

PREM 19/1871

PART 10

CONFIDENTIAL FILING

Shipbuilding Policy

Shipbuilding Pay

(2) BRIEFING FOR PM'S MEETING WITH SUNDBRAND DELEGATION
(and) in folder (1) THE Hill - Norton Committee
Report: Hull FORMS for Workshops.)

NATIONALISED
INDUSTRIES

PART ONE: MAY 1979

PART TEN: MAY 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
1.5.86							
2.5.86							
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ENDS

Material used by
official Historian
DO NOT DESTROY

Hill-Norton report on

Hull forms for Warships in

in a folder attached to rear of file.

PART 10 ends:-

R. Vaughan, Swan Hunter to PM

30.6.86

PART 11 begins:-

SS/DTI to PM

1.7.86

CC: HOP.

Swan Hunter Shipbuilders Limited

WALLSEND SHIPYARD · P.O. BOX 1 · WALLSEND · TYNE & WEAR NE28 6EQ
Telephone National Tyneside (091) 262 8921 Telex 53151
International +44 91 262 8921 53556

Your Ref
Our Ref rv/dr/0630/12

30th June 1986

Rt. Hon. Mrs. M. Thatcher MP PC FRS,
Prime Minister,
10 Downing Street,
LONDON.

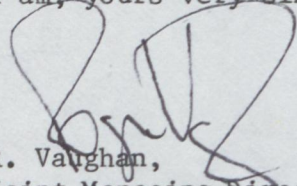
Dear Mrs. Thatcher,

We met Lord Trefgarne and John Lee last Wednesday to discuss the price for the second Type 23 frigate. We were offered a price (apparently having been artificially reduced by the cost of the Lead Yard Services contract) which would make a loss for Swan Hunter. We agreed to further consider our price for this single ship bearing in mind our wish to be competitive, despite contract terms which are unusually onerous.

We have therefore offered to match any commercial price for Type 23.03 actually offered by any other company subject to a floor price below which the contract becomes uncommercial. We believe that this totally fulfils the requirements of the Secretary of State for Defence when the order was promised to Swan Hunter. I attach a copy of our full response to Lord Trefgarne.

We have a further meeting with Lord Trefgarne on Tuesday 1st July and We urgently await a successful outcome of his deliberations.

I am, yours very sincerely,



R. Vaughan,
Joint Managing Director

Signed on behalf of the four Joint Managing Directors -
Alex Marsh, Peter Vaughan, Ken Chapman and Roger Vaughan

Swan Hunter Shipbuilders Limited

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Telephone National Tyneside (091) 262 8921

Telex 53151

International +44 91 262 8921

53556

Your Ref

Our Ref rv/dr/0630/11

30th June 1986

The Lord Trefgarne,
Minister of State for Defence Procurement,
Main Building,
Whitehall,
LONDON. SW1A 2HB

Dear Lord Trefgarne,

I am grateful to you for the time which you and your colleagues were able to spend with us last Wednesday in discussing the price for the construction of Frigate Type 23.02.

MOD formally classified Type 23.02 to us as a non-competitive contract in their telex of 1st March 1985. You have now received "best and final" offers for Type 23.03 as a single ship contract from three other builders and I therefore believe that the formula set out below allows a "fair and reasonable" price to be achieved for Type 23.02.

I believe that we made our position on the basis of the price clear, that is that we cannot accept that the price you offer us for Type 23.02 should, in effect, be the market price for Type 23.03 reduced by the value of the lead yard service contract for that vessel. Subject to the issues which we raise in this letter and agreement on outstanding contractual points we are prepared to make the following offer.

We will build Type 23.02 at whatever is the lowest, "best and final" offer for the Type 23.03 as a single ship contract which you formally received on 2nd June 1986 from any other Company in response to the ITT NSS 51B/1039 adjusted as necessary in the usual way for changes in the base date and other normal amendments (excluding for example, any element of lead yard services costs or VAT on long lead items) which you make in comparing bids, provided that this price is not lower than £55.8 million. Below this price level the business becomes uncommercial. We believe that this totally meets the spirit and intent of the Secretary of State for Defence's statement in the House of January 1985 in which he announced the award of frigates Type 22.13/14.

30th June 1986

The Lord Trefgarne

We also put our views to you on the subject of the lead yard services contract itself and in particular the way in which for the Type 22 series it has artificially impeded follow on builders. You gave us your assurance that we would be able to set out our detailed comments on lead yard services contracts to your Officials and therefore influence the content of this contract for the Type 23 and we have taken this assurance into account in our offer.

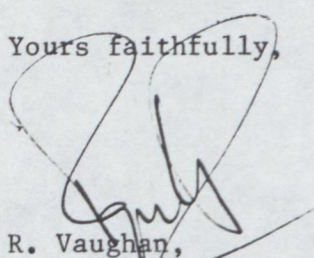
Turning to the issue of design uncertainty, it has proved impossible to properly assess the extent of this uncertainty and the Lead Yard has itself stated that it does not know the extent of the uncertainty. I must emphasise that the manner in which you require follow on builders to accept the impact of design uncertainty on their costs in turn demands that we have the opportunity to discuss areas of concern with both the Lead Yard and MOD at a time which allows us to successfully mitigate those costs. This is a precondition of this offer.

We look forward to discussing the final issues between us on the building contract for Type 23.02. The most important outstanding point relates to indemnity where we require to be indemnified at least to the extent of consequential costs arising out of any failure for any reason during tests, trials and commissioning.

We are unable at this stage to make any further comment on the price of Type 23.02 as one of a batch of orders to Swan Hunter until you are able to be firmer about the actual order package you intend placing. I would point out, however, that we have quoted Type 23.02 at £55.0 million if Type 23.02/03/04/05 are ordered from us.

I hope that the above offer for Type 23.02 as a single ship will prove satisfactory to you and enable you to announce the long promised order to Swan Hunter very quickly.

Yours faithfully,


R. Vaughan,
Joint Managing Director

Signed on behalf of the four Joint Managing Directors - Alex Marsh,
Peter Vaughan, Ken Chapman and Roger Vaughan

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Please
tell NIO, yes.

JLS
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10 DOWNING STREET

Prime Minister

The King is opening a
factory in a part of the
province which he doesn't
often visit. The engagement
was set up months ago, and
he is reluctant to break it.

A pity, because of the
Harland and Wolff aspects.

But content that the
King should be represented
by Dr Boyson?

Yes no

JLS
30/6.

CUBG

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From: THE PRIVATE SECRETARY

CONFIDENTIAL



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

David Norgrove Esq
10 Downing Street
LONDON

30th June 1986

Handwritten scribble

Prime Minister

Dear David,

*DES
30/6*

SHIPBUILDING

E(A) is to consider a number of shipbuilding matters next Wednesday. The Secretary of State will be unable to attend but with the Prime Minister's permission the Minister of State, Dr Boyson, would wish to attend in his stead.

MISC127's report records that a number of issues relating to Harland and Wolff - overheads study, flexible working, offshore and a review of 1986-87 financial performance - are to come to E(A) before the Recess. The company's studies sought by E(A) earlier this year should be available early in July and my Secretary of State plans to bring these forward by the end of that month.

I am copying this letter to the Private Secretaries to other members of E(A) and to Michael Stark in Sir Robert Armstrong's Office.

Yours Sincerely

Neil Ward

N D WARD

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CCSO



Minister of State
for Defence Procurement

D/MIN/DGT/4/1

MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

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

26 June 1986

Dear David,
more problems
Prime Minister 2
DLF
26/6.
ms

SWAN HUNTER

In John Howe's absence abroad with Mr Younger I am replying to your letter of 23rd June about Swan Hunter.

We are planning that Mr Younger will circulate a paper for the E(A) meeting on shipbuilding on 3rd July. This will cover both the detailed position with Swan Hunter on the second Type 23 and the outcome of the competition for later ships.

Unfortunately we did not receive a copy of Mr Channon's letter of 20th June until after you had written. There has, I am afraid, been some misunderstanding. The latest bid from Swan Hunter is, in fact, higher than the best alternative.

As suggested in your letter to Mr Vaughan of 18th June, Lord Trefgarne and Mr Lee met the company's Board yesterday morning. They emphasised that the Ministry of Defence was ready to place the order for Type 23-02 as soon as a satisfactory price could be agreed and detailed contract conditions tidied up; and indicated a figure which would be acceptable.

Mr Channon also mentioned the second AOR. As Mr Younger indicated in his statement in the House on 24th April we shall be discussing a contract with Swan Hunter later in the Summer. While the tender information from Harland and Wolff will provide a useful basis for negotiation, construction of this

/ ship ...

David Norgrove Esq.,
10 Downing Street

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ship could not begin until the full detailed drawings have been produced by Harland and Wolff. It remains our estimate, therefore, that construction will probably begin in 1988.

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

Yours sincerely,

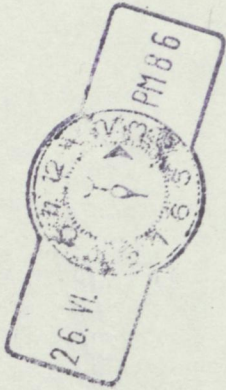
Crispin Harcourt.

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P 770



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 June 1986

Ack

I attach a copy of a letter the Prime Minister has received from Mr. G. P. Key, Chief Executive of Sunderland Council.

I should be grateful if you could provide a draft reply for my signature, to reach me by 9 July.

I am copying this letter and enclosure to John Turner (Department of Employment).

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

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from the office of the Chief Executive



Geoffrey Key

R25

G. P. Key, LL.B.
Town Hall & Civic Centre
Sunderland
SR2 7DN
Telephone 76161
Telex 537037

24th June 1986

Dear Prime Minister,

Thank you for seeing us yesterday.

I am sure that our discussions, with appropriate follow-up action both by your Ministers and my Council, will have helped to create a better basis to tackle Sunderland's current difficulties.

We are still, of course, very concerned about the uncertain future of our shipyards and we are greatly saddened that nothing can apparently be done to prevent so many jobs being lost over the next 12 months.

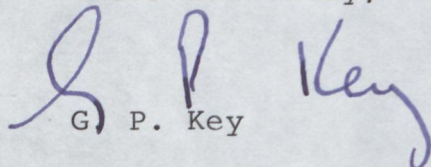
However, this has increased our resolve to fight back. We were much encouraged by your interest in and support for our proposals for the redevelopment of Deptford and North Sands, the refurbishment of our town centre and for our ideas on training. We shall be taking these ideas forward immediately. These and other projects will, of course, require the additional Urban Programme Derelict Land Grant and Urban Development Grant resources for which you promised ministerial support.

Equally, we face the challenging task of getting Sunderland on the institutional investors 'map' of Britain. We hope to do this by securing the support of financial interests in the City of London for our small public/private sector, 'Sunderland Economic Regeneration Team' (SERT). This will be the focus for the management of Sunderland's fight back.

Is there some way in which your influence could be used to secure this private sector interest in the town and also help obtain some short-term secondments to the new team? That would be very useful.

I hope that we may soon find an opportunity to review progress together.

