falkland Islands operation. There has been a particularly critical fall in the number of specialist ships.

Some figures about shipping requirements in the event of a crisis in Europe are freely available in America—though not perhaps in this country. I understand that 1·5 million men would be flown across the Atlantic, but their equipment would have to come by sea. Further, 8·5 million tonnes of stores plus 10 million tonnes of fuel would have to be brought across the Atlantic. That would require 2,000 shiploads a month. On top of that, a similiar requirement would be needed to maintain the civilian and industrial life of Europe. These are enormous figures, and it is right that the Govermnent should now be inquiring into the continuing capability of the Merchant Navy to play its part in dealing with such a crisis.

Manning would be a particular problem in a crisis. The number of our people at sea has nearly halved in the last 10 years, and is falling at the rate of about 5,000 a year from its present level of 41,000. As we have heard, the number of cadets recruited is also causing great concern. At one time, 1,000 cadets a year were recruited, but it is now a fraction of that number. Therefore, we shall be unable to produce the officers of the future.

It is no good having ships available under flags of convenience which could be requisitioned at a time of crisis if there is no one to man them. It could well be that the existing foreign crews would refuse to sail into particularly hazardous waters, and we might have to rely on our own sailors.

Given the present state of oversupply, with 1,400 surplus ships laid up in the world's ports, it is easy to acquire a second-hand ship cheaply. It is therefore important to do everything we can to maintain the safety of international shipping operations. I very much welcome the recent increase in the number of port inspections. There are now about 10,000 inspections a year, and the need for them is highlighted by the fact that well over 13,000 defects were discovered. No fewer than 430 ships inspected were detained or delayed because they had serious deficiencies. That was 6 per cent. of all the ships inspected. Clearly, That effort needs to be maintained.

The main cause of the problems in the British Merchant Navy is the protectionism of the developing world, which uses its own fleets to gain hard currency and to develop an industry. Those countries gain great advantage from their cheap labour. There is no doubt that this will be a permanent problem for Britain and the other western ship-owning countries. The some applies to much of manufacturing industry, but the problem is highlighted at sea.

Recently I spoke to the manager of a foreign-owned company which still operates from London. On ships registered under the Red Ensign, crew costs account for two thirds of the income, while on ships registered in Liberia or one of the other flags of convenience countries, the crew costs account for only one third of the income. That kind of difference highlights the great problems when operating under the Red Ensign, as we all wish.

Turning to specialist ships, the difference in crew costs is not so much a factor. Crewing costs can be the least of the requirements when providing a complex service, whether it be container ships, gas carriers or other specialist vessels. Countries such as Britain are still able to compete in providing ships of that kind.

What can we do for the future? We can try to be more efficient. We can cut crews. I do not believe that this will in itself solve the problem, but we have to do all we can to be as efficient as possible. In recent years there have been quite dramatic falls in the size of crews. A ship which a few years ago had a crew of about 60 has been replaced by a ship with a crew of 31. That in turn will be replaced by ships which are now being built for crews of about 21. Japan is talking seriously about operating large ships with

[Mr. Neville Trotter]

crews as low as 12. Technology will bring further changes in the manning of ships. However, that will not deal with the magnitude of the problems that have been outlined in the debate.

If I may deal with subsidies, I do not believe that British shipowners seek to be subsidised. However, they say with great justification that they are at a disadvantage compared with other western operators and even more with the countries of the eastern bloc which pay no regard to normal commercial factors. I trust that my hon. Friend the Under-Secretary of State for Transport will refer in his winding-up speech to the discussions that have taken place with the Soviet Union on the passenger cruise liner sector of the industry, which has been so harmed by competition from the non-profitmaking, subsidised Soviet merchant navy, the size of which has been so well portrayed by my right hon. Friend the Member for Taunton (Mr. du Cann) who, again, made a strong case for the Merchant Navy.

What can we do to provide our shipowners with at last the same financial assistance as is given by their western competitors? I support fully what has been said about the negative nature of the Budget changes that have been made this year and the suggestion made by the GCBS that the fleet should be allowed, in addition to the 25 per cent. writing-down allowance, a 50 per cent. ship allowance for new and second-hand ships. Nothing less than that will encourage the investment that is so desperately needed.

The hon. Member for Wallsend referred to the fact that he and I have been invited to go on board Atlantic Conveyor later this week. It is sad indeed that we should these days be talking about individual new ships, not fleets of ships. One ship today is a great achievement for both the shipbuilders and the shipowners of Britain. It is indeed tragic that when Atlantic Conveyor sails, there will not for the first time in centuries, be a merchant ship being built on the Tyne. We must do everything we can to encourage shipowners to continue to invest. The financial state of their industry is so bad that they cannot invest without tax relief. If they are not asking for operating subsidies they should at least be given tax relief. The lack of incentive and of help to our shipowners makes Britain unique. It needs to be put right.

I come to the problems of navigation, and the ports around our coasts. They have the greatest effect upon the British Merchant Navy since it is the British Merchant Navy that uses our ports most. Pilotage is a matter that deserves a separate debate. I welcome the recent publication of a Green Paper on that difficult subject. Ships coming to this country can be charged £12,000 for light dues, whereas if they go to continental ports they pay nothing at all. This leads to ships avoiding Great Britain and to traffic being diverted from our ports to western European ports, with goods being brought on to Britain on cross-Channel ferries. This results in a further adverse effect upon our deep-sea shipping fleet.

I was at Southampton recently. It was a sad sight. That great port has eight container channels. Not one container was to be seen there. The whole trade of the port has gone. While that is harmful to Britain and surely disastrous for Southampton, it must certainly also be bad for the British Merchant Navy if ports of that magnitude are closed down by the lunatic action of the labour force. I say to my hon. Friend the Under-Secretary of State for Transport that the dock work labour scheme must be given further attention by the Government in the interests of those who work in the industry as much as of those in the Merchant Navy.

One of the problems is the lack of co-ordiation between Ministries. That is not through any lack of goodwill or intent. It is just the result of the history of Government in this country. I do not believe it to be sensible that the vital question of labour relations in the ports should not be handled by the same Ministry as deals with the Merchant Navy.

The efficiency of ships can be helped by improvements in fuel efficiency and design. I welcome the efficient ship project, which the Government are supporting, but I repeat that there will be no investment in new ships unless there are Budget changes. The inadequacies of the present system must be put right in the next Budget.

I believe that this will not be the end of the matter for this House. A maritime league has been formed in this country, consisting of eminent people who deal with every aspect of maritime life. It will continue the battle for the Merchant Navy. There is a maritime affairs committee in the House. It is on an all-party basis and is chaired admirably by my right hon. Friend the Member for Taunton. It will not go away, either.

I am sure that we shall return to this subject. The message that has to go out from our debate today is that as a first step the Treasury must accept the need to give assistance in the next Budget to our shipowners. It is absolutely vital that this message should be taken on board.

5.57 pm

Mr. Stephen Ross (Isle of Wight): I am pleased to follow the hon. Members for Tynemouth (Mr. Trotter) and for Wallsend (Mr. Garrett), because I know a little about the technical college which trains Merchant Navy officers and personnel at South Shields. Until recently my daughter taught there. She conveyed to me the depressing nature of the rundown in numbers and the virtual closure of that college, which has played such a great role over many years.

I, too, congratulate the hon. Member for Romsey and Waterside (Mr. Colvin) on choosing this subject for debate. It is important that we should discuss these matters —in particular the dramatic decline in the strength of our Merchant Navy and the continual rundown of our shipyards.

As has been mentioned, since 1975 the numbers of ships in our merchant fleet has more than halved. The number has gone down from 1,600 to only 700. Between 1977 and 1980 about 24,000 jobs were shed in British shipyards, and many more have disappeared since then. More shipyards have been closed and there have been continual lay-offs. A great number of lay-offs are taking place at the moment, not only in the north-east, but in Southampton, at Vosper Thornycroft, a very modern shipyard which I believe should never have been nationalised. No new orders at all were received by British shipyards between July and September.

However, I welcome, as I am sure the hon. Member for Fermanagh and South Tyrone (Mr. Maginnis) also welcomes, the recent order which has been placed by British Steel for a bulk carrier at Harland and Wolff. My inspection of Harland and Wolff leads me to believe that

it is as superbly equipped a shipyard as any in the Western world. That at least is one piece of good news. Every effort must be made to keep Harland and Wolff in operation.

Fiscal measures relating to taxation would help the shipowners this country. I shall not repeat what has already been said. I support the GCBS proposal for a 50 per cent. ship allowance, not only for new but for second-hand vessels.

The "British Shipping Review 1984" says that Norway, Denmark and Japan provide extended periods of finance for up to 10 or 12 years, with initial grace periods of two to three years. While those schemes may have been devised to help domestic shipbuilders, obviously British shipowners have had some benefit from that. There is a host of examples of the sort of help given in West Germany, the Netherlands and many other parts of the world.

Does this country really want to opt out of owning a merchant fleet or building any more ships? Some operators in the City believe that we cannot compete and that, therefore, we should order all our ships from Taiwan—I have seen the very impressive shipyard there—Japan or Korea and perhaps merely fit out ships in this country.

That view was put to me by a City shipowner—I shall not name him—when I suggested where he might order his new ferry. The Under-Secretary may guess where it will be operating to and from. The Robb Caledon yard had just closed, and it seemed to me that such an order would be a great opportunity to reopen the yard. He said that I must be mad If I thought that he could get a ship built on competitive terms in a British yard. He said that the order would go perhaps to Scandinavia, but probably to the far east and that all that a British yard could do would be to fit out the ship.

That view is far too defeatist and must be resisted. The Government must help. I welcome the establishment of the all-party maritime affairs committee under the distinguished chairmanship of the right hon. Member for Taunton (Mr. Du Cann), who spoke so knowledgeably earlier. However, we are late on the scene. As a member of the committee, I pledge that we shall maintain the pressure until we see an upturn in our merchant fleet.

I congratulate the Government on facing reality in their Green Paper on maritime pilotage. That remark will probably not go down too well in my constituency, because a number of pilots live there, but the Government cannot opt out of the compensatory redundancy payments that will inevitably arise.

The Green Paper says:

"The Government propose that as a matter of mechanics the cost of the scheme should be met from a levy on harbour authorities, which would be recoverable from a special charge on shipowners."

We made a previous attempt to get some sense into pilotage, and it was accepted that 600 or more pilots might be made redundant. At that time, it was thought that redundancy payments would average about £80,000 per pilot. The shipowners said that they could not meet such sums, and it is hardly likely that they will be able to do so today when the situation is so much worse. There is a case for what the Government have set out in the Green Paper. However, the terms will have to be generous if we are to get a sensible settlement. A three-way split between the state, port authorities and shipowners is surely the right way forward.

Like other hon. Members, I am depressed by what I have seen across the water from my constituency, in Southampton. The actions of some dockyard workers and their colleagues in that port are, as was said earlier, sheer lunacy. They have put in jeopardy the jobs of too many innocent bystanders, whose livelihoods depend on a vigorous, modern, well-run port complex. Many Southampton operators have moved to Felixstowe, and one has even gone back to Liverpool. Perhaps we should give a cheer for Liverpool, but if Southampton has put itself in the same league as Liverpool, I deeply regret it.

Southampton has all the advantages: excellent facilities, four tides a day, and so on. Regrettably, the workers have committed suicide, and they have taken many pilots, tug owners and launch supply operators with them. That has had an effect in my constituency. Even taxi drivers in Southampton complain bitterly. The whole economy of Southampton has been affected.

A new attitude is required if we are to put matters right. We need a competitive port with a sustained record of industrial peace. Otherwise, shipowners from abroad will not come to our ports. We need to make proper use of modern technology and end overmanning, though with adequate redundancy terms.

As has been said repeatedly in the debate, we need the Government to provide a more sympathetic tax regime and financial help over the next few years similar to that which is so readily available to our competitors. We want fewer crippling charges imposed on shipowners and a determined effort to encourage people to buy British and to repair ships in British yards.

I tried today to get a copy of the evidence given to the Select Committee on Defence by the Under-Secretary of State for Transport, but I gather that it has not yet been published, so we cannot read what was said. The hon. Gentleman was dealing with the role of the merchant fleet in support of the Royal Navy in times of crisis, and what I have heard secondhand is not reassuring. Therefore, I hope that the Under-Secretary will say more about the issue when he replies to the debate.

I welcome the inquiry that is to be set up, but it is far too late. We know what the inquiry will show, and if we wish to save our merchant fleet we must take action now.

6.6 pm

Sir David Price (Eastleigh): I shall not follow what the hon. Member for Isle of Wight (Mr. Ross) said about the problems of the dock industry in Southampton, though we could have a fruitful debate on that subject alone.