Yours sincerely,


G. P. Key

Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister's Office,
10 Downing Street,
London SW1

NAT INO Shipbuilding PT10



From the office of the Chief Executive
General

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MR NORGROVE

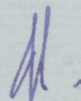
Shipbuilding

ATTACHED

Mr Unwin sent you on Friday an advance copy of the MISC 127 Report. You should receive tonight or early tomorrow the formal E(A) version (E(A) (86) 31). There are only two substantive changes reflecting late comments received from Departments. These are:

- (i) Paragraph 15, last sentence: clarification of the decisions Ministers will have to make about Harland and Wolff;
- (ii) Paragraph 76, final 5 lines: clarification of the cost to the Exchequer of unemployment.

The conclusions and recommendations are unchanged.



J E ROBERTS

Cabinet Office

24 June 1986



N.B.P. at this stage

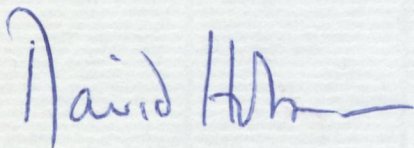
MR NORGROVE

23 June 1986

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

Richard Luce's paper suggests that help can be given to Departments "wishing to move from their existing location" to find where it would be best to go. The North-East needs to be shown some priority, and halfway down the list is not good enough.

We believe a little more pressure is needed, with targets given to certain Departments to move, say, 5-7½% of their total personnel to the North-East. Might not the Ministry of Defence be asked to set a lead in providing some "volunteers"? After all, their service personnel are mobile.



DAVID HOBSON

CONFIDENTIAL



hite *mf*
CCBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 June 1986

Dear John,

SWAN HUNTER

The Prime Minister saw Mr Channon's minute to her of 20 June about the revised tender put in by Swan Hunter for the second Type 23 frigate. She very much hopes that it will now be possible quickly to place the order with Swan Hunter.

I am copying this letter to the Private Secretaries to members of E(A), John Mogg (Department of Trade and Industry) and Michael Stark (Cabinet Office).

Yours,

David

David Norgrove

John Howe Esq
Ministry of Defence.

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file *see Prof Griffiths*
PCBHC

SUBJECT cc MASTER

10 DOWNING STREET

From the Private Secretary

23 June 1986

Dear Mike,

MEETING WITH SUNDERLAND DEPUTATION

The Prime Minister this afternoon met a deputation from Sunderland. The Sunderland representatives were as listed on the sheet attached. Your Secretary of State, the Secretary of State for Employment, the Parliamentary Under-Secretary of State for the Environment, Mr. David Coates (DTI) and Mr. Brian Unwin (Cabinet Office) were present.

The Prime Minister welcomed the deputation, noting that she received delegations of this kind very rarely. However Sunderland was special, in part because she had launched two ships built in Sunderland's yards.

Councillor Donnelly was concerned about the impact of the 925 redundancies which had been announced by British Shipbuilders at North East Shipbuilding Limited. With redundancies already in the pipeline the total could well be more than 1,000. There was a possibility that shipbuilding in the Sunderland area could cease. It would be difficult to replace the jobs which had been lost, though the Council had been making great efforts. The Sunderland yards were modern, with an adaptable and skilled workforce. The problems needed to be tackled with central Government. Councillor Donnelly felt that Sunderland was not receiving a fair deal in terms of urban aid money.

Bob Clay MP and others argued for an integrated national maritime policy, to be run by a maritime affairs committee of the Cabinet under the chairmanship of the Prime Minister. There was a need for a co-ordinated overview. This would have to be backed by higher subsidies and higher capital allowances (perhaps 50%) for British ship owners. Credit packages should also be improved and Britain ought to be able to offer financial packages as good as anywhere in

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the world. Public sector orders should be brought forward and a lead ship FSK 20/20 (the unarmed version of the AOR) should be ordered regardless of defence need in order to provide a basis for exports. The yards had to have orders within the next few weeks. Both Mr. Clay and Mr. Bagier MP pointed to the serious unemployment position in Sunderland. Support for shipbuilding would be cheaper for the public finances than allowing yards to close. (I enclose for you and the Department of Employment a copy of a report handed over by the delegation.) Further closures could mean the end of the shipbuilding industry generally: there was a point below which the industry would not be viable.

The Prime Minister doubted the need for a national maritime policy or for a new Cabinet committee. The real need was for orders and the Government was determined to fight for all those which might be available. The Government had offered support for soft loans to win orders from China and in discussions with Chinese Ministers she had pressed the case for Britain very hard. The Government would do everything it possibly could. It was of course important to keep a merchant shipbuilding capacity and a merchant marine. If British owners were compelled to buy British ships that would in turn make the merchant marine less competitive. It was not possible to say that the latest round of redundancies could be withdrawn. Otherwise the shipyards would not be in a position to take advantage of any upturn in shipbuilding orders.

Lord Young noted that it would be wrong for the Government to commit itself to better the terms available elsewhere. That would lead simply to a spiral of subsidies. But it was legitimate to aim to match the terms available elsewhere.

In discussion of available orders, it was noted that public sector orders for a fisheries protection vessel and a ferry had gone elsewhere. No others were in prospect that would be suitable for the Sunderland yards. There was an order in prospect for Danish ferries, but that possibility should be kept strictly private. Mr. Clay suggested that if British Shipbuilders won all the possible orders the relevant yards would not have enough capacity to take them. The Secretary of State for Trade and Industry suggested that it would be overly optimistic to plan on that basis.

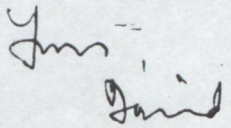
Bringing this part of the discussion to a close the Prime Minister said that the Government was doing all it possibly could to win orders and would continue to do so. The deputation could not say that the Government were optimistic about the prospects for further orders but they could say the Government was moderately hopeful. Councillor Donnelly expressed gratitude. The deputation would say that

the Prime Minister had listened to their views and that she accepted that the workforce were doing their best. It was a blow that the redundancies were not being withdrawn.

The meeting then turned to support for Sunderland. Councillor Brown asked that Sunderland should become a Partnership Area as Newcastle and Gateshead were. He pointed to lower unemployment in Newcastle than in Sunderland and to other benefits which Newcastle received. In reply, Sir George Young said the Government was studying the sharpness of the transition from programme status to partnership status. Sunderland could bid for Derelict Land Grant and would receive priority provided an end user of the land had been identified. There was scope for a link up between Sunderland and central government, perhaps with English Estates, to help the Deptford area. An action plan for the Deptford yard would be needed. Councillor Brown asked that North Sands should be included in this: the Council hoped to induce Nissan to use the North Sands port. (Sir George Young later undertook to consider whether Derelict Land Grant could be made available for North Sands.) Councillor Brown further noted that the Washington Development Corporation had provided invaluable help. There was now some difficulty in obtaining borrowing approval for two large factories. Sir George Young undertook to look into this. Councillor Brown noted that the Development Corporation would disappear in 18 months. Sunderland could not have a Development Agency but there was a need for an organisation to promote Sunderland. Lord Young undertook to consider the possibility of action to encourage managed workshops.

In further discussion Mr. Key said Sunderland would wish to try to link Weirside College with Nissan if phase two of the Nissan project went ahead. This would require money from the MSC. Lord Young undertook to follow this up with Mr. Peter Clark, the Regional Director. (I now understand that Lord Young intends to visit the area in July. No doubt the detailed points mentioned above will be followed up urgently so that so far as possible they are settled before Lord Young's visit.)

I am copying this letter to Chris Snell (Department of Employment), John Howe (Ministry of Defence), Richard Allan (Department of Transport), Neil Mitchell (Sir George Young's Office, Environment) and to Sir Robert Armstrong.


(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

PRIME MINISTER

MEETING WITH DEPUTATION FROM SUNDERLAND

This meeting is a follow up to your meeting with Mr. Clay in Newcastle in April. A list of those attending is immediately below (Flag A). People you met in April are marked with an asterisk.

A telex from the Chief Executive of Sunderland Borough Council is at Flag B. With the agenda they propose you could hardly do more than listen, for the most part.

The Sunderland area has two major shipyards: Sunderland Shipbuilders and Austin and Pickersgill, which constitute together North East Shipbuilders Ltd. Under the terms of the announcements made by British Shipbuilders on 14 May, 925 jobs out of 3,100 at North East Shipbuilders are to go. On the present order book work at Austin and Pickersgill runs out in December this year and work at Sunderland Shipbuilders runs out in February 1987.

You are of course aware of the possibility of a Chinese order. The briefing invites you to say that you were encouraged by what Hu Yaobang had to say but that this should remain private. I fear that if you were to say that, it would leak.

Your familiar Questions briefing on shipbuilding is at Flag C.

The main points are:

- i. the problem is (orders), not lack of support (£1½ billion since 1979). Shipbuilding all over the world is being cut back sharply. Our assistance matches that available in the rest of Europe;

- ii. we are bound by the OECD understanding on credit, except for soft credit for developing countries. We are ready to use ATP in appropriate cases and have offered it for the Chinese order;
- iii. the European Community is reviewing assistance for shipbuilding and we aim to ensure that UK interests are protected;
- iv. there is no point in a policy of scrap and build: scrap and ships would be replaced by ships currently laid up;
- v. not aware of any firm prospects for public sector orders which could be brought forward to help the Sunderland shipyards;
- vi. the recent record of shipowners placing orders in the United Kingdom is similar to that of most other European countries.

You will want of course to be sympathetic about the position in Sunderland and the North East generally. Points to make if necessary include:

- i. the North East already has the highest assisted area coverage of any area in GB at 97% of its working population;
- ii. DTI have spent over £800 million since 1979 in the North East on schemes of regional aid;
- iii. the region has three Enterprise Boards.

Mark Samer

PP. DN

20 June 1986

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PRIME MINISTER

DWS 20/6.

20 June 1986SHIPBUILDING INDUSTRY

Although once important the British Shipbuilding industry is now relatively small (42,000 people in total), and the likely scale of future redundancies is also regrettably small compared to, for example, mining. The decline in shipbuilding has been worldwide and no country has escaped; Britain cannot expect to stand against the tide.

Strategically there is no purpose in maintaining warshipyards to build ships in time of war if our stocks of ammunition, and the rest of defence planning, is geared to a far shorter period than it takes to build such ships. The defence requirement is, therefore, for only two or three war shipyards for regular building together with a ship-repairing capacity.

New ship designs - British shipbuilders' Fleet Support King or short, fat frigates - may be better options for the future, but even if decisions were taken today, new ordering would be unlikely to impact on shipyards this decade.

MISC 127 concludes that there really is no justification for switching from current policies. Employment measures should be targetted on to the shipbuilding towns where prospective unemployment will bite most cruelly, but for the merchant yards doing more is only likely to prolong the agony at great expense.

On the warshipyards there is a case for re-phasing the current ordering pattern which would otherwise cause the loss of 4,000 jobs over the next few years with a similar recruitment at the start of the 1990s. The net discounted

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cost of doing so is very small (£5m), but the short-term PSBR effect is some £300m.