I join other hon. Members in congratulating my hon. Friend the Member for Romsey and Waterside (Mr. Colvin) on his success in the ballot and on his choice of subject. It must be clear to my hon. Friend the Under-Secretary of State for Transport that the House is disturbed by the decline in the size and scope of the British merchant marine.

Various figures have been bandied about, but I prefer the simpler and more homely statistic that our fleet has been declining by two ships a week—we have seen the fleet stealing away into the mist—and it is continuing to decline.

Every hon. Member has asked the simple question: is it in the national interest that there should have been such a decline and that that the decline should continue? The answer from every hon. Member has been a firm no.

[Sir David Price]

The message from the debate is that although we all have our own solutions, we agree that in the national interest the present situation must not continue. In saying that I must declare an interest, because my constituency, which surrounds Southampton and includes a corner of the city, is deeply involved in the shipping industry and I have professional contacts with the industry.

No hon. Member has yet discussed the Government's policy as they have stated it. It has been suggested that the Government do not have a policy but I know that they have one, because it was spelt out to me by my right hon. Friend the Secretary of State for Transport in reply to a question from me earlier this year. My right hon. Friend told me:

"The Government will continue to fight strenuously for the widest and fairest possible opportunities for British merchant shipping to compete in the shipping markets of the world. The industry's future will depend mainly on the use it makes of those opportunities, and thus on the enterprise of our shipowners and seafarers. These have always been the main factors in the industry's fortunes."—[*Official Report*, 9 July 1984; Vol. 63, c. *375*.]

How far have the Government succeeded in achieving the laudable objective set out in the first sentence of that answer?

The annual report of the GCBS states:

"Non-commercially operated shipping from Soviet bloc countries continues to cause major problems in many important liner trades and in the UK cruise market by grossly undercutting British and other Western operators."

There should be an agreement with the NUS about that. I am sure that Jim Slater would agree that the Soviet bloc has been undercutting.

The report continues:

"Moreover, in the liner trades, a deluge of new tonnage is about to fall on the market. Highly subsidised either by the shipowning or shipbuilding country, in some cases operated by companies based in countries which restrict access to their own trades, these ships will operate almost exclusively as cross-traders. Many will be manned and operated from relatively prosperous newly industrialised countries, where trade unions show modest aspirations for their members.

Hence they will have substantial cost advantages over operators from European countries of comparative affluence."

I speak as a former Minister at the Board of Trade, and it is clear to me that that in ordinary language means dumping. We must therefore use some form of anti-dumping legislation against them. I am without doubt in favour of action. Obviously, the action is better done if we can do it on a European basis. I am glad to tell the House that from my information the Commission of the European Community is well seized of that matter and is well on the way to producing a shipping policy to put before the Council of Ministers. I commend what I have seen of it in draft form.

The Secretary of State for Transport (Mr. Nicholas Ridley): I only wish to say I received it on Wednesday and that I agree.

Sir David Price: When my hon. Friend replies to the debate, I hope that he will support what is being proposed in Brussels. Broadly, the message is that the time has come when we must collectively take action against unfair competition, and that it is better done collectively than individually. Therefore, I hope that the Government will give the new policy their full support.

In the meantime, European countries would be in a better position to take such action if they lived by anti-discrimination within Europe. Many hon. Members, especially my right hon. Friend the Member for Taunton (Mr. du Cann), referred to my efforts this summer to demand action against our so-called partners in Europe for not allowing free access to their coastal waters. My hon. Friend the Member for Tynemouth (Mr. Trotter) suggested that there had been a great decline in coastal shipping. I remind him that coastal shipping round our own coasts carries in terms of tonne-mileage 2·8 times more freight than is carried by rail. It is second only to transport by road as the main United Kingdom carrier of freight. I commend to the House the figures that I received in reply to a question that I put to my hon. Friend the Parliamentary Under-Secretary of State on 25 June. Coastal shipping is increasing, not declining, largely because of the moving of oil products.

Mr. Trotter: I referred to the 1930s, when there were between 50 and 70 colliers on the Tyne, and at a small port like Blyth, between 30 and 40. Now the figures would be two or three for that particular trade.

Sir David Price: There has been an increase in fuel technology, and in those days there were no large coastal refineries. What we have lost in coal we have gained in oil.

I repeat that coastal shipping is the second most important method of moving freight around our kingdom. With regard to the extension of the Community to include Spain and Portugal, if we have free cabotage for British shipping within the EC, the Atlantic ports and the whole of the northern Mediterranean coast will be open to our coastal traders. That would be a great bonus to British coastal shipping. When my hon. Friend replies, I look forward to repeated assurances in addition to those which he has already given me that in the Council of Ministers we shall fight for British rights of coastal access.

I deal next with other forms of appropriate Government aid within the context of free trading and an open seas policy, which the industry and I support. I agree with many of my right hon. and hon. Friends that the Chancellor's measures in the last Budget were not helpful. I hope that some effort will be made to reverse them. It is perfectly legitimate to ask for appropriate tax treatment of capital in the next Budget. The Minister knows that the industry has been making representations about that. I know that this is not the occasion to advance detailed arguments, but I hope that he will give the general idea a fair wind. Similarly, current shipping costs are largely crew and fuel costs. The impact of crew costs can be assisted through favourable taxation treatment. I shall not develop the point further.

My hon. Friend the Member for Tynemouth referred to the problem of lights, and the hon. Member for Isle of Wight commended, as I do, the new proposals on pilotage. However, there is a problem of charges. In a perfect world it is right that the charges should be borne by the industry, but in a imperfect world the industry finds them hard to bear, especially as none of its competitors must bear them. That point is not fully appreciated. The main users of lights are not the merchant fleet, but private yachtsmen. Merchant ships are so well equipped with navigational aids that they need lights less than they did in the past. Therefore, I hope that my hon. Friend will consider further the lights problem.

My hon. Friend the Member for Tynemouth wisely said that the Merchant Navy is the fourth arm of defence.

However, both its size and mix are matters for its effective support of the Royal Navy. Even more critical is the time scale of the decline both in absolute terms and in the mix of the fleet. I suspect that the admirals who do their sums assume that what is on the books now will be on the books in four years' time. However, given the trends that many hon. Members have described to the House, that cannot be a certain assumption.

There is also the question of flagged-out ships which may be under beneficial ownership from this country. There is no certainty whether the crews of those ships will be available in an emergency. That deserves more study than it has so far been given.

Thought should be give to providing some sort of financial arrangements to companies which commit their ships to the Ministry of Defence, similar to that which exists for people—a ship version of the Royal Naval Reserve. There should also be a form of bounty for reserved ships. That would be a legitimate way of giving a little modest help to British shipping companies at this difficult time.

The decline of the British Merchant Navy has reached disturbing proportions. It must be halted and reversed. I invite the Government so to do. Although this is Christmas time, I do not ask the Government to emulate Santa Claus, only to be wise men.

6.18 pm

Mr. Don Dixon (Jarrow): I congratulate and thank the hon. Member for Romsey and Waterside (Mr. Colvin) for initiating this important debate. The hon. Member for Tynemouth (Mr. Trotter) talked about the colliers on the River Tyne. I can remember colliers, Blue Star boats, city boats and tankers lying three or four abreast, but now there are virtually no ships to be seen.

My area designs, builds, sails and maintains ships. The Royal Navy cannot be divorced from the merchant fleet, nor the capacity to build and maintain the fleet. I agree with the right hon. Member for Taunton (Mr. du Cann) that we require a maritime policy. We have asked for a maritime policy on many occasions in the House, and the Select Committee on Trade and Industry recommended it in 1981. Britain must be the only maritime nation that has no maritime policy.

I was born in Jarrow, which was a shipbuilding town, and from the day I was born I was meant to work in the shipyards, just as someone born with a silver spoon in his mouth is meant to go to Eton. My grandparents and father were shipyard workers, and I was always being told how important seagoing was. I was told a tale about a Mr. Jenks who used to deliver manure by horse and cart. He did so, despite the arrival of gas turbine motor cars, jet aircraft and spaceships, because he discovered that with his horse and cart he could deliver manure with an economy and a certainty that pleased his customers and repaid him. Manure for the fields of England and food and goods for the rapidly increasing number of under-fed people in the world need neither missiles, spaceships nor jets; just a safe and certain means of transport so that the cost can be kept as low as possible.

If Mr. Jenk's horse became a Pegasus and grew wings, it might be able to lift about 15 lb of books from the Table and carry them through the air. However, if we taught the horse to swim, it could probably tow 50 or 60 hon. Members through the sea. Horse power is extremely important. It is important to realise that it could take 15 lb by air, but 9,000 lb by sea.

The need for a navy stems principally from the possession of a merchant fleet and the need to ensure that merchant ships have unhampered passage through the world's sea routes. General Galtieri taught Britain a lesson about the importance of surface ships and a merchant fleet; 54 merchant ships were in the task force that went to the Falklands. Everyone, from the Prime Minister upwards, or downwards—it depends how one looks at it—realised the importance of our merchant fleet. Yet, since the Falklands crisis, there has been a reduction of 200 ships in the merchant fleet. During the NATO exercise Operation Lionheart we had to charter foreign vessels.

There has been much publicity recently about the Royal Princess, which was built in Finland. It was a tragedy and a disgrace that British Shipbuilders did not tender for that ship, which is one of the finest passenger ships sailing the oceans.

Many hon. Members have mentioned the fact that the 1984 Budget was a disaster for United Kingdom shipping. The first thing that the Treasury should do is to put that right by introducing 100 per cent. fair share allowances and free depreciation, not by removing the 25 per cent. tax relief for seafarers, as is promised in next year's Budget.

In 1975, the United Kingdom fleet had 1,600 ships and a dead weight tonnage of 50 million. Now it has 700 ships and a dead weight tonnage of 18·5 million. To maintain it at that level would require new orders for 1 million tonnes every year. If new orders for 1 million tonnes were placed in British shipyards, we would not have problems such as we have in the shipbuilding industry. As the hon. Member for Romsey and Waterside said, for the past nine years we have been losing two ships a week. That has happened not simply because of a decline in freight orders, but because of containerisation and the fact that British trading patterns have become increasingly dominated by Europe. For many years I worked on refrigerated vessels that took fruit and meat from Australia, New Zealand and South America, but those ships no longer come to our shores.

When the merchant ships returned from the Falkland islands bands were playing,

"Rule Britannia, Britannia rule the waves."

If the Government do nothing about the decline in the shipping industry we will not even break the waves, let alone rule them.

The hon. Member for Romsey and Waterside, referring to protectionism, said that while Britain was playing cricket, the rest of the world is engaged in karate. As an ex-boxer, I would say that while Britain is fighting according to the Marquess of Queensbury's rules, the rest of the world is engaged in all-in wrestling. We do not have an open market. The Government must do something about the decline in shipping, shipbuilding and engine-building industries, which are important to an island nation. In a world two thirds of which is covered by water an 98 per cent. of whose trade is carried by sea, it is important that something be done immediately.

6.25 pm

The Parliamentary Under-Secretary of State for Transport (Mr. David Mitchell): I am glad to have the opportunity of responding to the motion that was so ably moved by my hon. Friend the Member for Romsey and

[Mr. David Mitchell]

Waterside (Mr. Colvin). In the terms of his motion, he recognises the importance of shipping to our trade and our defence, and the importance of our fleet in its own right. I agree with him. It is overlong since the House gave time to this important industry. It is perhaps surprising that the Opposition have not chosen the industry as the subject of an Opposition debate, so I am doubly grateful to my hon. Friend for choosing this subject. The motion follows his recent valuable contribution to the debate about the future of the United Kingdom merchant marine in the document produced by the Centre for Policy Studies entitled, "British Shipping, the Right Course." The hon. Member for Wigan (Mr. Stott) paid tribute to that document although he did not agree with everything that it said.

The Government naturally share the concern expressed in the debate by hon. Members on both sides of the House about the decline of the United Kingdom merchant fleet. It has been a cause of understandable concern to me and my colleagues, as I know it has been to seafarers and their unions, the shipowners, the General Council of British Shipping, and to others concerned with our island's interests and our maritime history.

The decline in the merchant fleet looks especially dramatic if it is measured against the exceptionally high figure to which the fleet had grown in 1975. It may be useful to the House if I restate some basic facts about our fleet. Its high reputation, the skills that are brought to bear by the officers and men who man our ships, and the high calibre of the ships are all known and give us a world-wide reputation. But it is perhaps sometimes overlooked that, despite the decline, the United Kingdom fleet is the seventh largest in the world. That puts us well above our natural position in relation to our total trade. Among European fleets we rank as third, and within the EC as second. Therefore, although I recognise fully the deep concern which the Government share about the decline in the fleet, it is right to put it in perspective.