What is vital is to end the present intense lobbying for each MOD order which inevitably leads to great disappointment and depression for those that lose, and adverse publicity for both Government and the shipbuilding industry. The best way to get out of this vicious cycle is to make an irreversible decision that all future MOD orders will go to the lowest tenderer whatever this means for the yards that lose out. Having taken such a decision we should say so publicly, because it is only then that the lobbyists will recognise that further public rows can achieve nothing.

Peter Warry

PETER WARRY

DEPUTATION FROM SUNDERLAND - 23 JUNE 1986

MPs

Mr. Gordon Bagier, MP for Sunderland South

* Mr. Bob Clay, MP for Sunderland North

Borough of Sunderland

Councillor J. Donnelly, JP

Councillor J. Connor

Councillor J.D.S. Brown (Conservative)

Councillor F.D. Hall

Mr. G.P. Key (Chief Executive)

Wearside Confederation of Shipbuilding and Engineering Unions

Mr John Spoons - Secretary

Mr Nick Wales - Vice Chairman

Austin and Pickersgill Joint Shop Stewards Committee

Mr Jim Baldwin - Member

* Mr Peter Callaghan - Secretary

Sunderland Shipbuilders Joint Shop Stewards Committee

Mr Cedric Morse - Chairman

* Mr David Stores - Secretary

* People you met - April.

Urban M...
- 2 Lyd...?

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REF 4/6
DATE 19.6.86

③ DUTY CLERK No 10. (B)
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TO MR. M. ADDISON
P/S TO THE PRIME MINISTER
10, DOWNING STREET
LONDON

SUNDERLAND BOROUGH COUNCIL: MEETING WITH THE PRIME MINISTER

I AM GRATEFUL TO THE PRIME MINISTER FOR AGREEING TO SEE THE
BOROUGH COUNCIL ON MONDAY NEXT AT 4.00PM.

THE COUNCIL WILL BE MEETING, BEFOREHAND, THE DELEGATION OF
MP S AND TRADES UNIONS WHO WILL ALSO ATTEND THE DISCUSSIONS.
IT IS OUR INTENTION THEN, BUT SUBJECT OF COURSE TO THE TIMETABLE
AND WISHES OF THE PRIME MINISTER, TO AGREE A STRUCTURE FOR
OUR LATER MEETING WITH HER, AS FOLLOWS:

- THE GENERAL SITUATION IN SUNDERLAND
- WHAT WE HAVE BEEN DOING ABOUT IT,
- IMMEDIATE AND FUTURE SHIPYARD REDUNDANCIES,
- PROPOSALS FOR THE FUTURE OF SHIPBUILDING, BOTH GENERALLY
AND ON THE WEAR,
- PROPOSALS TO IMPROVE AND DEVELOP THE TOWN'S ECONOMIC BASE

WE HOPE THAT THE COUNCIL'S IDEAS AND THOSE OF OUR FELLOW
DELEGATES WILL PROVIDE THE MAJOR FOCUS OF THE MEETING AND, AS
FAR AS POSSIBLE, SECURE THE PRIME MINISTER'S BACKING.

COUNCILLOR DONNELLY WILL BE THE PRINCIPAL SPOKESMAN FOR THE
DELEGATION.

G.P. KEY
CHIEF EXECUTIVE

27582 CABOFF G
537037 CIVSUN G

(C)

SHIPBUILDING

Other shipbuilding countries

The UK shipbuilding industry is not alone in facing difficulties.

The Swedes have effectively abandoned merchant shipbuilding - despite having some of the most modern facilities in Europe. Ten years ago second world leader with 35,000 workers: now closing down industry altogether.

In Denmark two-thirds of shipyard jobs lost in 10 years.

The Dutch government refused to support their industry to build the sister ship to the large North Sea ferry won by Govan.

The Japanese are having to adjust to the shortage of orders. They have been cutting capacity since 1976, and are now considering a reduction of one third in the larger yards. That would entail over 20,000 job losses out of 60,000.

In South Korea job cuts of 7,000.

The Germans have cut their capacity by half since 1976 despite widespread use of soft credit to finance sales to developing countries.

The French are also cutting capacity. But the cost of maintaining their yards is reported to be very high. They do not at present have an aid regime agreed by the Commission. The Commission is, as with all Member States' aid regime, concerned to see that the level of support to the industry is matched by commitments to restructuring.

20 June 1986

KK7/17a

International comparisons

In Japan job cuts likely to be 20,000 out of 60,000. In South Korea job cuts of 7,000.

Sweden

Ten years ago second world leader with 35,000 workers: now closing down industry altogether. In Denmark two-thirds of shipyard jobs lost in 10 years.

Labour Government record

- (i) Labour's support for shipbuilding amounted to £130 million compared with £1.5 billion since 1979.
- (ii) Labour had no answer to the problem of shrinking capacity. 20,000 job losses in merchant shipbuilding between 1974 and 1979.
- (iii) Labour policy of cancelling Trident would put 6,000 jobs in naval shipyards at risk.
- (iv) Problem of shipbuilding partly arises from excessive subsidy leading to excessive production. Labour policies are more of the same.

Eric Varley quote

As Mr Varley, former Labour Minister said:

→ || "The size of the industry ... depends ultimately on the ability of the industry to sell its product in world markets."

[Hansard 2nd December 1975, col 1448].

2nd June 1986

KK7/22

SHIPBUILDING GENERALLY

Points to make

- (i) Present state of shipbuilding industry not through lack of Government support - £1.5 billion since 1979.
- (ii) No point in scrap and build. Laid up tonnage is 40 million tonnes - more than twice world capacity to build of 18 million tonnes. In 1985 30 million tonnes of capacity was scrapped.
- (iii) No incentive for owners to build. Bulk cargo freight rates down one-quarter in last 10 years and tanker rates down by two-thirds.

Better (iv) [Public sector orders in prospect include fisheries protection vessel and Scottish ferry.] But public sector orders cannot be conjured out of thin air.
not to give examples - probably not suitable for Sunderland.

Naval orders

This year Government will spend more than at any time in the last 20 years on production of ships and equipment for the Royal Navy. Currently 25 ships are on order, equivalent to £3½ billion. Since last June orders have been placed for:

- 2 Hunt class mine countermeasures vessels
- 1 Sandown class single role minehunter
- 1 Trafalgar class nuclear powered fleet submarine.
- 3 Upholder class diesel-electric patrol submarines.
- 1 auxiliary oiler replenishment vessel, and
another announcement of 1 Trident submarine.

Value of these orders £1½ billion.



SHIPBUILDING ISSUES

Objectives

To endorse, as necessary, British Shipbuilders' decisions announced on 14 May.

To reassure the delegation that HMG is doing everything within the means available to help BS to secure orders but to make clear that it is on new orders that the future of the business must depend.

Introductory Note

We understand from British Shipbuilders that both the Sunderland local authorities and the men and their representatives are taking a very positive attitude in co-operating with North East Shipbuilders Limited to secure the future of the business. It is therefore unlikely that the Delegation will press for the 14 May decisions to be looked at again, even if at national level the Unions have yet to respond. Instead it is more likely that the Delegation will seek a reassurance about Government efforts in support of new orders and a commitment to the future of the Sunderland yards.

Briefing is arranged as follows:

- 1 - The shipbuilding market
- 2 - The future of North East Shipbuilders Limited
- 3 - New orders and our measures of support
- 4 - British Shipbuilders Enterprise Limited
- 5 - BNFL Order and the FSK 20/20

SHIPBUILDING AND ELECTRICAL ENGINEERING DIVISION 1
Department of Trade and Industry
19 June 1986



THE SHIPBUILDING MARKET

Line to Take

Last year the world shipbuilding market reached an unprecedented state of depression, even bearing in mind the problems of ten years ago. There is little sign of change so far this year.

Substantially the over capacity in shipping has meant a drastic fall in the demand for ships. None of the shipbuilding nations has been immune from the results of considerable over capacity in shipping and shipbuilding alike.

There is bound to be some strengthening in the market in the years ahead, if only because of replacement demand for present fleets. No one expects marked improvement until the 1990's.

Even when the 14 May measures are completely implemented, British Shipbuilders will have considerable capacity to deal with increased demand.

Background Note

The problems of shipbuilding largely have their origins in the state of the shipping industry and the financial health of shipowners. 1985 saw a series of financial collapses in the market and the situation does not look like improving in the



short term. Freight rates in the spot market remain too low to cover even operating costs; substantial shipping capacity remains laid up or substantially under-utilised (despite a record level of scrapping last year); and second-hand ship prices have continued to fall, prompting owners to seek additional purchases in that area rather than in new builds. The upshot of this is that there is some 30% + overcapacity in the world shipbuilding industry to meet current and expected demand over the medium term. Any upturn is not now expected before the 1990's.

This was the background to the BS decisions announced on 14 May. With only 23,000 compensated gross tonnes (cgt) of orders taken in 1985/86 (against their target of 200,000 cgt) and facing as a consequence an order book lasting only a few months and representing only about 50% of the Corporation's capacity, BS had to take a decision to reduce capacity. They did this in both terms of manpower and facilities in the form announced on 14 May. This will bring capacity more into line with expected demand over the next few years.

All other shipbuilding countries are similarly having to address this problem. Japan, for example, is expected shortly to announce a further 20% cut in shipbuilding capacity. Nearer home, Sweden has withdrawn from merchant shipbuilding.

The French have not escaped either. Their Normed Group, with three big yards, is to lose its operating susidy from next month. Heavy job losses, if not yard closures, seem inevitable.

DEPARTMENT OF TRADE AND INDUSTRY

18 June 1986



THE FUTURE OF NORTH EAST SHIPBUILDERS LIMITED (NSEL)

Line to Take

14 May decisions painful but essential in the face of market conditions. Those decisions have to stand to give the rest of the business a better chance.

BS is seeking to make NSEL one of the most efficient shipbuilders in Europe. I am sure you will do all you can to help.

The future depends on British Shipbuilders success in winning new orders. BS are chasing a number of new orders. The Government is giving them every possible support. But it is for BS and the workforce to succeed in making the new arrangements work.

Background Note

North East Shipbuilders Limited was formed in February 1986 to manage the remaining BS merchant capacity in the North East. The objective was to save costs. Initially only Austin & Pickersgill and Sunderland Shipbuilders, located opposite one another across the RiverWear, were to come under the common management of the new company. Since Smith's Dock at Middlesborough is to close, it will not join NSEL as previously planned.



Fact sheets about Austin and Pickersgill and Sunderland Shipbuilders are attached. The sheets show that work at Austin and Pickersgill is expected to run out in December 1986 with the completion of the second of two general cargo boats for a German owner and a large barge. At Sunderland Shipbuilders, the Stena Seawell, which the Prime Minister named on 25 April, is almost complete. Her sistership and a crane ship for ITM will both be complete by February 1987.

On 14 May British Shipbuilders announced the closure of Smith's Dock, the Troon yard of Ferguson Ailsa, and the Clark Kincaid enginebuilding facility at Wallsend. BS also announced a reduction in permanent employment to "economic manning levels" in each of its yards. 3,500 jobs in all will go by next March, 925 out of some 3,100 at NSEL.

It is known that BS discussed a range of scenarios with the Department of Trade and Industry before announcing their decision. Our Ministers have made clear that the decision was made by BS, and endorsed by them. The formal position with the Shipbuilding Unions is that they have yet to respond to the 14 May decision, which included proposals for changes in work practice and pay arrangements depending on success in implementing the new arrangements.

CONFIDENTIAL

MISC 127 is presently examining whether there is a strategic need for shipbuilding in this country. The Committee, whose Report is to be taken together with the BS Corporate Plan in E(A) at the beginning of July, is likely to recommend not so.

Question and Answer Briefing

WHAT IF BS WINS NO FURTHER ORDERS?

I very much hope they will win further orders. I do not share your pessimism. Clearly BS has to win new orders to continue in business.



VIABILITY OF BRITISH SHIPBUILDERS?

The 14 May measures must help to make BS more competitive, and should help them to win orders. They cannot however guarantee the future of BS.

IS THE REMAINING INDUSTRY TOO SMALL TO SURVIVE?

No. NSEL and the other yards have substantial capacity. The present measures will improve their competitiveness. In other countries and in the UK private sector far smaller shipbuilding units than BS or NSEL successfully provide a complete service for the types of ships they build. BS will continue to do same.

DEPARTMENT OF TRADE AND INDUSTRY

18 June 1986

AUSTIN & PICKERSGILL

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Austin & Pickersgill Ltd
 PO Box 38, Southwick
 Sunderland
 Tyne & Wear, SR5 2BJ
 Tel : 0783 486100

Facilities etc

2 Slips
 Multi-Purpose Standard Cargo Vessels
 (from 9,000 to 22,000 dwt)
 Standard Bulk Carriers (from 26,000 to 35,000 dwt)

Managing Director: Mr G H Parker

Constituency: Sunderland North

M.P.: Mr Robert Clay

Party : Lab

Others with)
 an interest)
)

M.P.:
M.P.:
M.P.:

Party :
Party :
Party :

Location: Sunderland

TTWA: Sunderland

Unemp Rate: 22.3%

Employment a)Vesting: 2906 b)1984/85 : 1781 c) Apr 86 : 1210

Redundancies a)Last Announcement: * b)Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss) (£m):	0.8	-5.87	-11.54	-8.95	0.4	-19.71	-8.03	
Turnover (£m):	45.2	45.8	50.4	65.5	61.4	27.1	22.0	
No. of Orders Taken:	3	2	8	12	-	2	4	1
Ships Completed:	8	11	7	7	6	3	5	4

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987			
	I	A	I	M	I	A	I	M	I	A	I	M
Contract No: 1431												
Owner: Liberia												
Ship Type: Multi King 22L												
Contract No: 1432												
Owner: Liberia												
Ship Type: Multi King 22L												
Contract No: 1434												
Owner: J P Knight												
Ship Type: N Sea Barge												
Contract No: 1435												
Owner: J P Knight												
Ship Type: Barge												

* Combined job losses at Austin and Pickersgill & Sunderland Shipbuilders were 923 and were announced on 14 May 1986.

SUNDERLAND SHIPBUILDERS

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Sunderland Shipbuilders Ltd
 PO Box 1, Pallion
 Sunderland
 Tyne & Wear, SR4 6TX
 Tel : 0783 670143

Facilities etc

3 Slips
 Standard Bulk Carriers (from 20,000dwt
 to Panamax size).
 Cargo Liners from 12,00 to 20,000 dwt
 Tankers, Product Carriers, Diving Support Vessels.

Managing Director: Mr E Welsh

Constituency: Sunderland North

M.P.: Mr Robert Clay Party : Lab

Others with) Sunderland South
 an interest)
)

M.P.: Mr Gordon Bagier Party : Lab
 M.P.: Party :
 M.P.: Party :

Location: Sunderland

TTWA: Sunderland

Unemp Rate: 22.3%

Employment a)Vesting: 4614 b)1984/85 : 2030 c) Apr 1986 : 1897

Redundancies a)Last Announcement: * b)Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss) (£m):	-5.23	-19.32	-0.62	-5.61	-1.81	-12.66	-4.87	
Turnover (£m):	98.74	47.60	55.77	59.32	58.55	50.11	52.17	
No. of Orders Taken:	-	2	5	5	4	4	1	-
Ships Completed:	7	6	6	4	3	5	1	2

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985			1986			1987		
	I	A	I	I	A	I	I	A	I
Contract No: 868									
Owner: ITM Offshore			B			L		C	
Ship Type: Crane Ship									
Contract No: 24									
Owner: Northern Coaster						L		C	
Ship Type: Diving Support									
Contract No: 25									
Owner: Northern Coaster						L		C	
Ship Type: Diving Support									
Contract No:									
Owner:									
Ship Type:									

* Combined job losses at Austin and Pickersgill & Sunderland Shipbuilders were 923 and were announced on 14 May 1986.



Line to Take

The problem facing BS is orders, not our measures of support.

ON MEASURES OF SUPPORT:

UK assistance is geared towards direct production aid through the Intervention Fund. Some other EC countries may have more generous credit terms. Taken as a whole, our assistance matches that available in the rest of Europe.

On credit we are bound by the terms of the OECD Understanding. As Mr Clay knows, the exception is soft credit terms for developing countries where the rules of our Aid and Trade Provision are met. We are ready to use ATP in appropriate cases and have offered soft credit terms for the Chinese order BS is pursuing.

ON NEW ORDERS:

Understand BS is quietly optimistic about a number of major orders. It must be for them to decide where ships are built but NSEL will obviously benefit if they are successful.

We are giving our full support.

On China, I met General Secretary Hu Yaobang and Vice Premier Li Peng on their recent visit to London. I will tell you privately that I was encouraged by what they had to say. But it



doesn't do to talk too much about commercial matters when delicate negotiations are in hand.

Background Note

Throughout the handling of the 14 May announcement, Ministers have emphasised that it is orders, not our support for them, which is at the root of British Shipbuilders' difficulties.

On orders the Chairman of British Shipbuilders Phillip Hares told the Select Committee on Trade and Industry on 18 June that BS was optimistic about a number of major orders including two or more container vessels for a Far East country, by which he meant China; four or more cargo vessels or an owner BS already knows well, by which he meant Cuba; a number of Rollon Roll-off vessels for a European owner, on which an announcement may be possible later this month though not by 23 June. Mr Hares also mentioned a number of ferries, though these are relevant to Govan rather than NESL. The Prime Minister may wish to refer to her talks with the Chinese while, as above, indicating reticence about particular orders in the interests of commercial confidentiality.

On our measures of support for individual shipbuilding orders the Prime Minister will recall being pressed by Mr Clay when she visited Newcastle to name the Stena Seawell. A record of that meeting and her subsequent letter to Mr Morse, the Chairman of the Sunderland Shipbuilders Joint Shop Stewards Committee, who is to attend this meeting, are overleaf. This contained a brief statement of our subsidy regime, and the flexibility available within it.

The letter to Mr Morse, who was concerned with the fairness of competition, also raised the issue of the aid arrangements within the EC which are to follow the Fifth Directive, due to run out at the end of the this year. The Prime Minister said she was glad the Commission would make proposals on the basis of a review of all assistance to shipbuilding in Member States. The Commission has yet to make proposals but the work on the inventory is well advanced. At the Industry Council on 9 June Peter Morrison made clear the priority the UK in our Presidency would give to establishing a Sixth Directive to come into operation on 1 January 1986.



In winding up the special shipbuilding debate on 21 May Peter Morrison said three specific points the opposition wanted the Government to look into were under review: bringing forward public orders, improving the package of support and looking at what can be done for British Shipbuilders. They are referred to below.

QUESTION AND ANSWER BRIEFING

FLEXIBILITY OF THE INTERVENTION FUND

The EC has made it clear that they will consider allowing support above the usual 20½% percent maximum. But no case has arisen requiring a reasonable increase. Neither the Government nor BS is prepared to pursue orders regardless of cost.

SOFTER CREDIT? MATCHING CREDIT? LONGER CREDIT? PRIME

MINISTER'S UNDERTAKING ON CREDIT TERMS?

We are bound by the Fifth Directive on shipbuilding aids to the credit terms in the OECD understanding. It is true some Community countries are allowed more generous terms;



but their direct production subsidies are lower. The exception is soft credit terms for developing countries where the rules of our aid and trade provision are met. We are ready to use ATP in appropriate cases. We have recently offered soft credit terms to the Chinese for an order being pursued by BS.

GOVERNMENT SHOULD APPLY TO THE COMMUNITY FOR CRISIS AID

We did so in 1984 when we sought the Commission's agreement, secured last year, to an increase in Intervention Fund arrangements. Future arrangements will depend on the Community regime to follow the Fifth Directive on which negotiations will start shortly. We are pleased with the preliminary progress being made.



WHAT WILL FOLLOW THE PRESENT FIFTH DIRECTIVE ON SHIPBUILDING

AIDS

The Commission has yet to make proposals. As I promised Mr Morse in a recent letter, we want the new arrangements to be as favourable as possible to UK interests.

GET UK SHIPOWNERS TO BUY BRITISH

Of course we hope UK owners will always consider placing orders in UK yards. Most of them already do. Their recent record is similar to most other European countries - only about a third of orders measured in compensated gross tonnes are placed outside the UK. But it would be most unwise to oblige them so to do. They also face fierce international competition and must retain the freedom to buy from the sources that give their businesses the best opportunity to compete.



SCRAP AND BUILD

I know there are those who are attracted to such proposals. Ship scrapping was tried in this country in the 1930's, but history has not judged this scheme to have been a success. More recently, we tried to achieve agreement in the Community on a Community wide scheme, but without success. Do not believe scrap and build is relevant to present situations. Any ships in operation that could be considered for scrapping would be replaced by ships currently laid up - not by new build.

BRING FORWARD PUBLIC SECTOR ORDERS?

I am not aware of any firm prospects that could help NSEL.

IMPROVE SUPPORT PACKAGES/HELP FOR SHIPOWNERS

We are talking to shipowners with the interests of the Sixth Directive in mind. We are determined the Directive should suit our interests

RECEIVED
20 MAY 1986



424/05
- to [unclear] (vj) - [unclear] 20/5
[unclear] [unclear] (007)
[unclear]

10 DOWNING STREET

THE PRIME MINISTER

For Information

19 May 1986

- Mr Coates
- PS/PM
- PS/SB
- PS/Su. Sec.
- Mr Mountfield
- Mr Ramsay
- Mr Fowler
- Mr Devie
- Mr Rickford
- Mr Whithipdale
- Mr Brown IFRM

- Mr Simpson / NCL
- Mr Hoddinott

Dear Mr. Horse.

I was very glad to have the opportunity to meet Mr. Clay and representatives of the Trade Unions when I visited Sunderland on 25 April, and to receive your letter of that date. It was a memorable day, and one of which Sunderland Shipbuilders can be justly proud. The Stena Seawell is proof of what Sunderland Shipbuilders can achieve.