My hon. Friend the Member for Romsey and Waterside was right to draw attention to the various roles in which the merchant fleet is involved. It is clear from the debate that the House share his anxiety in three areas: first, in terms of enabling us to carry on our import and export trades where we are so dependent on the sea and ships for bringing in and taking out so much of our trade; secondly, the vital area of defence, which several hon. Members mentioned; and thirdly, the realisation that the United Kingdom fleet is a major national asset, a major investment, a source of jobs and an industry in its own right.

Perhaps I may mention the projections about the rate of decline of the United Kingdom fleet. My hon. Friend the Member for Romsey and Waterside referred to projections that would lead to the fleet's being extinguished. The General Council of British Shipping has suggested that the 700 vessels which now form the United Kingdom-owned and registered fleet will have fallen to 400 by 1986. Others, further projecting the current rate of decline, declare that by the year 2000 there will be no United Kingdom fleet. Even the hon. Member for Wigan (Mr. Stott), who spoke on behalf of the Opposition, referred to the time when there would be no fleet left. It is far too simplistic just to extrapolate the recent level of the decline and suggest that there is an inevitable progression to the sort of figures that have been spoken about. I do not demur from the concern expressed by my right hon. Friend the Member for Taunton (Mr. du Cann) about this matter. He is chairman of the all-party maritime group, and I hope that we can have discussions about this matter.

My hon. Friend the Member for Tynemouth (Mr. Trotter) will know that I am not responsible for shipbuilding. However, does he not recognise some inconsistency when he complains about uneconomic freight rates, because of the glut of shipping, in the same breath as he calls for subsidies for shipyards to build more ships, even in his constituency? The truth is that the fleet is not a single fleet; it is many separate fleets. For the House to judge the seriousness of the decline, where it comes, where the shoe is to pinch and what the causes are, we need to look more closely at the different mini-fleets that make up the total of the United Kingdom merchant marine. We need to do that against the background of the changes in our pattern of trade, which themselves lead to a different demand pattern for our fleets. For example, the change to membership of the Common Market has meant that a much larger proportion of our trade is no longer long distance, to the Commonwealth, but is on short haul from the east coast to European ports.

I commend to the House the analysis of the reasons for the decline given by my hon. Friend the Member for Tynemouth (Mr. Trotter). He analysed brilliantly, as one might have expected from his experience of the industry, what is going on. He said that seven or eight ships of the old fleet are now replaced by one container vessel. That is one of the many signs of the extent to which there are forces at work that are not within the control of any Government and that are leading to a decline in the number of vessels.

The development of containerisation has meant fewer and larger ships with smaller crews, and the oil prices of a decade ago have had a dramatic effect on the pattern of oil trade. For example, 55 per cent. of all the tonnage lost over the last decade — the largest proportion of all reductions in the United Kingdom merchant marine — has been in tanker tonnage. That has not been through any failure on the part of the Labour party when it was in government or of this Government. Principally, the tonnage has fallen because the world trade in oil shrank with high prices and we became self-sufficient from North sea oil being brought ashore by pipeline.

The huge surplus of tankers looks as if it may be coming to an end. One can contrast that with what has happened with regard to containers. We have one of the largest container fleets in the world, but Evergreen and United States Lines are proposing giant, round-the-world, minimum stop operations, which will present a huge challenge to our fleet.

The prospect of a freight war developing, with massive surplus tonnage, is horrifying. My hon. Friend the Member for Boothferry (Sir P. Bryan) referred to its devastating potential.

I hope that my right hon. Friend the Member for Taunton will accept that there are many complex factors at work in the decline of our fleet. Happily, roll-on/roll-off and ferries are operating in a more buoyant and steady market, which shows that, while the total size of our fleet has declined and some further decline is on the cards, it would be wrong to extrapolate the figures of the past decline and assume that we shall end up with nothing.

The Government's strategy falls into three parts, all of which were referred to by my hon. Friend the Member for

[Mr. David Mitchell]

Waterside (Mr. Colvin). In the terms of his motion, he recognises the importance of shipping to our trade and our defence, and the importance of our fleet in its own right. I agree with him. It is overlong since the House gave time to this important industry. It is perhaps surprising that the Opposition have not chosen the indusry as the subject of an Opposition debate, so I am doubly grateful to my hon. Friend for choosing this subject. The motion follows his recent valuable contribution to the debate about the future of the United Kingdom merchant marine in the document produced by the Centre for Policy Studies entitled, "British Shipping, the Right Course." The hon. Member for Wigan (Mr. Stott) paid tribute to that document although he did not agree with everything that it said.

The Government naturally share the concern expressed in the debate by hon. Members on both sides of the House about the decline of the United Kingdom merchant fleet. It has been a cause of understandable concern to me and my colleagues, as I know it has been to seafarers and their unions, the shipowners, the General Council of British Shipping, and to others concerned with our island's interests and our maritime history.

The decline in the merchant fleet looks especially dramatic if it is measured against the exceptionally high figure to which the fleet had grown in 1975. It may be useful to the House if I restate some basic facts about our fleet. Its high reputation, the skills that are brought to bear by the officers and men who man our ships, and the high calibre of the ships are all known and give us a world-wide reputation. But it is perhaps sometimes overlooked that, despite the decline, the United Kingdom fleet is the seventh largest in the world. That puts us well above our natural position in relation to our total trade. Among European fleets we rank as third, and within the EC as second. Therefore, although I recognise fully the deep concern which the Government share about the decline in the fleet, it is right to put it in perspective.

My hon. Friend the Member for Romsey and Waterside was right to draw attention to the various roles in which the merchant fleet is involved. It is clear from the debate that the House share his anxiety in three areas: first, in terms of enabling us to carry on our import and export trades where we are so dependent on the sea and ships for bringing in and taking out so much of our trade; secondly, the vital area of defence, which several hon. Members mentioned; and thirdly, the realisation that the United Kingdom fleet is a major national asset, a major investment, a source of jobs and an industry in its own right.

Perhaps I may mention the projections about the rate of decline of the United Kingdom fleet. My hon. Friend the Member for Romsey and Waterside referred to projections that would lead to the fleet's being extinguished. The General Council of British Shipping has suggested that the 700 vessels which now form the United Kingdom-owned and registered fleet will have fallen to 400 by 1986. Others, further projecting the current rate of decline, declare that by the year 2000 there will be no United Kingdom fleet. Even the hon. Member for Wigan (Mr. Stott), who spoke on behalf of the Opposition, referred to the time when there would be no fleet left. It is far too simplistic just to extrapolate the recent level of the decline and suggest that there is an inevitable progression to the sort of figures that have been spoken about. I do not demur from the concern expressed by my right hon. Friend the Member for Taunton (Mr. du Cann) about this matter. He is chairman of the all-party maritime group, and I hope that we can have discussions about this matter.

My hon. Friend the Member for Tynemouth (Mr. Trotter) will know that I am not responsible for shipbuilding. However, does he not recognise some inconsistency when he complains about uneconomic freight rates, because of the glut of shipping, in the same breath as he calls for subsidies for shipyards to build more ships, even in his constituency? The truth is that the fleet is not a single fleet; it is many separate fleets. For the House to judge the seriousness of the decline, where it comes, where the shoe is to pinch and what the causes are, we need to look more closely at the different mini-fleets that make up the total of the United Kingdom merchant marine. We need to do that against the background of the changes in our pattern of trade, which themselves lead to a different demand pattern for our fleets. For example, the change to membership of the Common Market has meant that a much larger proportion of our trade is no longer long distance, to the Commonwealth, but is on short haul from the east coast to European ports.

I commend to the House the analysis of the reasons for the decline given by my hon. Friend the Member for Tynemouth (Mr. Trotter). He analysed brilliantly, as one might have expected from his experience of the industry, what is going on. He said that seven or eight ships of the old fleet are now replaced by one container vessel. That is one of the many signs of the extent to which there are forces at work that are not within the control of any Government and that are leading to a decline in the number of vessels.

The development of containerisation has meant fewer and larger ships with smaller crews, and the oil prices of a decade ago have had a dramatic effect on the pattern of oil trade. For example, 55 per cent. of all the tonnage lost over the last decade — the largest proportion of all reductions in the United Kingdom merchant marine — has been in tanker tonnage. That has not been through any failure on the part of the Labour party when it was in government or of this Government. Principally, the tonnage has fallen because the world trade in oil shrank with high prices and we became self-sufficient from North sea oil being brought ashore by pipeline.

The huge surplus of tankers looks as if it may be coming to an end. One can contrast that with what has happened with regard to containers. We have one of the largest container fleets in the world, but Evergreen and United States Lines are proposing giant, round-the-world, minimum stop operations, which will present a huge challenge to our fleet.

The prospect of a freight war developing, with massive surplus tonnage, is horrifying. My hon. Friend the Member for Boothferry (Sir P. Bryan) referred to its devastating potential.

I hope that my right hon. Friend the Member for Taunton will accept that there are many complex factors at work in the decline of our fleet. Happily, roll-on/roll-off and ferries are operating in a more buoyant and steady market, which shows that, while the total size of our fleet has declined and some further decline is on the cards, it would be wrong to extrapolate the figures of the past decline and assume that we shall end up with nothing.

The Government's strategy falls into three parts, all of which were referred to by my hon. Friend the Member for

Romsey and Waterside. First, there is the need of our island for ships to import and export goods; secondly, there is our defence strategy; and, thirdly, there is the help and encouragement that we can give to our ship operators. The House may expect me to start by saying that we must have a fleet of a given size to be able to carry goods to and from the United Kingdom, but that is not the case. Our fleet is important because of the jobs and the overseas earnings that it provides in itself. However, in terms of our imports and exports, the important factor, which relates directly to our competitive position and therefore to our national need, is that we should have efficient shipping services, able to get in and out of our ports with the minimum of burdens, to enable our exporters to compete. That is true in the changed pattern of trade, as so much of it lies with Europe. Our principal competitors are in Europe where they have land frontiers, while everything that we have has to be dragged across the sea and through our ports.

In this connection, it is important that we should minimise the burdens that are imposed on our shipping industry and those who use our ports. We have a continuing dialogue with the General Council of British Shipping about the burdens imposed by the Government, and we are seeking to do what we can to minimise them. For example, the cost of lighthouses and buoys around our shores is an expensive burden, amounting to £43 million a year, which is paid by ships using our ports. For some time, shipowners and the Public Accounts Committee have expressed concern as to whether the money was being most effectively spent. I am pleased to be able to tell the House that Trinity House has now invited the Government to nominate four business men to serve on the reformed Lighthouse Board, which has responsibility for this function under Trinity House.

Mr. Jonathan Sayeed (Bristol, East): Does my hon. Friend accept that there is a case, in equity, for those charges falling not just on shipowners? My hon. Friend the Member for Eastleigh (Sir D. Price) mentioned that these facilities are most used most by yachtsmen, and the whole country benefits from having a safe maritime regime. Is it not possible for this cost to fall on the Exchequer rather than directly on shipowners?

Mr. Mitchell: On the total burden of lighthouse costs, Trinity House will welcome the addition of four distinguished business men on to the Lighthouse Board, which is involved with the administration of the service. That should lead to an assurance to the shipping community that there will be good value for money in the handling of the money that goes into the fund.

My hon. Friend raises a different point, which concerns not the totality of the expenditure, and therefore the totality that would be raised, but the distribution of it as between the commercial shipping, shipping and yachtsmen. We have identified that this is a significant problem. There is an apparent unfairness about it. I understand the misgivings that the GCBS has expressed on this matter. We have commissioned a firm of management consultants to look into matter, and I expect to have its report early in the new year. I shall report to the House on what its recommendations are. I hope that my hon. Friend will recognise that that will cover the points that he raised about yachtsmen.

Mr. Donald Stewart: In view of the comparatively small sum involved, and as the whole rescue service is borne by the Royal National Lifeboat Institution, it would be a welcome contribution if the Government would bear the cost of lighthouses and buoys.

Mr. Mitchell: It would be nice for all of us if the Government had a bottomless pit out of which they could finance endless numbers of goodies. We would not then need argue late into the night the relevant merits of spending money on kidney machines or lighthouses. However, in many sectors it has long been established that it is right and proper — and in this regard it has happened under all Governments—for the users of the service to pay for it rather than the general taxpayer. If that is a view that the right hon. Gentleman feels should be debated when the report is received from the consultants, I have no doubt that he will initiate an opportunity to do so.

Another burden is that of pilotage. I welcome the support of the hon. Member for Isle of Wight for our proposals for the reform of pilotage in the United Kingdom. I am also grateful to my hon. Friend the Member for Eastleigh (Sir D. Price) for his support.

Pilotage is another very substantial cost which has to be paid by ships coming to and going from our shores. It is quite right that we should give the highest possible priority to ensuring the safety of vessels coming in and going out of our ports. In a Green Paper that we published at the end of last week, we announced sigificant changes which will make for a more cost-effective servie while in no way endangering the safety of vessels. It will give to the ports responsibility for pilotage as one of the services provided within ports. These proposals are being cautiously welcomed by the General Council of British Shipping and by Trinity House, which sees it as a new challenge as it will be able to tender for the work around our coasts. Concern has been expressed by the pilots themselves, and I look forward to hearing the response of the British Ports Association.

Another burden to which attention has been drawn is the cost of moving ships into the United Kingdom flag. A good deal of work has been done to reduce that cost and to make it possible for vessels to flag-in more easily. But my hon. Friend the Member for Romsey and Waterside referred to further barriers, and I shall be grateful if he will write to me about them so that I can look at them more closely.

A number of the hon. Members drew attention to the tax position of British fleets. I shall ensure that what they said is drawn to the attention of my right hon. Friend the Chancellor of the Exchequer.

My hon. Friend the Member for Romsey and Waterside also asked me about conference loyalty arrangements. We have given much thought to the proposal that the postponed EEC competition regulation should prohibit conferences from enforcing loyalty arrangements in respect of more than 70 per cent. of shippers' custom. In our consideration we have taken account of the many views expressed to us, but I can now announce that we no longer intend to pursue this proposal.

Widespread anxiety has been expressed about our defence needs. I have been asked whether we would ever again be able to mount that which was done at the time of the Falklands in terms of merchant marine support for the Royal Navy. I have been asked about our NATO

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reinforcement ability and the needs of the Ministry of Defence. The hon. Member for Wigan referred to the cross-party recognition of the importance of these matters. We should seek where we can to ensure that these matters are not unnecessarily involved in the party political dogfight.

There is a continuing dialogue between the Department of Transport and the Ministry of Defence, in which the latter identifies its needs, and my Department has the task of ensuring that those needs are supplied. At the moment there is no reason to suppose that we are unable to supply those needs in one way or another.

But that begs the question about what will happen in the years ahead if the decline in our fleet continues. For this reason, we have obtained from the Ministry of Defence its forecasts of its needs at varying times over the next few years and in 1992. Having its detailed analysis, we are now going out to consultants. A contract has been placed to see whether the vessels required at those forward dates will be available.

Should we find that some years ahead we are unlikely to meet particular needs, various possibilities are open to the Government. We have long-standing plans for collaboration with our NATO partners, and it is possible that they could help. However, it is not simply a question of the United Kingdom-registered fleet being available. In addition to the United Kingdom fleet of about 800 vessels, we have requisitioning powers in respect of 400 vessels registered in our overseas dependencies and 250 further vessels which are flagged out but beneficially owned by the United Kingdom. That makes a total of 1,450 vessels.

Sir David Price: Although they could be requisitioned, will my hon. Friend bear in mind that their crews are not British subjects in the ordinary sense of the word? With the changing policies of some of those countries, it is doubtful whether they would be available.

Mr. Mitchell: I am grateful to my hon. Friend for reminding me of that. I had made a careful note that he and other hon. Members had referred to it as a matter that I must take back and look at more closely with my officials in the Department. I undertake to do that.

Mr. Sayeed: Beneficial ownership has been discussed a number of times. The suggestion is that those 250 ships flagged out but under our beneficial ownership could be used by us. I and many others who understand flagging out believe that that is by no means certain. We doubt whether our Government could get their hands on those ships, because it is not certain that the minority partners would necessarily let our Government get their hands on them or that their crews would want to go to war under the British flag. That being so, it is extremely optimistic to assume that 250 ships that have been flagged out will be available in time of conflict.

Mr. Mitchell: There may be some which are not available. There may be others which are in far off parts of the world and will not be immediately available. But my understanding is that in law we have the power to requisition. However, that does not detract from the perfectly valid point of my hon. Friend the Member for Eastleigh about crewing these ships. I was about to say to him that it is one of the benefits of this overlong delayed debate that hon. Members have been able to draw attention to important matters that we must take in hand.

Mr. Garrett: In Exercise Lionheart last autumn there were huge successes, but one of the failures related to the mobility of our shipping. It was difficult to get the right types of ships for the right vehicles and with the right storage and necessary speed to get them over to mainland Europe. Can the hon. Gentleman assure the House that this matter is receiving serious consideration? In an emergency it would be of vital importance.

Mr. Mitchell: The hon. Gentleman is right, but perhaps I can reassure him about it. In order not to interfere grossly with the holiday traffic and the ferries on their daily commercial routes across the channel, they were not requisitioned. The exercise was conducted using other vessels. But obviously people would not be going abroad on holiday at times of tension.

Mr. Richard Ottaway (Nottingham, North): My hon. Friend said that the Government did not wish to disrupt holiday traffic. Will he make inquiries to discover how many British shipowners were even approached to see whether their vessels were available. I know of one vessel which was laid up and which would have been perfect for Exercise Lionheart. It could have been used, but the owners were not approached.

Mr. Mitchell: I am grateful to my hon. Friend for raising that matter. I shall make inquiries and write to him. However, against the fact that we required 49 vessels to support the initial Falklands operation, the fear that out of the 1,450 vessels that we have power to lay our hands on we would not be able to find that number does not seem to me to be borne out.

Should shortages emerge in the future, we could purchase ships for addition to the Royal Fleet Auxiliary. There are a number of other options, some of which it would be inappropriate to dwell on here. The aim of the surveys that we have set in hand is to discover whether there will be shortages of specific types of vessel, and I have no wish to prejudge the findings. It would be for us to consider how best to meet any such shortages in specific areas, rather than to do something about the generality of our fleet on defence grounds.

A vital part of the debate related to the huge United Kingdom investment in our fleet, the importance of its overseas earnings and the jobs which it provides. A fundamental choice has to be made between whether we are for protectionism or free trade. Countries will choose whichever of those two policies suits their national needs. There may be some, with a small national fleet which they are ambitious to see grow, which feel that it makes sense to go for cargo reservation and suffer the disadvantage of higher freight rates on their exports. But if, like us, a country has a large fleet—far too large for its national trade—an open market across the world is needed in which to deploy that fleet. We are certainly in that camp, as my hon. Friend the Member for Romsey and Waterside stressed.

Some 58 per cent. of our fleet's earnings come from the cross trades. We must have fair and open markets to provide that opportunity. Indeed, I pray in aid the words of the greatly respected president of the General Council of British Shipping who, on taking up his post, said:

"So what should be done? Do we want Government subsidies or protectionism? No, gentleman, we do not. I believe that is a route which we should only seek to follow if all else fails."

I concur with that view.

Dr. David Clark (South Shields): I have been very patient. I accept the thrust of the Minister's argument, but Norway is an even better example than the United Kingdom in cross trades. How can the hon. Gentleman justify one British vessel in the Norwegian section of the North sea and 48 Norwegian vessels in our section?

Mr. Mitchell: I shall come to that point. I am glad that the hon. Gentleman has raised it.

The hon. Member for Wigan asked about the inspection of substandard vessels. I agree that that is important. We exercise port state control strictly and I have initiated a considerable tightening up of that. It is effective in deterring people from bringing substandard vessels to Britain.

The Department of Transport is engaged, with the help of other Government Departments, in seeking to ensure that the number of markets closed to us is kept to a minimum so that our fleet has the maximum trading opportunities. In terms of value, we reckon that only between 10 and 15 per cent. of total international seaborne trade is now subject to reservation. That is to say, between 85 and 90 per cent. is free, open and available for our ships to operate in. Certainly we keep up constant pressure in one way and another against those who seek to close the markets to us. That is most often successfully achieved by acting in co-operation with other countries. For example, talks have been going on between the United States and the Consultative Shipping Group. Those are designed to hold back the tide of protectionism where it stands today, and to ensure that there is no further creeping protectionism. That can be achieved only by acting together.

The hon. Member for South Shields (Dr. Clark) referred to Norway and the fact that there is only one British vessel operating there. One of the biggest single reasons for that is that Norwegian vessels are not required to take a pilot, but British vessels are. That has two disadvantages. The first is financial. To have to pay £200 on entering and leaving port in a competitive market is not peanuts. Far more important is that an oil rig requiring a supply vessel needs to have it immediately when the weather is right. If a vessel has to wait for a pilot, it will not be much cop as a potential bidder for a contract. Recognising that, at the suggestion of the GCBS I went to Norway and had long and frank discussions with its Minister. He came back here and we completed our discussions. The Norwegians have now waived that requirement in respect of United Kingdom supply vessels operating out of Norwegian ports.

Another important area is the EEC. The time has long passed when it should have developed a shipping policy. There have been enormous benefits to European countries from larger trade in goods as a result of membership. Such a policy should have applied to services in aviation and shipping, and it has not. We have been putting on as much pressure as we possibly can in recent months to try to get it to do just that. My hon. Friend the Member for Eastleigh is right to refer to the importance of that area and of cabotage and all the unfairnesses thrown up from open access to our coastal ports for other European countries while some at least close theirs to our fleet. We cannot with equanimity allow that to continue.

The Commission, under considerable pressure from us, has at last produced its memorandum. We are waiting to see its terms, which I understand were agreed by the Commission last Wednesday. We look forward to pressing the Council of Ministers, to bring that policy to a successful conclusion because it will provide fairer trading and competition within Europe.

It is not for the Government to run ships; it is for our shipowners and merchant mariners. They have had a tough task, and I praise them for the way in which they have tackled it. It is the Government's job to seek to ensure fair trading opportunities. On that I am never satisfied, but we are working on it and more progress has been made than hon. Members may recognise, particularly in relation to a joint response to protectionism by the United States and the OECD countries. I hope that in January we shall sign an agreement committing the signatories to act together against any new protectionist devices which may emerge. We attach importance to early progress on the Commission's memorandum on a shipping policy in Europe and on a competition policy as part of it.

We shall ensure that there are sufficient vessels to enable us to fulfil our defence requirements. There certainly are at present, and forecasts have been made for the years ahead. We have taken steps, such as I have spelt out to the House, to limit the burdens imposed by the Government on vessels using our ports.

I do not claim that the Government have all the answers. There is a considerable pool of wisdom in the House on this subject. It is important that Ministers should listen, and I have done so carefully. I shall consider equally carefully the points that have been made. I again express my gratitude to my hon. Friend the Member for Romsey and Waterside for having introduced the motion.

6.57 pm

Mr. Colvin: In the remaining few minutes I want to thank my hon. Friend the Under-Secretary of State for his reply and also to thank those hon. Members who have particpated in the debate, a feature of which has been the measure of all-party support there has been for demands to improve the lamentable state of our Merchant Navy, and the awareness of the fact that if the present trend continues and the number of our ships continues to drop Britain will be in dire straits not only from an economic point of view, but from the point of view of our strategic defence.

I was pleased to note that my right hon. Friend the Secretary of State was present during most of the debate. I trust that he has taken copious notes of the some of the points that have been made. In particular, I was impressed by what my hon. Friend the Member for Boothferry (Sir P. Bryan) had to say about the way in which some of the bigger companies have pulled out of shipping. That highlights the essence of the problem mentioned by my hon. Friend the Under-Secretary of State in his reply to the debate.

It is not the Government's job to run the shipping industry. It is their job to create the economic climate in which shipowners can prosper. That that climate has not been present of late is the reason for so many companies going out of shipping. I wish that it were possible to see

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the size of our merchant fleet maintained, but until we change the economic climate and encourae people to come back in, we are on a loser.

With that in mind, I am pleased that the GCBS, in its presentation to the Chancellor, has drawn attention to the need for allowances to be made available on secondhand ships. While we lament the state of the shipbuilding industry, there are nevertheless as many ships now laid up around the world as would constitute the whole output of our shipbuilding industry in one year.

I have no time in which to refer to the other remarks of hon. Members. The motion called on the Government to state their policies on merchant shipping, and my hon. Friend the Under-Secretary of State has done just that. We may not be satisfied with all his replies, but he has, nevertheless, stated the Government's policies, and I therefore beg to ask leave to withdraw the motion.

Motion, by leave, withdrawn.

Merchant Shipping

7 pm

The Parliamentary Under-Secretary of State for Transport (Mr. David Mitchell): I beg to move,

That the draft Merchant Shipping (Liner Conferences) (Mandatory Provisions) Regulations 1984, which were laid before this House on 13th November, be approved.

Mr. Deputy Speaker (Mr. Paul Dean): With this, it will be convenient to discuss the following motion:

That the draft Merchant Shipping (Liner Conferences) (Conditions for Recognition) Regulations 1984, which were laid before this House on 13th November, be approved.