You ask for aid to secure new orders. Where there are orders suitable for the Sunderland Yards, of course we must seek to win them, though we have to operate within the framework of rules established within the European Community to prevent a senseless bidding up of aid.

We are bound by the Community to the terms of an OECD Understanding about credit, except where Aid and Trade provision criteria for Development Aid are met. In such cases we are ready to match other countries' terms. The Chinese order discussed on 25 April is a case in point. I hope we succeed in winning it.

/Some of our

27 MAY 1986

1/36

Some of our partner countries in the Community have credit terms that are more generous than the OECD Understanding: but the value of their direct aid within the EC rules is commensurately less than ours. As you know, UK direct support from the Intervention Fund is up to 20.5 per cent of contract price.

The Commission has said that it is prepared to allow some flexibility in matching Far East prices in exceptional cases, though BS has yet to identify an opportunity to take advantage of this exception at a realistic level of support. Were such an opportunity to come along, I am sure it would be looked at most carefully. But the lack of opportunities in this area illustrates all too clearly the fundamental problem facing BS: there are not many suitable orders around to be won. No amount of aid can secure orders that are simply not there.

As you know, the Commission is now holding preliminary discussions on the aid arrangements to follow the present Fifth Directive, which runs out at the end of this year. I can promise you that we want the new arrangements to be as favourable as possible to UK interests. I am therefore particularly glad that the Commission will make its proposals on the basis of a review of all assistance to shipbuilding in Member States. As you say, we want a fair market, and I know the Commission is looking carefully at the difference between Far Eastern and competitive EC cost levels.

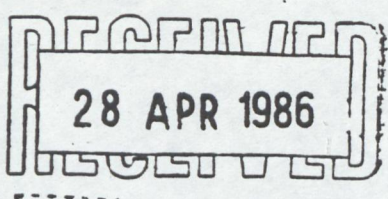
I do appreciate how important shipbuilding is to Sunderland and to other parts of the country. We are doing what we can.

Yours sincerely
Margaret Thatcher

C. Morse, Esq.

File 511/05/04

For Information



Mrs Overton
2 Feb



10 DOWNING STREET

Mr Coates

30/4

25 April 1986

From the Private Secretary
Mr Brown FRM

Dear Mike

M. [Signature]

Dr Murray

1/5

The Prime Minister held a meeting today at Newcastle Airport with Mr. Bob Clay, M.P., Mr. T. Carty (Boilermakers Union District Delegate), Mr. D. Storrs (Secretary, Sunderland Shipbuilders Joint Shop Stewards Committee) and Mr. P. Callaghan (Secretary, Austin and Pickersgill Joint Shop Stewards Committee) to discuss the prospects for the shipbuilding industry in Sunderland. Mr. David Durie (Department of Trade and Industry) was also present.

Mr. Clay said the existing orders for ships in Sunderland would provide work only up until the end of the year. The yards faced immediate redundancies and lay-offs, even if fresh orders were secured tomorrow. In addition to the 3,000 jobs directly involved, a further 6,000 in Wearside were dependent on the yards. The area already had a very high unemployment rate. He appreciated the national concern about jobs on Tyneside. But Wearside faced similar problems, if not worse ones. An unemployment catastrophe loomed. This, in yards whose record of building orders to cost and to time was well established. Once the associated skills and traditions were lost to the area, they could not be regained. It was time for the Government to help, with softer credit, a scrap and build policy and extra subsidy. In particular, he urged the Prime Minister to see that orders for ASKs were placed in Sunderland, and he deeply regretted that BNFL had decided not to place their recent order in the UK.

Mr. Carty said Sunderland was totally dependent on shipbuilding. The male rate of unemployment was already 42 per cent. It had the most modern yard in Europe, had diversified into building the most sophisticated vessels, and the unions had negotiated the introduction of new technologies and overcome demarcation problems. Sunderland's industrial relations record was good. The industry could match the Japanese in speed of work and productivity. What was needed were orders. He reiterated that the Government should provide easier credit facilities, a scrap and build policy and provide incentives for British firms to build in British yards. The Government should also consider building for stock.

Mr. Storrs confirmed that the existing order book would take the yards only into early 1987. The men who had worked on the first Stena Seawell vessel would have nothing to go

4/30/86

FS6

1/232

06 MAY 1986

on to when that was concluded shortly. There had been no new apprentices for two years. The new skills which had been learned needed to be passed on. The men in the yards had done everything to justify fresh orders.

Mr. Callaghan underlined the points made by his colleagues. The social consequences for the town if shipbuilding collapsed would be devastating.

The Prime Minister said she appreciated the deep concern of Mr. Clay and his colleagues. The fundamental problem was a shortage of orders. She wished she could pull them out of a hat. But she could not. Indeed, British Shipbuilders' orders now amounted to only one-tenth of the level expected. The trouble arose in part because of over-buying worldwide, as a result of heavy subsidy. The key point was to be competitive to attract those orders which were available. Sunderland's work on the Stena Seawell, which she was naming that afternoon, was a major achievement, though she understood the disappointment that lower oil prices had prevented a third order being placed. The prospect of orders from China represented the best hope for Sunderland. She knew British Shipbuilders were chasing those hard. The Government had informed the Chinese that the special credit facilities agreed could be used for the two ships in question.

The Prime Minister appreciated the importance of trying to match the level of support provided by other countries, including Europe. This was not easy; matching on the specific project itself was one thing, but providing the sweeteners on the associated work was another matter. The Government had also pressed for support from the intervention fund to be increased. The Government would continue to do everything it could including through the use of Aid and Trade provision where possible. On the Chinese order, however, she could not promise an early result. China was notoriously slow in these matters. On Fleet Support Kings, she paid tribute to Sunderland's design work on this vessel. She could not be optimistic, however, that orders would be forthcoming, though the Government would continue to look at the matter carefully. On the BNFL ship, she noted that the Japanese price simply could not be matched; and requiring BNFL to place their order here would have had wider and unacceptable commercial repercussions. The Government stood ready to help with the anti-dumping case being brought against Mitsubishi.

The Prime Minister thanked Mr. Clay and his colleagues for coming to see her and for the courteous but forceful way in which they put their points. If they wished to pursue them further in London she hoped they would approach Ministers in the Department of Trade and Industry. But she was ready to consider a further meeting herself if they wished.

I am copying this letter to John Howe (Ministry of Defence).

Le
Mark Addison

(Mark Addison)

Mike Gilbertson, Esq.,
Department of Trade and Industry



BRITISH SHIPBUILDERS ENTERPRISE LIMITED

Line to Take

We all regret 925 jobs had to go from Sunderland in the interests of the future of NESL. British Shipbuilders new enterprise company, which begins work on 1 July, has the objective of finding new employment for each and everyone of those made redundant, or putting them in the best position to get a new job. The new company is being given £5m itself, and can call £1m from the Manpower Services Commission to help with training. I wish it every success.

The success of BSC industry and the NCB Enterprise Company are most encouraging. BSC industry has created some 30,000 jobs in seven years of operation and expect a further 20,000 jobs to follow in firms already assisted. NCB Enterprises believe it has created 6,400 jobs in its first eighteen months, and has another 5,800 in prospect from work already done.

Background Note

In addition to the formation of the British Shipbuilders Enterprise Limited, the 14 May announcement included a further £4m of general support for employment related measures in the North East.

British Shipbuilders has pressed ahead with the arrangements for BSEL. The headquarters are to be in Middlesborough. Councillors will be present in all yards from 1 July. It has been agreed, but not announced, that BS will make training allowances



available at the same net take home pay as its nationally agreed lay-off scheme. Arrangements are being made for BSEL to collaborate most closely with other enterprise agencies in the North East, but to complement not reproduce their services. Money has been specifically earmarked to help with the formation of new businesses.

DEPARTMENT OF TRADE AND INDUSTRY

20 July 1986



BNFL ORDER AND FLEET SUPPORT KING

Line to Take on BNFL order

I understand that British Shipbuilders has secured the support of the Association of Western European Shipbuilders in bringing a case against Mitsubishi, and has already had preliminary discussions with the European Commission. As in all such cases, we stand ready to help where we can.

Line to Take on Fleet Support King

Sunderland Shipbuilders are to be congratulated for their part in developing the design of this very interesting naval auxiliary. Understand the Royal Navy does not have a requirement for a new vessel of this kind at present. But know it has been studied with interest by the Ministry of Defence and that British Shipbuilders are actively promoting the vessel in a number of Commonwealth and other countries.

BACKGROUND NOTE

British Nuclear Fuels Ltd (Loss of Fuel Carrier to Japan)

Sunderland Shipbuilders was the lead yard for BS tendering for this contract. It was lost this February to an apparently below cost bid from Mitsubishi. The price difference was such that the Secretary of State for Energy (the sponsoring Department for BNFL) felt unable to prevent the company accepting the Japanese bid on commercial grounds. Bs are, with DTI support, now actively pursuing through the EC Commission an anti-dumping case against the Japanese.

Fleet Support King (FSK)

Sunderland Shipbuilders (along with Govan in Glasgow) are taking the lead on the design of the FSK, an un-armed naval replenishment-at-sea vessel, for which BS is hoping for both home and export orders. The genesis of the design was BS's perception of a market gap for this sort of vessel, replacing ageing auxiliaries at nearly half the price of the sophisticated, armed Auxiliary Oiler Replenishment vessels (AORs).

/Cont



The MoD however, take the view that they have no place for this type of vessel within their present programme. There may, however, be a requirement for it in the longer term as a complement to the current AOR programme. In such an eventuality, however, MoD Ministers have told the House that the tender would need to be open to all relevant UK yards.

Department of Trade and Industry

18 June 1986

CONQUEROR



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ISSUES OTHER THAN SHIPBUILDING LIKELY TO ARISE

Northern Development Company

[At a meeting on 22 may the NDC informed SOS DTI that they had been encouraged by the PMs view that regional organisations get their act together and win more developments for the region.]

Welcome the willingness of those in the region to work together. Understand that NDC are preparing a paper for SOS DTI outlining plans which he has agreed to discuss with colleagues.

Transfer of North of England Development Council to NDC?

SOS DTI will consider proposals when NDC submits them.

Urban Programme

Why has Sunderland received £3.17m UP resources for 1986/7 when Newcastle/Gateshead Partnership is getting £17.2m?

Policy is to give Partnership areas more UP resources than Programme authorities because in general Partnership areas are more deprived.

DoE Ministers currently considering whether there should be more flexibility in allocating resources to authorities to reflect and reward good performances and changing needs.

Use of UP resources for infrastructure and environmental works in the Port of Sunderland

Not appropriate to aid schemes specifically intended to help one port compete with others for port related business especially in view of the current over-capacity on the east coast. SoS Environment told the council in January that he would consider UP for general infrastructure, road access and environmental improvements which help to open up the Port area for new non-port related uses. Same would apply to Urban Development Grants for Private Sector projects.

Review of Regional Policy

Currently undertaking a review of some administrative aspects of the policy. No change to the policy itself. The North East already has the highest Assisted Area coverage of any area in GB at 97% of its working population.



Housing Investment Programme

Sunderland's 1986/7 allocation of £5.02m is the lowest of the NE Metropolitan Districts

Sunderland is the only authority in the Northern region not to receive a lower allocation for 1986/7 than last year.

Council application for additional resources under the DoE's Urban Housing Renewal Unit initiative for the refurbishment of run down council estates still under consideration.



POSITIVE POINTS ON THE REGION

(a) THE ECONOMY

- Notwithstanding the recent upsurges **Redundancy** announcements are over **40%** down on 1981 levels. Vacancies have more than doubled since 1981.
- **New industrial activities** with major growth potential (light engineering, electronics, fine chemicals, pharmaceuticals) have lessened the region's dependence on declining industries.
- Former "one industry" towns eg Schildon and Consett are showing an **increasing diversity of activities and entrepreneurial spirit.**
- Important niches are being carved in **leading edge technologies** such as biotechnology and advanced materials.
- The region has benefitted from continued growth in **North Sea related activities and the retail trade.** However the falling price of oil has resulted in uncertain prospects for further orders for the regions fabrication yards.
- The number of **self-employed people** now stands at 96,000, 25% higher than in 1979.
- **New firms** are being created at a rate of over 6,000 a year, comfortably exceeding business failures.
- A particular focus of **Industry Year 1986** is the encouragement of entrepreneurship particularly among young people.

Modernising and Broadening the Region's Industrial Base

- Helped by government aid of over £35m since 1979 encouraging the production and use of new technology, the region is becoming **less reliant on the old industries and processes** and more reliant on the newer industries. Also the older industries are increasingly using up-to-date technology.
- The region's industrial base is also being broadened by **inward investment** (eg the pharmaceuticals industry hardly existed 10 years ago but now employs over 5,000 people). Since January 1985 there have been **16** successful inward investment cases creating or safeguarding 2,500 jobs.



Institutions, both public and private in the region covering areas such as applied R & D and technology transfer (eg Newcastle Technology Centre, Durham Mountjoy Centre, the Middlesbrough CadCam Centre and Whessoe Technical and Computing Systems).

- The DTI Regional Office is bringing together industrialists, academics, trainers etc involved in potential growth areas (eg Offshore Technology, Biotechnology, Advanced Manufacturing Technology) into **Sector Working** groups to jointly consider problems and opportunities.

(b) DTI COMMITMENT TO THE NORTH EAST

- 97% of the North East working population lies within **Assisted Areas** eligible for schemes of regional aid compared with only 35% nationally.
- DTI has spent over £800 million since 1979 in the North East on its schemes of **regional aid (Regional Development Grant and Selective Financial Assistance)**, related to the creation or safeguarding of over 79,000 jobs.
- Up to £868k worth of grant is available to the **North of England Development Council (NEDC)** in 1986/87 enabling it to expand its programmes of promotional activity on behalf of the region. This represents a 14% increase on last year.
- Cleveland, Tyne and Wear and most of Durham have been designated **steel and/or shipbuilding closure areas** thereby benefitting from ERDF Non-Quota help for small firms. Since its inception in 1981 the region has been allocated almost £8m.
- **English Estates** will be able to spend £32m this year in Assisted Areas, with Government providing £12.6m grant-in-aid, 20% up on last year. The balance of spend will be raised from rents and sales. Around 34% (£11m) is expected to be spent in the Northern Region. A newly formed subsidiary of English Estates to handle its activities in the North East and Cumbria will allow it to make an even greater contribution to the economic development of the region by responding more effectively to the particular problems and needs of the area.
- The region has 3 **Enterprise Zones** enjoying rates, tax and planning benefits (Hartlepool, Middlesbrough and Newcastle/Gateshead).



GOOD NEWS

Sunderland

The Nissan development still buoys up the area with 500 immediate jobs and long term potential for 2,700 jobs. There is also the prospect of additional business for local companies and the possibility of further inward investment by specialist suppliers.

Superbadge, Washington (Hong Kong based Knitwear manufacturers) are to create 120 jobs.

Ikeda Bussan (Japan) in partnership with Hoover Universal Ltd have taken a 42,000 sq ft factory to manufacture seats and interior panels for Nissan's Bluebird car production, creating 50 jobs.

Rolls Royce, Sunderland are to take on 30 extra workers.

Perlos, Washington is the Finnish company to set up in the region and will manufacture plastic components creating 30 jobs.

NEK Cables (Norway) is extending its factory and will create an additional 140 jobs over 3 years.

A leading clothing company is opening its third factory in the North East at Washington and creating 80 jobs.

North East

The new Metro Centre complex at Gateshead has opened its first store. The £150M Centre which is the largest shopping development of its kind in Europe is expected to create up to 6000 jobs in the region, the official opening is scheduled for October.

A garden festival similar to the one held in Liverpool is planned for Gateshead in 1990. Expected to run for 5 or 6 months it will have exhibitions of plants, gardens and leisure pursuits. The object of the festival is to reclaim and landscape derelict land, at the end of the festival some land would be developed for housing and much would remain as park land. About 500 will be employed during site preparation and at least 200 for servicing visitors.

Newcastle City Council have bought a 70 acre site on the River Tyne to be called the Armstrong Centre. This will encompass a retail park, leisure complex and business park. The £46M complex is still having problems with financial backing however if it proceeds it should create 1700 jobs by 1991.



A £157M development scheme is planned for the Tees corridor, an application has been lodged under the ERDF rolling programme, if successful £45M will be spent in 86/87 on changing the image of the area to attract new jobs.

A £15M project to convert a derelict shipyard into a riverside village at Hebburn is set to provide 750 jobs (2/3 rds will be CP workers). The development is a partnership between local government and private enterprise. The scheme includes plans for a maritime museum, a marina and a river front promenade.

Cummins Darlington have commenced production of truck engines at their new £13.5m factory at Darlington. 150 additional people will be employed when the works is in full production.

Darlington and Simpson Rolling Mills has won a £4m contract from Iraq (May 86). The Darlington company will supply hot rolled special profiles for the manufacture of steel windows.

Komatsu of Japan forecast 270 jobs at their new earth-moving equipment plant at Birtley.

Black and Decker are to open a new plant at Spennymoor creating 270 jobs.

NSK Bearings Peterlee is doubling the size of its factory creating 247 jobs.

Tabuchi Electric Japanese owned microwave oven component manufacturers, have moved into a £1m factory at Thornaby, Cleveland and will employ 100 people within the next few months.

Glaxo have built a £20m extension to their plant at Barnard Castle, Co Durham. The new plant incorporates the latest technological advances in the production of the next generation of antibiotics.

Multi-Arc (UK) Ltd Consett have invested a further £500,000 in a new titanium nitride coating plant. The company which aims to prolong the life of cutting tools and machinery parts has increased sales by 100% since May last year.

Mallinson-Denny (Northern) Ltd, timber merchants, have announced (April 1986) an £8m expansion programme to create 200 jobs. The expansion means a huge increase in the amount of timber imports through the Tyne Dock at South Shields where a further 10-15 jobs will be created.

Adtrack (reports on advertising strategy and expenditure), Davy Forge (ferrous and non-ferrous forgings) and House of Hardy (quality fishing tackle) received Queens Awards for Export in 1986. There are around 1200 exporters in the North East.

(D)



PROPOSED USES FOR SHIPBUILDING CLOSURE FUNDS

(£1M Derelict Land Grant, £2m Urban Programme, £1M MSC, £5m British Shipbuilders Enterprises)

Sunderland Borough Council and other non-public agencies have been approached in order to discuss how this cash could be used to best advantage. The three major schemes to come forward so far in Sunderland are:

(a) MARI (Microelectronics Applications Research Trust Ltd): two projects to establish an advanced telecommunications centre *providing up to 54 jobs by 1988.* and a 'Start' centre to provide IT training for new businesses. Both would be located in the restored Webster's Ropery on the Wear, which has already been restored with £0.8m Urban Programme funds.

(b) Project North East and Entrust: a joint project using new premises in the centre of Sunderland. Entrust is the local enterprise agency and Project North East is aimed at spreading the opportunities and skills in self employment and small business for young people.

(c) Additional workshop accommodation for small businesses.

Sunderland's bid for the extra resources has just been received and decisions will be taken quickly by DOE Ministers.



SUNDERLAND BOROUGH COUNCIL

Sunderland Council area is the largest district in Tyne & Wear with a population of 297,000, of whom 55,000 live in Washington New Town. The workforce is around 130,000 with a total of 173,000 in the Travel-to-Work-Area.

Sunderland is a Development Area and a Programme Authority. It is eligible for European aid both as an Assisted Area and as a shipbuilding Closure Area.

Councillors:	Labour	59
	Conservative	11
	Liberal/SDP	5

The labour-dominated local authority is lacking in vitality and is inward looking. Efforts to involve the private sector in development have been half-hearted; and offers of assistance from outside agencies (DOE, DTI) in framing new proposals have, in the past, been ignored. There is a general chip on the authority's shoulder, namely that they have been unfairly treated where Government help is concerned, in comparison with Tyneside and Cleveland. Sunderland have threatened to leave the newly formed Passenger Transport Authority following the County's abolition, largely because the METRO railway system only covers the other 4 boroughs.

There are no projects of any great merit coming through in Sunderland, unlike Tyneside with the Metrocentre, the 1990 Garden Festival and numerous major Urban Development Grant developments.

Sunderland needs to attract some of the major voluntary agencies in the region and to encourage the private sector. DTI and DOE regional officials have offered the setting up of a team with the local authority to establish a Sunderland Action Plan - we suggested that it include also MSC, English Estates and local enterprise agencies under a private sector chairman. This would help in better targetting of existing help and encouraging new projects to take account of grants - on request, such as Urban Development Grant (from DOE) and Regional Selective Assistance (from DTI).



The local authority have, in the last few days, identified the British Shipbuilders' Deptford yard as the major inner city resource they would like to develop. This extends to 35 acres, although BS may wish to retain their large shed (see map). Our rough estimate is that it would require £10m to clear the dereliction and a further £20m to develop. The Government could only apply its share of resources of this magnitude if there were real prospects of the private sector taking up the development. If a private developer were to come forward the new Urban Regenerating Grant, being introduced in the current Housing and Planning Bill and available directly to developers, might provide a way forward. Sunderland must apply its mind to how they are going to achieve development of this site. DOE, DTI, English Estates stand ready to help.



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PERSONALITIES

1. Councillor John Donnelly - Deputy Leader (Labour)

Deputy Leader and Chairman of Management, Policy and Resources and Shipbuilding Committees. An ex-miner. A moderate who is a major figure in the authority. He appears ready to do business with the private sector (he is also chairman of Newcastle Airport) but is unsure how to achieve this. Of all those in the Labour Group he is the most ready to take a pragmatic line; and to deliver the local authority's contribution to any new initiative. Has close links with the Association of Metropolitan Authorities.

2. Councillor J Connor (Labour)

A shipyard worker at Austin Pickersgill on the Wear. Not chairman of any major committees and probably invited to attend because of his shipyard experience and background. Not notably moderate.