Mr. Mitchell: Hon. Members will remember that in 1982 the Merchant Shipping (Liner Conferences) Act became law. That Act enabled the Secretary of State to make certain regulations whose effect would be essentially to translate the provisions of the UN convention on a code of conduct for the liner conferences into United Kingdom law. The matter is complex, but I think that it is important that I put the situation clearly on the record. Accordingly, I hope that the House will forgive me if I go into some detail.

The purpose of the present regulations therefore is to enable the United Kingdom to accede to that convention. The convention, which came into force in October 1983, embodies a complex and wide-ranging set of rules governing the relations between shipping lines that are members of shipping conferences and between those lines and their customers, the shippers. The application of this code of conduct in the United Kingdom will be significantly modified by EC Regulation No. 954/79, commonly referred to as the Brussels package. I shall have more to say about that later. The United Kingdom intends to accede early in the new year—we hope to do so at the same time as a number of other European countries. That event will constitute a very significant development in international liner shipping and we have not taken this decision without conducting extensive consultations with interested parties. I am glad to be able to tell the House that the United Kingdom's accession to this convention is fully supported by the General Council of British Shipping and the British Shippers Council.

Although the regulations themselves are quite technical in nature, I am sure that the concern that is often expressed in the House about the state of the British shipping industry will be reflected in today's debate. Hon. Members would wish me to explain the relevance of the regulations and of the code itself to the wider shipping scene.

I turn to the Government's objectives in liner shipping. The policy of successive British Governments on liner shipping has been governed by our interests both as an exporting nation and as a major shipping nation. Those two national interests continue to point in the same direction. A third of our national income is derived from international trade, and roughly that proportion of our jobs depends on its success. Most of this trade is carried by sea. Any failure to maintain competitive conditions on our shipping routes would clearly result in more expensive and less efficient sea transport, with inevitable consequences for our trade.

Equally, our shipping industry relies on its own ability to compete in maritime trades worldwide. Opinion may well differ as to the most effective method of arresting the decline of the British flag fleet and what role the

Government should play, but one issue on which there is agreement is that it is the Government's task to try to keep the world's shipping markets open to British vessels. Nearly three fifths of the freight earnings of the British shipping industry comes from trading between other countries' ports, and cross-trading earnings represent two fifths of the industry's liner earnings. Free and fair access to cargoes in other countries' ports is therefore vital to the future of the British shipping industry.

I turn to the conference system. The House will know that in line with the practice of Governments throughout the world, we exempt liner shipping conferences from the provisions of our restrictive practices legislation. We find that liner conferences are generally beneficial in providing reliable scheduled services required by many shippers of different types of cargo. They also help to preserve stable freight rates, although this stability can be threatened when there is an abundance of competition from non-conference lines.

The exemption can, of course, only be tenable provided that this competition if present to some degree, or is not prevented from developing; and provided that shippers are effectively organised so as to make their views known to the conferences. In a nutshell, closed conferences are acceptable only as part of an open system.

Thus British industry wants to have access to the regular scheduled liner shipping services provided by the conferences; and a free choice of competing non-conference carriers. British shipping wants to have the widest possible freedom to compete in the world's liner shipping routes, both within and without conferences. The Government's key shipping policy objectives are to ensure that these very reasonable desires of British industry and British shipping can be fulfilled.

But the House will not be surprised to know that a number of developing countries do not share the Government's desire to maintain an open market in liner shipping. They want instead to share cargoes as exclusively as possible between trading partners. It was these pressures for cargo reservation which were a moving force in establishing the UN liner code.

The core of the code is concerned with: first, the relations among conference shipping lines: and secondly, the relations between conferences and shippers.

In dealing with the relations between conferences and shippers, the code states that its objective is to

"balance the interests of the suppliers and users of liner shipping services".

The provisions of the code in large measure reflect the practices that have developed internationally in recent years and are, I believe, broadly acceptable to shippers and shipowners alike.

But in dealing with the relationship between conference lines the UN code sought to impose the very kind of rigid cargo-sharing that the Government have so often fought to resist. Article 2 provided that cargo should be divided equally between conference lines of the two countries that were served, leaving other conference lines to carry some 20 per cent. between them. This so-called 40:40:20 division of conference cargoes was unacceptable to the Government and was the main reason why the United Kingdom voted against the code convention at the diplomatic conference which adopted it in 1974.

Hon. Members who specialise in this subject will know that some OECD countries including France, West Germany and Belgium had voted in favour of the code and other OECD countries had merely abstained. We therefore faced the unhappy prospect that the United Kingdom might be compelled to stand aloof while this new regime was applied without restraint on many of the world's major shipping routes. In that event British shipping lines' cross-trading opportunities would have been severely restricted. I know that hon. Members would be deeply concerned at such a prospect.

Clearly there were, therefore, compelling reasons for OECD countries to adopt a more uniform approach to the code for EC states and, in particular, to agree a common position. That common policy was developed under the last Labour Administration; and the present Government were glad to continue it on behalf of the United Kingdom very soon after we came into office in 1979. The policy is embodied in the Brussels package, which creates directly applicable law in the United Kingdom.

The overall effect of the Community's policy on the code will be that its cargo-sharing provisions will protect the shipping of only those countries, mainly developing countries, that wish them to do so. This is assured by three key provisions. First, when the code applies to a route between a Community member state and a third country, conference lines from all member states will compete on that route on the same footing. Secondly, lines from countries within the OECD which intend to accede to the code will also be able to compete on the same footing provided that they offer reciprocal treatment on routes serving their own countries. Finland, Norway and Sweden have already announced their intention of joining the code and operating it in the same amended way as the United Kingdom and the rest of the EC. Thirdly, the conference shipping lines of other OECD countries such as Australia and the United States of America, which at present do not intend to accede to the code, will also be treated in the Community on the same footing as Community conference lines, so long as those countries do not themselves discriminate against Community shipping. Japan is the only country in the OECD which has indicated an intention of acceding to the UN code without having made clear what kind of reciprocal arrangements will be available, and discussions between the Community and Japan are continuing.

As a result of these fundamental modifications the Department has calculated that the code's cargo-sharing provisions will in practice reserve only cargoes representing between 10 per cent. and 15 per cent. of the world's liner conference trade; the remainder will be free of cargo reservation. I know that the House will welcome that in the light of earlier discussions on dealing with protectionism and access for our ship operators.

As I have mentioned the code's basic regime concerning the relations between conferences and shippers was altogether more acceptable. The Brussels package contains some modifications to certain of the code's provisions but in the main the provisions which give rights to shippers to be consulted on the basis of full information are welcome.

There are two draft statutory instruments. The first, the mandatory provisions regulations, identifies the code's provisions which are to give rise to rights and duties. The second defines a United Kingdom national shipping line for the purposes of the code and defines those shippers' organisations which will have rights to be consulted.

The Merchant Shipping (Liner Conferences) (Mandatory Provisions) Regulations 1984 implement the

[Mr. Mitchell]

code convention. The code's provisions are a mixture of mandatory and recommendatory provisions, and some of the mandatory provisions are ambiguous. It would not therefore have been possible or desirable to import the code as a whole into our law.

Regulation 2 lays down that these regulations apply to conferences which have their seat in the United Kingdom or serve the trade of the United Kingdom.

Regulation 3 lies at the heart of the statutory instrument and sets out in the form of a table those provisions of the code which are to be mandatory. The table identifies those people by whom and against whom these provisions may be enforced.

I do not believe that this table contains any unexpected or unusual decisions. We have sought to reproduce the code's mandatory provisions as faithfully as possible. Some minor clarifications have been made to ensure that the provisions work effectively and, above all, do not inhibit competition. I shall draw the attention of the House to just two.

First regulation 2.4 *(b)* is clarified by stating that the share of cargo available to cross-trading lines is a right to acquire a share by commercial means. We wish to avoid any possibility of a cross-trading line seeking to increase its share simply through legal action.

Secondly, regulation 13.1 (2) is clarified, to make it plain that conference lines are entitled to charge rates less than the published tariff. Our objective is again to ensure that this provision does not dampen competition.

Regulation 4 ensures that where any conference is incorporated its individual member lines remain responsible in respect of the duties set out in regulation 3, so far as this lies within their power. Regulation 5 contains minor clarifications to chapter VI of the code which deals with

"Provisions and Machinery for the Settlement of Disputes".

The merchant Shipping (Liner Conferences) (Conditions for Recognition Regulations 1984 set the conditions for a national shipping line and shippers' organisation.

The code defines a national shipping line, but allows Governments to add further criteria. The code conferred certain privileges on national shipping lines and although these have largely been removed by the Brussels package it is widely acknowledged that national line status will be of some importance. During our consultations with shipowners, shippers and the seafaring unions some suggestions were made which in the Government's view would have imposed unduly restrictive conditions on national shipping lines. Some groups felt that United Kingdom national shipping lines should be British-owned, other groups felt that United Kingdom national shipping lines should be compelled to fly the British flag.

The Government have decided to set criteria to maintain as open a market system as possible for shipping lines operating out of the United Kingdom.

Regulation 2 therefore limits national shipping line status only in the following way. Lines will be regarded as national shipping lines only in respect of those conferences of which they are members. And they will have to be of British nationality—which is defined as having their principal place of business in the United Kingdom. The only other limitation is that lines from countries which would refuse similar treatment for British lines will themselves be excluded. I believe that that is agreeable to the House.

The code also allows Governments to decide who should have the right to take part in consultations with the conferences. Here, our objective has been to ensure that those organisations which already have a key role in representing shippers' interests will have the right to be consulted under the code. We have also been concerned to avoid a position where conferences are obliged to consult so many organisations that the process becomes unmanageable.

There are two avenues available to the Government to determine who should have those consultation rights. The first—and the fundamental one—is to set down the conditions for recognition as a shippers' organisation.

The code contains a basic definition of a shippers' organisation and allows Governments to add further conditions. These conditions, set out in Regulation 3, are necessarily expressed in broad terms. All those whom we have consulted, have argued against a very rigid set of conditions. I hope that the House will agree that we are right to respond to consultation in that way.

Regulation 3 allows one national organisation, which is expected usually to be the British Shippers Council, to claim consultation rights in respect of most if not all conferences subject to the code. In addition, other shippers' organisations may claim consultation rights where they can show that they represent shippers of such quantities of goods with that conference that it is reasonable for them to be consulted. If the conference sought to deny that claim it would be for the conference to show either that the shippers concerned were already adequately represented by recognised shippers' organisations or that there were so many other organisations representing more cargo that recognition would be inappropriate.

We look to both shipowners and shippers to operate the consultation procedure in a constructive fashion. With goodwill on both sides I am sure that the shippers' interests can be effectively and efficiently represented.

The second avenue by which consultation rights may be established is designed to benefit large individual shippers and representatives of shippers. Regulation 5 gives the Secretary of State the power to designate these groups.

As the conditions that we have imposed on shippers' organisations represent something of a compromise between competing claims I think that it would be right at this stage to state that the Secretary of State would use his powers of designation only in exceptional circumstances. He would adopt criteria in line with those laid down for shippers' organisations. The result would be that when large shippers, or a large number of small shippers, using the same agent, such as a freight forwarder, feel that their interests have not been adequately represented to a particular conference they will be able to seek consultation rights. I think that that is a comprehensive set of guidelines. I am sure that the House will agree.

I would now like to say something about non-conference lines and the code. The diplomatic conference that adopted the code convention also adopted a resolution on non-conference shipping lines which stated that such lines should not be prevented from operating provided that

they competed fairly. But that resolution is not legally binding and the code itself confers no rights on non-conference shipping.

The problem that we face is that there is an increasing disposition among some developing countries to seek to close their shipping trades to non-conference lines and thus establish a monopoly for the conferences. That position would be unacceptable to the British Government on routes serving the United Kingdom.

We have therefore concluded that the United Kingdom's accession will be subject to the condition that the United Kingdom will be bound by the convention only while our trading partners permit non-conference lines to compete in our mutual trades. We shall make a formal reservation along these lines when we come to accede. In the event that non-conference lines were to be excluded by another contracting party the Government would be able to suspend the operation of the code using section 4 of the enabling Act and would thus be free to use the wide-ranging retaliatory powers contained in section 14 of the Merchant Shipping Act 1974. We have discussed our intention with our Community partners and we understand that other OECD Governments are also likely to make similar reservations when they accede.

Finally let me just touch on other current initiatives in liner shipping with which the Government are closely involved. I have explained that the Brussels package ensures that the OECD's ground rules concerning competition in the provision of liner shipping services are fully respected. But there is clearly a need for the OECD countries to continue to develop unambiguous and positive policies to promote their interests in liner shipping, particularly as more countries come to accede to the code.

I have referred already to the EEC regulations and the US-CSG dialogue, so I shall not refer to that again. I have sought to set out the Government's objectives in pursuing the interests of British shipping and its customers. The code, together with the Brussels package, is an attempt — some would say a very ambitious attempt — to reconcile quite different and potentially conflicting aims. But the alternative would have been a series of unilateral or, perhaps, regional initiatives taken by each sovereign state attempting to impose its preferred solutions on the shipping lines of its trading partners. Interference of that sort would have led to inefficiency, increased costs for shipping lines and, not least, the threat of very real disruption to shipping and trading operations where disputes could not be resolved.

The British Government recognise that the code represents something of a challenge and we have equipped ourselves with appropriate defensive powers if things go wrong. We shall do our best to make the code work effectively because we believe it holds out the best prospects for the stable development of liner shipping and that, of the options available, it represents the best course for British shipping and for British industry at large.

I have spoken at some length. It is a complex matter and it is right to put on record exactly what is involved in this important step for our shipping interests. I commend the regulations to the House.

7.22 pm

Mr. Roger Stott (Wigan): During the excellent preceding debate hon. Members from both sides of the House made it absolutely clear to the Government that action to arrest the critical decline of our merchant fleet is required immediately. We must judge these regulations in the light of that criterion, tortuous though they may be.

On the matter of the Brussels package, we have reached the stage when we must question whether it is in the best interests of the United Kingdom to continue to support it. Continued support makes sense only when the United Kingdom's earnings through cross trade exceeds the earnings that could be made from carrying 40 per cent. of our liner imports and exports. Clearly, that position has not yet been reached. However, the changes between 1979 and 1982 show the way in which matters are moving. Great change is taking place. The position is not quite what the Minister alleged. Serious changes are occuring and we must consider whether the package is acceptable to us.

The second set of regulations deal with the national shipping lines. They do not provide adequate defence for the United Kingdom shipping interests, and that applies especially to the definition of a national shipping line. Neither ownership nor the registration of vessels is taken into account, to the extent that national line status can be accorded even if ownership and registration are outside the United Kingdom.

While regulation 2(3)—the conditions for recognition —has been included because of EEC regulation 954/79, the Government have not reconsidered that regulation in the light of the changed circumstances of United Kingdom shipping. The decline in the United Kingdom's liner trade calls for the regulation to be amended so that national line status is accorded only to companies with ownership and registration within the United Kingdom. However, recognising the existence of the EEC regulation, national line status could be accorded only to companies using vessels registered in the United Kingdom or in other member states.

Regulations 2(1)(2) and (3) give national line status to existing members of liner conferences. Even if they use non-United Kingdom flag ships with non-United Kingdom crews, such status can be retained by the conference members. For example, a Swiss-owned Liberian flag of convenience ship with a Singaporean or Filipino crew could still be used by a company with national line status. That really makes nonsense of the definition of a national shipping line.

The requirement that reciprocal arrangements exist for a foreign-owned company to receive national line status in the United Kingdom provides some attempt to protect our interests, but it is the very narrow interest of owners, because United Kingdom companies establishing subsidiaries abroad would be using foreign ships and labour, with no benefit to United Kingdom seafarers or to the nation as a whole.

The regulations are clearly aimed at the Comecon countries, because they are regarded as operating unfairly, and I subscribe to that view, but there is no attempt to act against flag-of-convenience operations, which are just as unfair and are a greater threat to British shipping. Overall, the regulations will not help to protect United Kingdom shipping. They will not secure existing operations or promote further opportunities.

I shall not ask my hon. Friends—if they are still around—to divide the House. I merely wish to point out to the Minister that some of us are greatly upset by the regulations. We do not believe that they will in any way enhance or help the very grave position facing British shipping.

[Mr. Roger Stott]

The Government are in the process of undertaking a review of shipping. The Minister of State for the Armed Forces is studying the whole question, but it is limited to the defence requirements for merchant shipping and the capability of the fleet to meet those requirements. The Under-Secretary of State, in answer to a question on 10 December, at column 304, said that the review would take into account only vessels and not manpower, nor the economic necessities of maintaining a merchant fleet. I hope that the Minister will take that point on board.

I wish to crave your indulgence for a moment, Mr. Deputy Speaker, as I may stray slightly outside the motion. However, I believe that an important matter should be put on the record. The Minister must ensure that the consultants whom he has engaged to consider the matter also consider manpower. He will know from the questions asked by his hon. Friend the Member for Eastleigh (Sir. D. Price) that manpower is important, especially if there is another Falklands-type conflict, where ships that are flagged out may be brought back into Britain, but their crews may not.

In the light of the disastrous state of British shipping and the dire prospects for United Kingdom companies, the Government should undertake a major review of the industry. It is 14 years since Lord Rochdale made his major report on shipping, and a great deal has changed since then. In fact, the Government's lack of concern and their inactivity have condoned the worst decline in our merchant fleet in our history. It is time that we did something about that.

I shall not rehearse the arguments that I used in a previous debate. I am sure that the Minister is well aware of the feeling of hon. Members on both sides of the House about this great industry. I am sure that he is also well aware that something must be done quickly to arrest that decline. I do not believe that the regulations will go any way towards that. Much more positive action is required.

7.30 pm

Mr. Michael Shersby (Uxbridge): First, I must declare an interest as I am associated with an organisation which is a member of the British Federation of Commodity Associations.

Regulation 2 is headed:

"National Shipping Lines of the United Kingdom".

I recognise the necessity for the regulation where there is a definition of a national shipping line. The United Nations liner code enables developing countries to participate in liner conference trade by virtue of having the right to carry in vessels of their national lines about 40 per cent. of the goods generated by trade between them. The countries at the other end would also have about 40 per cent. The remaining 20 per cent. of trade can be acquired by vessels of third countries. That is the so-called 40-40-20 rule.

If my hon. Friend the Under-Secretary of State read the Second Reading debate of the 1982 Bill, as it then was, he will understand that I have always been opposed to the United Nations liner code, which led to the Merchant Shipping (Liner Conferences) Act 1982. I have opposed it because of its impression and the opportunity which it has afforded to less scrupulous countries to abuse normal commercial practices and to take refuge for their action behind the code. I spoke at length on these matters when the 1982 Bill was being considered in Committee.

I was interested to hear my hon. Friend the Under-Secretary of State talk about the appropriate defensive powers that the Government have taken if things go wrong. I cannot help feeling that I have been reinforced in the view that I took in 1982, that the whole of this bureaucratic and cumbersome apparatus is very much the best of a bad job. My hon. Friend spoke about the problems that would have ensued if we had not decided to adhere to the code. He reminded the House of the difficulties that might have arisen if countries had pursued their separate interests. None the less, I am filled with gloom as I hear once again a description of the way in which the proposed apparatus will work.

I remind the hon. Member for Wigan (Mr. Stott) of what was said in the House on 9 June 1978 by the then hon. Member for Hackney, Central, Mr. Stanley Clinton Davis. The then hon. Gentleman said:

"But much of the current support for the United Nations code derives from the desire of certain developed countries to increase their share of liner trades by cargo reservation, since it appears that they cannot win a greater share by commercial means. I see no reason why we should encourage any move at all in this direction."—[*Official Report*, 9 June 1978; Vol. 951, c. 610.]

I am glad that after a considerable period, my hon. Friend has tabled the regulations, which seek to define important matters. In regulation 2(2) we have a clear definition of a shipping line of British nationality. In regulation 2(3) recognition of a shipping line as being of British nationality is accorded to shipping lines of member states of the EEC. I understand that that provision will operate reciprocally within the Community. However, in regulation 2(4) and 2(5) recognition as a national shipping line of the United Kingdom is accorded to lines of states outside the EEC under certain conditions. In regulation 2(4) there is a requirement for an effective opportunity to ply for trade, and in regulation 2(5) there are requirements relating to the percentage of share capital and directors. Those conditions may be subject to change—possibly to sudden change. For example, the opportunity to ply for trade could be restricted. The percentage of shareholders could change, and so could the number of directors. I should like to know what steps my hon. Friend proposes to take to ensure that when a decision has been made on such conditions, there will be a system of monitoring to ensure that the conditions on which the decision was taken are retained.

I have always been worried that the code is vague and imprecise. I understand the problem of drafting regulations that result from a code that has been internationally criticised for being vague and imprecise. However, Britain decided to adopt the code, and it has taken seriously the subsequent legislation. It has attempted to make as good a job of it as possible. I ask my hon. Friend to set before the House the evidence he has that the issue is being taken equally seriously by other code states and that they are taking the necessary steps to draft legislation, especially the developing countries which have adopted the code. Unless all signatories to the code apply equally strict conditions, there is a danger that the code will not work.

Regulation 3 is headed "Shippers' Organisations". In regulation 3(2)*(b)* there is the right for shippers' organisations to be consulted by the conference under certain conditions. The conference is given the opportunity of saying under regulation 3(2)*(b)*(ii)

"that it would not be appropriate to consult".

In the debates that took place prior to the 1982 Act, I strongly represented the views of shippers of raw materials

which were members of the Federation of Commodity Associations. The commodities that are traded through London rarely reach the shores of the United Kingdom. The majority of them pass between third countries. However, the commission earned by London trading houses on such transactions is an important part of our invisible earnings. The commodity trades, according to the latest statistics that are available, earned £350 million in invisibles in 1983. The trade associations of London, which cover commodities such as sugar, cocoa, non-ferrous metals and rubber, may have problems from time to time with the carriage of their commodities by liner conference which they will need to discuss with the conferences. It is astonishing that the regulations should contain a proviso that might enable any conference to refuse such consultation on the ground that the quantities carried were not large enough or that the trade concerned belonged to a larger shippers' organisation, such as the British Shippers' Council.

When there are real problems it is essential that the trade should be able to consult directly with the conference. It should not have to consult any other organisation, unless it wishes to do so. Representations have been made to my hon. Friend the Minister on this issue and I hope that he will be able to give some assurance when he replies that it is not his intention to deprive any trade of the opportunity of full consultation when a genuine problem arises.

This is the first piece of Government legislation that I have opposed at all stages with both voice and vote. When historians come to plot the decline of the British merchant marine, I hope that one of them will read the proceedings in Standing Committee during April 1982 and possibly the report of this debate. I hope that it will be noted that at least one Member of this place expressed serious reservations and surprise that the British Government found it necessary to accede to the proposal.

7.38 pm

Dr. David Clark (South Shields): I take up the rather sombre tone of the hon. Member for Uxbridge (Mr. Shersby), who has argued in the same vein for a number of years. Like many who spoke in the previous debate on merchant shipping, I have no direct financial interest. However, I represent a constituency that contains one of the four designated nautical colleges. As we heard from the hon. Member for Isle of Wight (Mr. Ross) in the previous debate, the colleges are under threat of closure. As the hon. Member for Wallsend (Mr. Garrett) said in the previous debate, my constituency is a town which lost more merchant seamen in the past two wars than any other. My constituency contains the largest branch of the National Union of Seamen in the north of England and the general secretary of the NUS comes from my constituency. My constituency is based on Tyne Dock. As I have said, I have no financial interest but I have a great interest in the maritime industry.

It is with great sadness that I take part in this debate, especially in view of the earlier speech on the motion and the introduction to these regulations by the Under-Secretary of State. There is great resentment in my constituency about the way in which the Government have let down the Merchant Navy. These regulations are not a step forward. The Under-Secretary of State took 35

minutes to wind up in a three-hour debate, thereby preventing me from making a speech, and that can only add to the resentment.

Mr. David Mitchell: Will the hon. Gentleman give way?

Dr. Clarke: I shall not give way. The hon. Gentleman spoke for 35 minutes in the previous debate and gave a long introduction to this debate. He will have a chance to make his point when winding up.

The Under-Secretary of State talked about the Brussels package. I hope that all hon. Members wish the new commissioner in charge of transport, Stanley Clinton Davis, well in his task. I deplore the scurrilous attacks made on him and his colleague, Lord Cockfield, by the leader of the Liberal party when in Brussels. It was disgraceful to make such attacks on two first-class men. We wish Stanley Clinton Davis well in his efforts to grapple with the problem connected with the Brussels package.

The Under-Secretary of State said that our maritime ability will depend upon our industry's ability. As we argued for three hours in the previous debate, this has nothing to do with the industry's ability—it has to do with the fiscal measures that the Government are prepared to give to help the maritime industry to survive. I am sad that the Under-Secretary of State was not able to pick up that point, which was made ferociously by both sides of the House. I hope that the hon. Gentleman will take that message back to the Chancellor of the Exchequer and say how unfair the Government's decisions in the last Budget were in reducing the overseas earnings allowance of seamen. That measure will increase the cost of the wages of the British shipping industry. It will give the lie to the point made by the Under-Secretary of State that our maritime ability depends upon the industry's ability. The Government have shown no incentive in trying to help the merchant shipping industry.