3. Councillor Tim Brown (Conservative)

Conservative spokesman on industry and the economy in the Council. Not leader of the Conservative group but very prominent. A local solicitor.

4. Councillor F D Hall (Liberal)

A shipyard worker at Swan Hunter on the Tyne. A leading local Liberal but not known to be influential. Again likely to have been chosen because of his shipyard background.

5. Geoffrey Key - Chief Executive

Mr Key is head of a relatively under-powered group of officers.

The authority's style is generally to raise problems and to deposit them in the lap of central government, with no suggestions of their own how to achieve positive progress.



SUNDERLAND - BACKGROUND NOTE

<u>% Unemployment</u>	April 86	May 85 - April 86
Sunderland	19.1	19.0
North East	22.3	22.2
All Development Areas	20.1	20.0
All Intermediate Areas	16.5	16.4
GB	13.6	13.4

Redundancies

Redundancies Jan - Dec 1985

Agriculture, forestry and fishing	-	0
Energy and water supply	-	3857
All manufacturing industries	-	14923
Construction	-	2658
All service industries	-	3396

24,834

Notified redundancies having taken place

Quarter ending March 1986 - 3473 *

Recently announced redundancies not included above

Swan Hunter	Wallsend	possible	1000
Smiths Dock	Middlesbrough		1300
Clark Kincaid	Wallsend		360
Austin & Pickersgill	Sunderland		360
NEI Nuclear Systems	Gateshead		75
NEI Parsons	Heaton/Gateshead		790 (news item)
Press Offshore Ltd	Wallsend		108 May 86
ICI	Billingham/Wilton		250 (news item)
* Bates Colliery	Blyth		900 closed 23 May 1986

* included in total

HH WOOD

GATESHEAD



Regional Assistance

Over £77m since 1979 creating or safeguarding 12,400 jobs.

Regional Development Grant Nov 84 - mid June 86

	North East	Sunderland
Payments	£13m	£2.6m
Jobs created	4795	1131

Regional Selective Assistance

	North East	Sunderland
No. of projects	158	18
Offers	£28.8m	£5.7m
Jobs created	5981	1144
Jobs safeguarded	3735	435

Business Improvement Services

£600,000 since November 1984.



DoE Grants and resources to Sunderland (£m)

	1984/5	1985/6	1986/7
Rate Support Grant	62.7	56.6	67.8
Urban Programme Allocations	3.28	3.474	3.17
Derelict Land Grant Allocations	0.779	0.785	0.890
Housing Investment Programme Allocations	6.207	5.02	5.02
Urban Development Grant	-	0.067	0.178
	<u>72.966</u>	<u>65.946</u>	<u>77.058</u>

Notes:

1. Urban Programme allocations attract Exchequer grant at a 75% rate.
2. Derelict Land Grant is normally paid at a 100% rate.
3. Housing Investment allocations are loan approvals only. Sunderland is currently not in receipt of housing subsidy, although it may return into subsidy as a result of the recent transfer of the Washington New Town public stock to the Authority.
4. The UP and DLG allocations for 1986/87 exclude any additional resources that might be given to Sunderland from the £10m Shipyard Closure package.
5. The HIP allocation for 1986/87 could also be enhanced: Sunderland have requested £3m for 4 schemes to run-down estates under the DOE's Urban Housing Renewal Unit initiative: these schemes are still being considered. Housing capital expenditure can be increased by the use of the prescribed proportion of capital receipts from the sale of council houses and land - Sunderland currently spends about £13m a year on housing capital schemes.



DOE INTEREST

1. Urban Programme Allocations

Sunderland might ask why they have only received £3.17m Urban Programme resources for 1986/87 whereas the Newcastle/Gateshead Partnership is getting £17.2m. Both Newcastle and Gateshead have lower populations than Sunderland.

The answer is firstly that within the Urban Programme framework Inner City Partnerships are, as a matter of Government policy, given more resources than Programme authorities (of which Sunderland is one) and Other Designated Districts because in general Partnership areas are more deprived than these other areas. The Newcastle/Gateshead Partnership in fact has a lower score than any other Partnership areas under the index used by the DOE to measure urban deprivation. But a political decision was taken to have a Partnership on Tyneside and its existence could be said to benefit the whole of the Tyne and Wear commuting area.

Resources for Sunderland itself amongst the Programme authorities are determined by a formula of eight indicators covering matters such as unemployment, overcrowding, household formation, lack of basic amenities and ethnic origin. Using Census data an index (known as 'Z-score') is calculated for each district area. Sunderland scores highly under the unemployment indicator, but it does less well under ether indicators because the Borough has a young population, a high percentage of LA housing and low ethnic population. Sunderland also has a comparatively small designated inner area. The Borough is a large one and icludes substantial rural areas as well as Washington New Town within its boundaries.

DOE Ministers are currently reviewing the heirarchy of Partnership and Programme authorities and considering whether there should not be more year-to-year flexibility in allocating resources to authorities to reflect and reward good performance and changing needs.

2. Housing Investment Programme (HIP) Allocation

A similar complaint may be made by Sunderland about the HIP allocations - Sunderland's allocation for 1986/87 of £5.02m is the lowest of the Metropolitan districts in the North East; Newcastle receive £9.75m. Again the answer lies with the methodology used for allocations (the Generalised Needs Index') but this is agreed annually with the Association of Metropolitan Authorities. The methodology covers all aspects of housing need, including that in the older private sector. Sunderland's housing stock is comparatively modern and 51% is in the public sector. The stock also includes dwellings in Washington New Town. Whilst a significant proportion of the stock may suffer from disrepair, few dwellings actually lack basic amenities; there is little overcrowding and little homelessness.

Sunderland were the only authority in the Northern Region not to receive a lower HIP allocation for 1986/7 - it is the same as for last year. Sunderland have applied for £3m additional HIP resources under the DOE's Urban Housing Renewal Unit initiative for the refurbishment of run-down council estates. Their 4 schemes are still under consideration.

3. Port of Sunderland

Sunderland Council would like to use Urban Programme resources for infrastructure and environmental works in the Port of Sunderland. They also believe there is a need for Urban Development Grant aid towards business expansion schemes related to the Port.

The line taken by DOE is that it would not be appropriate for the Government to grant aid schemes specifically intended to help one port to compete directly with others for port-related business, especially in view of present over-capacity in the North East and right along the east coast within the ports industry. No marketing schemes or running costs can therefore be funded through the Urban Programme. However, the former Secretary of State told the Council in January that he would consider assisting with UP general infrastructure, road access and environmental improvements which helped to open up the port area

for new non-port related uses. The same would apply to UDG for private sector projects.

4. Washington New Town

It was announced last year that the New Town Development Corporations, including Washington, would be wound-up in March 1988. Washington and Peterlee/Aycliffe are two of the region's most successful job-creating agencies and care has to be taken over transfer of their assets and promotional role. It is currently proposed by DOE and DTI Ministers that Washington's assets and appropriate staff should transfer to a new Northern Subsidiary of English Estates. The Chairmen of the NTDC's (Professor McClelland - Washington; Sir Michael Straker - Peterlee/Aycliffe) are concerned about the competence of English Estates for this task, particularly the promotional role. The Chairmen are to have a further meeting with DOE and DTI Ministers shortly. Sunderland Borough Council has urged the Government to retain Washington NTDC, but does not appear too ill-desposed to a transfer to English Estates.

5. Urban Development Grant (UDG) Schemes

Two major private developments are currently being considered by Sunderland and DOE for UDG assistance:

(a) Refurbishment for sale by Wimpey of 120 difficult-to-let council flats at Downhill Estate. This is a £3m project on which UDG of £1.4m is sought. The grant application is with DOE. The scheme has had to be appraised carefully because of doubts about value for money and the high cost. A decision should be taken shortly.

(b) Sunderland Town Centre: a £17m project to enclose and upgrade Sunderland's town centre shopping precinct so that it can compete more effectively with recent out of town shopping developments (eg Metro Centre, Gateshead) and other town centres (eg Eldon Square, Newcastle). The works are estimated at £17m and a UDG of £5.5m would be needed. No application for grant has been made yet to DOE.

Prospects for approval are not good: the scheme would not create extra jobs nor increase retail floorspace. DOE's priority with UDG is to find schemes that will have direct economic and physical benefits.

PROJECTS IN SUNDERLAND WITH DOE INTEREST

(a) Pallion Enterprise Workshops

Conversion of an 8,000m² derelict factory using MSC Community Programme and YTS labour to provide small industrial units and sports and leisure facilities. The Urban Programme contributed almost £1m. A good example of an enterprise scheme involving local residents in positive response to a factory closure.

(b) Greenwells Dock and North Sand Shipyards

Two large reclamation projects involving sites formerly owned by British Shipbuilders. Work is underway on both sites and Derelict Land Grant of £1.5m will be paid by DOE. The schemes with further UP support will provide large marketable sites for port-related industry, including offshore oil business. The Nissan car plant could use the North Sands site for a roll-on, roll-off facility, although Nissan appear to have chosen to continue using their Teesport facility.

(c) Marlborough Park, Washington

The London-based property company Regalian have purchased from Sunderland Council 400 flats and maisonettes in a former difficult-to-let estate on the fringe of Washington New Town. They are refurbishing the units for sale at low cost on similar lines to Battersea Village in Wandsworth. The first phase of the project was opened by Sir George Young on 20 May. About £4m private investment is involved. The most refreshing aspect of the scheme is that no Government subsidy or grant has been needed.

(d) Urban Development Grant

Three small UDGs, in total worth £1m, have been approved or offered for private housing schemes in Sunderland. Another £1.4m UDG application by Wimpey to refurbish 120 council flats at Downhill Estate stands a reasonable chance of success.

(e) MARI (Microelectronics Applications Research Trust Ltd)

MARI are involved with Sunderland on 3 current projects:

(a) A software development unit for school-leavers with Sunderland's Inner Area Programme meeting £100,000 of the revenue costs over 4 years.

(b) A proposed advanced telecommunications centre at Webster's Ropery building on the Wear with UP support.

(c) A proposed 'Start' project of IT training for new businesses, also at Webster's Ropery and with UP support.

(f) Project North East

This group has set up other enterprise centres in the North-East and has recently identified premises in Sunderland town centre. The new centre (which will probably have capital support from DOE through the Urban Programme) will provide facilities for young people to develop commercial products and ideas with a view to establishing viable businesses.



NORTHERN DEVELOPMENT COMPANY

BACKGROUND

The NDC represents an alliance of local interests - Local Authorities, CBI, Chambers of Commerce and TUC - to promote the interests of the Northern Region in respect of economic development and employment creation. The body will seek to establish a common strategy and priorities with all promotional and spending agencies including Government, the northern subsidiary of English Estates and the New Towns and will promote, both at home and abroad, the North as a place to invest, work and live.

A private company has been formed and a board of directors representing the main sponsors is currently being appointed. A Chairman of national standing is being sought.