About 22 minutes ago, the Under-Secretary of State assured us that the purpose of the regulations and his policy was to protect British shipping. That is not how the shipping industry sees it. The hon. Gentleman responded by referring to the supply ships in the Norwegian section of the North sea. Some months ago, the hon. Gentleman met the responsible Minister, but we are still awaiting developments. The Norwegians operate a bureaucratic system that makes it virtually impossible for British offshore and supply vessels to become involved. It is as simple as that. The Norwegians know that, and they are pulling the wool over the Minister's eyes.

In introducing the regulations, the Under-Secretary of State rightly mentioned many other OECD countries, specifically Norway, Sweden and Denmark. I understand that the British Government are conducting negotiations with the Soviet Government. The British Government propose to preclude any Russian vessels from entering the port of Tyne and the river Tyne. I urge the Under-Secretary of State — he probably does not have the necessary information with him — to look into this matter. We can understand why the Government do not want to let the Russians into Barrow-in-Furness and Rosyth. I seriously warn the Government that, if they prevent Russian vessels from entering the river Tyne, they will add to unemployment. As a representative of the travel-to-work area with the highest unemployment rate in

[Dr. Clarke]

one million pounds worth of work from the Russians. I have heard much criticism of the Russians in this debate, but at least they pay their bill and are good customers. We want Russian vessels on the river Tyne. I hope that, if the Under-Secretary of State cannot give an answer today, he will write to me.

7.45 pm

Mr. David Mitchell: I do not want to detain the House for any longer than need be. I apologise to the hon. Member for South Shields (Dr. Clark) if my summing up in the earlier debate deprived him of the opportunity to participate. That was unintentional. We did not have sufficient time to discuss such an important subject. I wanted to put several points on the record, because hon. Members on both sides of the House raised a large number of issues. I shall ensure that the points made by the hon. Member for South Shields about fiscal matters are conveyed to my right hon. Friend the Chancellor of the Exchequer, and I shall write to him about the entry into the Tyne of Russian vessels.

My hon. Friend the Member for Uxbridge (Mr. Shersby) raised a number of points and expressed his continuing anxieties. I well know the points that he made at the earlier stage of the legislation. I shall write to my hon. Friend about the legislation in other countries. The Government's objective in the definition of a shipper's organisation has been to ensure that those organisations able to play a worthwhile role in consulting conferences will be recognised, but to avoid setting conditions requiring conferences to consult so many organisations that the process becomes unmanageable.

My hon. Friend the Member for Uxbridge asked about a national line and about how the Government will monitor conditions set out in regulations 2(4) and 2(5). The Government will not intervene. These are matters for the liner conference and disputes will be referred to the civil courts. It will be in the interests of other lines to monitor progress.

The hon. Member for Wigan (Mr. Stott) and other hon. Members questioned the wisdom of our being involved. They suggested that extrapolating the historic trend of protectionism raised the question whether we would be better to join those countries which voted in favour of the code and get our 40 per cent. out of our trade. That assumes that no further effective steps are taken to resist protectionism. I hope that I managed to convey to the House our clear intention to be active on that front, especially in co-ordinating resistance protectionism within Europe and through the United States — Consultative Shipping Group talks, with the expectation that there will be progress in January or February.

Hon. Members referred to charges imposed on our exporters if they lose the freedom to chose which they now enjoy. Some goods for Brazil from the east coast of the United States travel via western Europe because that is cheaper than using the carved up trade between the other two countries. That shows the damaging effect on a country's exports when there is a stranglehold on the shipment of goods.

The industry's calculations show, and the General Council of British Shipping has made this point also, that it would be better for our ship operators if we joined the liner code on the terms now proposed. Although I understand the misgivings that have been expressed, I believe that there must be a coincidence of interest between the ship owners and the unions. There is room for the unions to talk more closely and to understand each other's thinking. That would be a helpful step forward. I hope that hon. Members will join me in saying that that should be commended to the parties. I hope, too, that the House will feel it right to approve these regulations.

Question put and agreed to.

Resolved,

That the draft Merchant Shipping (Liner Conferences) (Mandatory Provisions) Regulations 1984, which were laid before this House on 13th November, be approved.

Merchant Shipping

Resolved,

That the draft Merchant Shipping (Liner Conferences) (Conditions for Recognition) Regulations 1984, which were laid before this House on 13th November, be approved. — *[Mr. David Mitchell.]*

Government has a key role in UK's maritime future



Sir Edward du Cann, chairman of the all-party Parliamentary Maritime Group, takes a broad look at the UK maritime scene and comes to some disquieting conclusions.

BRITAIN as an island nation depends on the sea. Its world-wide trade was begun and powered by the City of London and carried in countless ships out of the Thames and numerous other ports.

The City's major enterprises grew up to serve British and eventually the world's shipping — Lloyd's, the banks, the Baltic Exchange, the commodity and stock markets, the merchant houses, the river and the Port of London, Trinity House, the Navy Board, the Hydrographic Service, the Board of Trade — all of them serving and developing the world markets for the flood of manufactures spawned by the Industrial Revolution, accelerating scientific discovery and new technolgy — most of it British before 1914.

The Royal Navy remained supreme up to 1945, the Merchant Navy the largest in the world until 1966, and British yards built over 50% of the world's ships before 1956. The fishing fleet was among the largest during the 1950s, and its annual landings remained fairly constant at around one million tons prior to 1977, when the 200-mile limits were declared.

Shipping earned the equivalent of £2.5 billion in 1975, most of it from the cross-trades. Refrigeration made possible the international meat and other food trades after 1878, and Britain owned two thirds of the world's reefer fleet up to the advent of containers around 1965; we developed these new trades, ashore as well as afloat, in South America, the Caribbean, South Africa, Australia, New Zealand and elsewhere, to the enormous benefit of many countries' economies.

But today, 40 years after the end of the Second World War, despite an eightfold increase in world trade, most countries' economies are in deep recession, triggered and continued by the OAPEC oil price bombs of 1972 and 1979, which have withdrawn so much money that should fuel international growth. This country has retreated from empire so abandoning much government involvement overseas and also greatly reducing tied markets that took our goods as a matter of course.

Far East competition has taken over shipbuilding, and Asian crews have drastically reduced crew costs in several classes of ship. Japan has the largest landings of fish and the Soviet Union the largest fishing fleet, with a merchant fleet now larger than ours, and including large numbers of ice-strengthened ships and the largest ice-breaking fleet, also the largest research fleet and the world's second Navy.

The Transiberian Railway, now greatly expanded, as well as drastic rate cutting in several trades, has unbalanced conferences' profitability for containers and general cargo. Whereas the United States is the premier naval power, the Soviet Union is today an increasingly formidable maritime power.

Britain's shipowners were not slow in the 1960s and early 1970s to adopt new cargo-handling techniques and the economies of scale of building very large ships, then the major fuel economies forced on them by the oil price rises. The jumbo jet displaced the passenger liner for inter-continental travel but the cruise ship is now a growth industry, and shorter-distance ferries are extremely active carrying freight lorries as well as passengers and their cars. Thus Britain's and the world's merchant fleets have gone through a major revolution in maritime transport over the last 20 years, all in pursuit of commercial survival and profitability.

required minimum Merchant Navy replacement rate of 1 million tonnes deadweight per annum, for a fleet of around 10-12 million tonnes, itself under half of what we had in 1982 — or 1966.

Britain's fishing fleet has suffered major upheavals since the introduction of the 200-mile fishing limits and the European Pond in 1977. Our distant water fleet has been extinguished and the long delay until 1984 in achieving the beginnings of an effective Common Fisheries Policy has had serious effects on every sector of the inshore, near and remaining middle water fleets. The entry of Spain and Portugal to the EEC in 1986 will double the size of the European fishing fleet, but not the fish stocks it needs to sustain it.

Britain has an important offshore support vessel fleet, but strong competition from other nations' vessels in our own sector, which depresses profitability.

A total of 5,000 officers and men a year are being lost from the sea and the entry of new deck and engineer cadets is only at a rate of 80 of each per year, below half the General Council of British Shipping's minimum requirements, only a fifth of real needs.

All the indications are that the number of merchant vessels available to sustain a NATO conventional defence is well below the minimum requirement in several classes. The Supreme Allied Commander Atlantic has declared himself 50% short of several essential vessel types needed to protect merchant shipping and to keep open vital ports and harbours. The Royal Navy is losing men, and ship numbers are declining not least through structural disarmament, caused by defence inflation more than 10% above general inflation, quite apart from the effects of NATO planners' inordinate emphasis on land and air forces for the Central Front in Europe.

Oil and gas exploitation in our sector of the continental shelf is generally a success story, but the continuity of requirements has not been sufficient to sustain the platform yards and some related industry, despite the huge investments that have gone into the North Sea.

Government departments treat the maritime industries as "sunset industries," assume they are incapable of adopting modern production and operating techniques, and consider we can satisfy our needs for shipping from foreign flags and foreign shipyards. Education and training schools and facilities are being drastically cut back and so are investments in research and development in all the maritime activities, now including even the offshore industry; revenues from offshore petroleum have been largely squandered rather than re-

"Government departments treat the maritime industries as 'sunset industries', assume they are incapable of adopting modern production and operating techniques, and consider we can satisfy our needs for shipping from foreign flags and foreign shipyards."

But although Europe is by far the largest trading bloc, all its merchant fleets are now at a point where new technology and improved commercial practices alone cannot ensure profitability for many classes of ship in the face of gross overbuilding in the Far East and Third World, and the determination of many developing countries to have their own national fleets and shipbuilding industries.

Europe's shipbuilding industries are mostly in dire straits, and many famous yards have closed. The United Kingdom is in the throes of privatisation of its warship yards and consolidation of what is left to produce only 200,000 compensated tons gross a year, compared with a

invested in our future, remembering that reserves will begin declining in the next few years.

All this adds up to a pretty gloomy picture, with grave consequences for our economic well-being as well as for security and defence, including providing a credible conventional deterrent to non-nuclear war, so vital to reducing the risk of a nuclear exchange that would be suicidal for all of us. In this context, the rapid decline of the merchant fleet is cause for great concern, now becoming the West's increasingly vulnerable Achilles Heel. The "North Atlantic" in NATO spells out unequivocally the perception of its founders that the Alliance stretches across more than 3,000 nautical miles of ocean; we ignore that at great peril in this 40th anniversary year of the end of the Battle of the Atlantic.

Government has always been intimately concerned with the sea in time of war, at times almost to the exclusion of all else, for example, in 1917 and 1943, both years in which the interruption of merchant shipping to these islands for any length of time could have spelt defeat. But in times of peace most government interventions since Elizabethan times has been limited to providing the legislation and political climate in which international private commerce could prosper; this had enormous benefit to the City and our worldwide trade, and to the development of empire.

Although there was greater support for shipping and shipbuilding between the wars, and in the past ten years, the hands-off approach is a long-standing preference of the administration, and a strongly-held principle of the present Government.

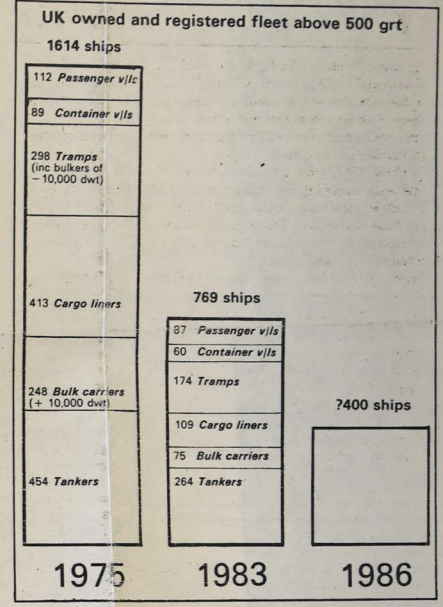
Business and commerce have generally encouraged this until quite recent years, when technology and the normal workings of the marketplace have become insufficient to counter the pressures and increasingly unfair practices of many other countries using protectionism and penalties to discriminate against international traders, especially in the cross-trades, as well as subsidies to support often inefficient national carriers.

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5 and under 10	100	17	298	27	356	23	90	24	1,522	39	4,538	54
10 and under 15	141	23	325	30	1,009	65	59	16	1,330	34	1,745	21
15 and under 20	158	26	59	5	11	1	90	24	114	3	784	9
20 and under 25	102	17	35	3	—	—	29	8	59	2	194	2
25 years and over	26	4	8	1	—	—	12	3	8	—	65	1
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Lloyds List Mon March 18 1985

Government has a key role in UK's maritime future



Sir Edward du Cann, chairman of the all-party Parliamentary Maritime Group, takes a broad look at the UK maritime scene and comes to some disquieting conclusions.

BRITAIN as an island nation depends on the sea. Its world-wide trade was begun and powered by the City of London and carried in countless ships out of the Thames and numerous other ports.

The City's major enterprises grew up to serve British and eventually the world's shipping — Lloyd's, the banks, the Baltic Exchange, the commodity and stock markets, the merchant houses, the river and the Port of London, Trinity House, the Navy Board, the Hydrographic Service, the Board of Trade — all of them serving and developing the world markets for the flood of manufactures spawned by the Industrial Revolution, accelerating scientific discovery and new technolgy — most of it British before 1914.

The Royal Navy remained supreme up to 1945, the Merchant Navy the largest in the world until 1966, and British yards built over 50% of the world's ships before 1956. The fishing fleet was among the largest during the 1950s, and its annual landings remained fairly constant at around one million tons prior to 1977, when the 200-mile limits were declared.

Shipping earned the equivalent of £2.5 billion in 1975, most of it from the cross-trades. Refrigeration made possible the international meat and other food trades after 1878, and Britain owned two thirds of the world's reefer fleet up to the advent of containers around 1965; we developed these new trades, ashore as well as afloat, in South America, the Caribbean, South Africa, Australia, New Zealand and elsewhere, to the enormous benefit of many countries' economies.

But today, 40 years after the end of the Second World War, despite an eightfold increase in world trade, most countries' economies are in deep recession, triggered and continued by the OAPEC oil price bombs of 1972 and 1979, which have withdrawn so much money that should fuel international growth. This country has retreated from empire so abandoning much government involvement overseas and also greatly reducing tied markets that took our goods as a matter of course.

Far East competition has taken over shipbuilding, and Asian crews have drastically reduced crew costs in several classes of ship. Japan has the largest landings of fish and the Soviet Union the largest fishing fleet, with a merchant fleet now larger than ours, and including large numbers of ice-strengthened ships and the largest ice-breaking fleet, also the largest research fleet and the world's second Navy.

The Transiberian Railway, now greatly expanded, as well as drastic rate cutting in several trades, has unbalanced conferences' profitability for containers and general cargo. Whereas the United States is the premier naval power, the Soviet Union is today an increasingly formidable maritime power.

Britain's shipowners were not slow in the 1960s and early 1970s to adopt new cargo-handling techniques and the economies of scale of building very large ships, then the major fuel economies forced on them by the oil price rises. The jumbo jet displaced the passenger liner for inter-continental travel but the cruise ship is now a growth industry, and shorter-distance ferries are extremely active carrying freight lorries as well as passengers and their cars. Thus Britain's and the world's merchant fleets have gone through a major revolution in maritime transport over the last 20 years, all in pursuit of commercial survival and profitability.

required minimum Merchant Navy replacement rate of 1 million tonnes deadweight per annum, for a fleet of around 10-12 million tonnes, itself under half of what we had in 1982 — or 1966.

Britain's fishing fleet has suffered major upheavals since the introduction of the 200-mile fishing limits and the European Pond in 1977. Our distant water fleet has been extinguished and the long delay until 1984 in achieving the beginnings of an effective Common Fisheries Policy has had serious effects on every sector of the inshore, near and remaining middle water fleets. The entry of Spain and Portugal to the EEC in 1986 will double the size of the European fishing fleet, but not the fish stocks it needs to sustain it.

Britain has an important offshore support vessel fleet, but strong competition from other nations' vessels in our own sector, which depresses profitability.

A total of 5,000 officers and men a year are being lost from the sea and the entry of new deck and engineer cadets is only at a rate of 80 of each per year, below half the General Council of British Shipping's minimum requirements, only a fifth of real needs.

All the indications are that the number of merchant vessels available to sustain a NATO conventional defence is well below the minimum requirement in several classes. The Supreme Allied Commander Atlantic has declared himself 50% short of several essential vessel types needed to protect merchant shipping and to keep open vital ports and harbours. The Royal Navy is losing men, and ship numbers are declining not least through structural disarmament, caused by defence inflation more than 10% above general inflation, quite apart from the effects of NATO planners' inordinate emphasis on land and air forces for the Central Front in Europe.

Oil and gas exploitation in our sector of the continental shelf is generally a success story, but the continuity of requirements has not been sufficient to sustain the platform yards and some related industry, despite the huge investments that have gone into the North Sea.

Government departments treat the maritime industries as "sunset industries," assume they are incapable of adopting modern production and operating techniques, and consider we can satisfy our needs for shipping from foreign flags and foreign shipyards. Education and training schools and facilities are being drastically cut back and so are investments in research and development in all the maritime activities, now including even the offshore industry; revenues from offshore petroleum have been largely squandered rather than re-

"Government departments treat the maritime industries as 'sunset industries', assume they are incapable of adopting modern production and operating techniques, and consider we can satisfy our needs for shipping from foreign flags and foreign shipyards."

But although Europe is by far the largest trading bloc, all its merchant fleets are now at a point where new technology and improved commercial practices alone cannot ensure profitability for many classes of ship in the face of gross overbuilding in the Far East and Third World, and the determination of many developing countries to have their own national fleets and shipbuilding industries.

Europe's shipbuilding industries are mostly in dire straits, and many famous yards have closed. The United Kingdom is in the throes of privatisation of its warship yards and consolidation of what is left to produce only 200,000 compensated tons gross a year, compared with a

invested in our future, remembering that reserves will begin declining in the next few years.

All this adds up to a pretty gloomy picture, with grave consequences for our economic well-being as well as for security and defence, including providing a credible conventional deterrent to non-nuclear war, so vital to reducing the risk of a nuclear exchange that would be suicidal for all of us. In this context, the rapid decline of the merchant fleet is cause for great concern, now becoming the West's increasingly vulnerable Achilles Heel. The "North Atlantic" in NATO spells out unequivocally the perception of its founders that the Alliance stretches across more than 3,000 nautical miles of ocean; we ignore that at great peril in this 40th anniversary year of the end of the Battle of the Atlantic.

Government has always been intimately concerned with the sea in time of war, at times almost to the exclusion of all else, for example, in 1917 and 1943, both years in which the interruption of merchant shipping to these islands for any length of time could have spelt defeat. But in times of peace most government interventions since Elizabethan times has been limited to providing the legislation and political climate in which international private commerce could prosper; this had enormous benefit to the City and our worldwide trade, and to the development of empire.

Although there was greater support for shipping and shipbuilding between the wars, and in the past ten years, the hands-off approach is a long-standing preference of the administration, and a strongly-held principle of the present Government.

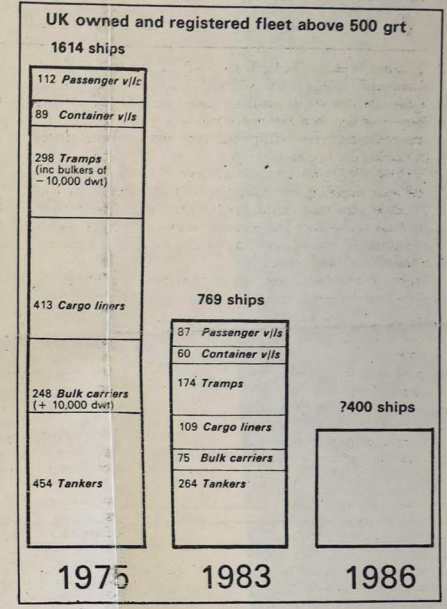
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21/3/85

6.30 pm.
D/S.

Prime Minister

Edward Du Cann has asked if he could come to see you as a representative of the All-Party Maritime Affairs Group, about matters affecting the British Merchant Navy. (I understand that both David Owen and Jim Callaghan who are also members of the group are interested in the problems of the Merchant Navy).

I have spoken to Andrew Turnbull about this, and his comment was:-

"There will be no joy for you in this meeting as the decline in the Merchant Navy continues and there is little Government can do. Nevertheless, I think you should see him."

Do you agree that I should fix a slot in the diary for him to see you?

MICHAEL ALISON
14.3.85

NBPM AT 25/2 CC NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

5186

From the Minister of State for Industry

Norman Lamont MP

CONFIDENTIAL

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

25 February 1985

Dear Peter

BRITISH SHIPBUILDERS - ORDER PROSPECTS, FLEXIBILITY AND CONTROL

Thank you for your letter of 31 January in reply to the proposals in mine of 21 December for delegating to British Shipbuilders some responsibility for offers of soft credit for export orders.

I appreciate that you did in your letter in fact agree to my proposals, but I was somewhat surprised by two statements in your letter.

First, you describe the present situation as "far from satisfactory". Of course in one sense BS's situation has never been satisfactory. But my proposals are in line with what we agreed in E(A) last Summer, and it remains our intention to set BS on a downward glidepath to a more limited capacity.

Second, you claim that we are arguing in Brussels for approval of increased support. We are certainly arguing for higher Intervention Fund intensity to enhance BS's ability to win orders. But, as you know, we are not seeking to increase our overall aid to BS: the downward glidepath in capacity on which we have set BS means a smaller total of aid each year.

The new financial control system is already proving effective and will constrain BS's ability to take orders this financial year and next in line with E(A)'s decision. You will remember, however, that E(A) also concluded that if it proved possible eventually for

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BS, through improved performance, to expand activity level once more on a viable and competitive basis, we would have the opportunity to take account of that in considering successive Corporate Plans.

I am sure that our consideration this Summer of BS's forthcoming Corporate Plan will be the right occasion for deciding the future of British Shipbuilders and for taking a view on the appropriate levels of support. In making these judgements, we will obviously need to take account of the progress which British Shipbuilders are making to become more competitive.

I am copying this letter to the Prime Minister, Sir Geoffrey Howe, Douglas Hurd, members of E(A) and Sir Robert Armstrong.

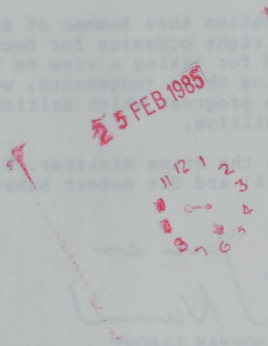
Yours ever

Norman

NORMAN LAMONT

1TUALW

NAT IND Shipbuilding
PT 8



COMMERCIAL IN CONFIDENCE NDP7 CCND AT 22/2

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

PS/
Secretary of State for Trade and Industry

21 February 1985

E Gowans Esq
Private Secretary to the
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London SW1

Dear Ed,

WARSHIPBUILDING PRIVATISATION: TRAFALGAR HOUSE INTEREST IN YARROW AND VSEL

PT7.

We spoke about your Secretary of State's letter of 29 January on this subject. Although my Secretary of State had some sympathy with the line proposed by Mr Younger, he felt that it risked putting off Trafalgar House. The Secretary of State for Defence was also prepared to go along with our line because he felt that Trafalgar House management of the yards would be beneficial. Mr Lamont has therefore now told Trafalgar House that the Government welcomes their interest in both Yarrow and VSEL but that they should be aware that, if there is a close contest for Vickers, the Government will need to take account of all the relevant factors including the effect on competition. Trafalgar House accepted this and indicated that they will proceed to bid for Yarrow and possibly also for Vickers.

2 I am copying this letter to the Private Secretary to the Prime Minister, the Secretary of State for Defence and to Sir Robert Armstrong.

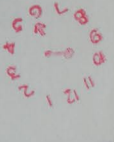
Yours sincerely
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

JH4AUB

999-1

Nat Ind: Shipbuilding Pt 8.



CONFIDENTIAL

JF

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

Secretary of State for Trade and Industry

4 February 1985

Dennis Brennan Esq
Private Secretary to the
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

Dear Dennis,

We spoke about the Parliamentary Questions put down for written answer from your Department following your Secretary of State's announcement on Monday of the decision on the Type 22 and Type 23 frigate orders.

2 One of them (247W of 29 January) from Sir David Price could provide the opportunity to give effect to that part of the agreement which recorded that, to minimise the adverse effects on Yarrow, it would be necessary to give a public assurance that the Type 23-03 contract would be let on the basis of the outcome of a fair competitive tendering process.

3 Sir David Price's question is a general one about the circumstances in which your Secretary of State will use open tendering procedures for orders for naval ships. Although my Secretary of State would accept that your Ministers would probably wish to give a fairly non-commital reply generally, he thinks it would be most helpful if a specific assurance on the Type 23-03 could be given. He suggests therefore that the reply should include a sentence on the following lines:

> "I can [however] give an assurance that it is my intention to let the contract for the frigate Type 23-03 on the basis of the outcome of a fair competitive tendering process"

4 I am copying this letter to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

Yours sincerely,
Maureen Dodsworth.

MAUREEN DODSWORTH JH2AFM
Private Secretary

PART 7 ends:-

CST to MSIDTI 31.1.85

PART 8 begins:-

DTI to MOD 4.2.85