RECENT DEVELOPMENTS

NDC has received widespread support from local government, employers, unions and the media and most of the region's MPs. Some Conservative MPs and councillors have expressed concern however that NDC would be Labour dominated and act as a vehicle for attacks on Government. Mr Morrison (MOS Industry) has had private meetings with several of these opposers to hear their views, which were discussed between NDC representatives and the Secretary of State for Trade and Industry on May 22. At that meeting the participants said:

(a) they had been encouraged by the views of the Prime Minister who, on an earlier visit to the region encouraged regional organisations to get their act together and win new developments for the region;

(b) that in order to retain a broad base of support in the region and Ministerial blessing NDC must operate on a non-party political basis; and

(c) NDC would put to Ministers proposals for taking over NEDC (North of England Development Council - the region's promotional organisation) with a transfer of DTI funding, since it was illogical to have both NDC and NEDC as separate promotional bodies.

The Secretary of State asked NDC representatives for a paper setting out in greater detail what NDC would do. The agreed line for the media was:-

"On his visit to the North East arranged several months ago the Secretary of State met a group of representatives from the newly-formed NDC who outlined their plans. This group included representatives of the Local Authorities, trade unions and the CBI. The Secretary of State found their ideas very interesting and asked that the NDC prepare a paper to deal with the many questions he raised. When he had received the answers to these questions the Secretary of State undertook to discuss them with his Ministerial colleagues."



I

WINDING UP OF WASHINGTON NEW TOWN

It was announced last year that the New Town Corporations were to be wound up in March 1988. Washington New town is very close to Sunderland and industrial development in Washington provides job opportunities for Sunderland residents. DoE and DTI are agreed that a Northern Subsidiary of English Estates (a DTI sponsored industrial property developer) should take over the management and further development of the New Town's industrial estates after winding up.

The Chairmen of Washington and Peterlee/Aycliffe New Towns are concerned about the competence of English Estates for this task, particularly the promotional role played by the New Towns. The Departments do not agree with this contention that English Estates is not competent to take on this task.

However DTI Ministers believe that it would not be appropriate for English Estates - which is a purely property development company - to take on the wider promotional role. It would be preferable to hand over these functions to a regional development organisation with a full range of interests in the North East's economy such as the Northern Economic Development Corporation or the Northern Development Company - if this proves itself to be a non partisan body representing all region's economic interests.

Sunderland Borough Council has urged the Government to retain Washington New Town but does not appear to be too indisposed to a transfer to English Estates.

LINE TO TAKE

English Estates not competent to take over Washington New Town?

Departments involved believe that English Estates is competent to take on this task.

Promotional role of the New Town?

Not appropriate to English Estates which is a purely property development company. Would be preferable to hand over these functions to a regional development organisation such as the Northern Economic Development Corporation or the Northern Development Company - if this proves itself to be a non partisan body representing all region's economic interests.



(5)

SUNDERLAND DELEGATION

Lloyds List 13 June quoting Bob Clay MP.

1. Withdraw 925 redundancies, otherwise NSEL will not be able to take advantage of expected upturn in 1990's.

Line to Take

BS decision in interests of future of business

Future depends on orders

Smaller yards than ~~NSEL~~
NSEL operate successful business.

2. And the Sunderland yards have hardly been taking on any apprentices.

Line to Take

The number of apprentices must be for BS to judge

Last year Sunderland Council very helpfully provided for extra apprentices to be taken on.



3. Clear up-to-date information on hoped for orders:

(a) 'five containerships for China'

Line to Take

I met General Secretary Hu Yaobang and Vice Premier Li Peng. Tell you privately I was encouraged by what they had to say.

Background : Not to be revealed

All the signs are that COSCO will shortly indicate their agreement to purchase two ships on soft loan terms. COSCO would like to order five. We have told the Chinese we would do our best to ensure finance for five. If offered two, BS would seek to close a deal including an option on three more.

(b) 'four reefers from Cuba'

Line to Take

Phillip Hares told the Trade and Industry Select Committee last week he was optimistic about a repeat order from a present owner. It does not do to go into commercial detail when negotiations are in progress.



Background : Not to be revealed

A group of four general cargo boats for Cuba is nearing completion at Smith's Dock. BS and the Cubans are talking about 4 to 7 more, this time with some refrigerated capacity. There is still a wide price gap which BS do not expect to narrow significantly until the Cubans are nearer the point of needing to order at least the first ship. This may not now be until towards the end of 1986.

(c) 'A further order, which is understood to be near being secured.'

Line to Take

Phillip Hares said he was also optimistic about an order for roll-on roll-off ferries for a European owner. It would not be wise to say more.

Background : Not to be Revealed

BS now hope to sign a contract on 27 June to build 4 small inter-island ferries for a Danish owner, with an option to build a further 20. This point has been delayed twice already. If the order is secured, it could provide a base-load at the Sunderland yards until the Spring of 1989. BS have been at great pains to retain the closest confidence about this order; their main fear is that the Danish Authorities would press for a new competition to allow very depressed Danish yards the opportunity to tender. This, in turn, could bring the Poles back in. They offered better terms than BS, but the owner prefers to build here, if he can afford to.

DEPARTMENT OF TRADE AND INDUSTRY

23 June 1986

COVERING CONFIDENTIAL



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

Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

20 June 1986

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Mark,

... As requested in your letter of 29 May I enclose briefing for
the Prime Minister's use at the meeting with a delegation from
Sunderland on 23 June. The briefing is divided into two parts -
shipbuilding and non-shipbuilding issues. The Prime Minister
might find it helpful to concentrate on the first part. I also
... attach a copy of the Prime Minister's recent letter to the
Managers of the Wear SAIMA Branch.

My Secretary of State and Mr Coates from Shipbuilding and
Electrical Engineering Division will attend.

Copies of the brief have been sent to Iain Mackinnon (Department
of Employment), Brian Leonard (Department of Environment) and
Michael Stark (Cabinet Office).

Yours ever

Michael

MICHAEL GILBERTSON
Private Secretary

Encls

JF5BHG

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1986
BOARD OF TRADE
BICENTENARY

DEPUTATION FROM SUNDERLAND - 23 JUNE 1986

MPs

Mr. Gordon Bagier, MP for Sunderland South

Mr. Bob Clay, MP for Sunderland North

Borough of Sunderland

Councillor J. Donnelly, JP

Councillor J. Connor

Councillor J.D.S. Brown

Councillor F.D. Hall

Mr. G.P. Key (Chief Executive)

Wearside Confederation of Shipbuilding and Engineering Unions

Mr. John Spoor - Secretary

Mr. Nick Wales - Vice Chairman

Austin and Pickersgill Joint Shop Stewards Committee

Mr. Jim Baldwin - Member

Mr. Peter Callaghan - Secretary

Sunderland Shipbuilders Joint Shop Stewards Committee

Mr. Cedric Morse - Chairman

Mr. David Stores - Secretary

CCBS



CONFIDENTIAL

Pamie Hunter 2

To be aware.

JU611

PRIME MINISTER

SWAN HUNTER

Swan Hunter must have their frigate - no other have to be done - 20/6. All with [unclear] [unclear]

I have seen the 16 June letter to you from Swan Hunter Shipbuilders Ltd.

2 I am sure that George Younger will welcome Swans' revised tender of £57.8 million for the second Type 23 frigate. I understand that this latest price makes their tender fully comparable with the best alternative. Of course, there are always additional costs to MOD of placing an order with a yard that did not build the First of Class, in particular the cost of the Lead Yard's design services. This was recognised when Cabinet agreed on 31 January 1985 that the Defence budget would bear any additional cost from letting this contract to Swan Hunter on a noncompetitive tender provided that their price was fully competitive.

3 However, I understand that the additional costs in this present case include not only the cost of the lead yard services, but also MOD's liability to VAT on items to be supplied to MOD by Yarrow Shipbuilders Ltd. I do not fully understand why this should be - and it would be extremely difficult to explain in the North East. It is only reasonable for MOD to take account of

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19 **86**
BOARD OF TRADE
BICENTENARY



this VAT charge in comparing the cost to them of the different tenders submitted. But Swan Hunter were promised the order provided their price was competitive; and I understand that this is now the case. It seems totally unacceptable that we should go back on our promise to Swan Hunter because of a VAT technicality which has no net effect on the Exchequer. I very much hope therefore that George Younger will feel able now to award the second Type 23 frigate to Swan Hunter in line with the Cabinet decision.

We can't go back on our promise.

4 No doubt George Younger will be able to answer Swan Hunter's concern about the second AOR. Certainly if Harland and Wolff had sufficient information to cost their tender for the AOR comprehensively they should have no difficulty in providing it to Swan Hunter very quickly.

5 I am sending copies of this minute to members of E(A), George Younger and to Sir Robert Armstrong.

MR4

PP PAUL CHANNON

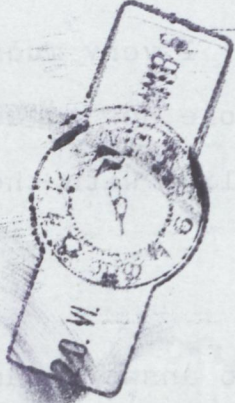
20 June 1986

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

Department of Trade & Industry

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BOARD OF TRADE
BICENTENARY

NAT IND
SHIPPING
PT 10



This VAT charge in comparison the cost to them of the different
... but down number were provided the order
... provided their price was competitive; and I understand that this
... is now the case. It seems totally unacceptable that we should be
... back on our promise to Swan Hunter because of VAT legislation
... which has no net effect on the exchange rate. I am sure
... therefore that Swan Hunter will feel no
... reason Type 23 relative to Swan Hunter in
... decision.

I do not know whether you have had any
... concern about the second T.M. Certain it is and will be
... sufficient information to cost their tender for the work.
... comparatively they would have no difficulty in providing it so
... Swan Hunter very quickly.

I am sending copies of this letter to members of S.A.I. George
... Hunter and to Sir Robert Armstrong.

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CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

P 02121

MR NORGROVE

Prime Minister 2

You might like to glance at paragraphs ³⁹ 67-68 and 76-81, at this stage, in advance of your meeting with the Sunderland delegation.

DH 20/6

THE UK SHIPBUILDING INDUSTRY

I was asked at E(A) on 17 April to produce an interdepartmental report on the shipbuilding industry. Ministers wanted a broader analysis as background to the further specific decisions they will need to take in the coming weeks.

2. I have completed the report, agreed interdepartmentally and with the Policy Unit, and attach an advance for the Prime Minister. I shall circulate this to E(A) next week for consideration at the end of the month together with papers on British Shipbuilders (BS) and the MOD frigate orders. It will also provide background for the Prime Minister's meeting with the Sunderland delegation on Monday.

3. The report in essence:-

- describe the existing state of the industry;
- assesses prospects on present trends and policies;
- examines the case for Government intervention.

4. The picture is a very sombre one. Without further significant orders, BS could be out of business altogether in the next couple of years. On the warship side, there is only enough work for three of the existing five firms in the medium term and in theory the MOD's steel ship requirements could be met by two yards. In all this could lead to a further 10-15,000 redundancies in shipbuilding over the next three years, largely in the North East and the Clyde, together with as many redundancies in supplying industries.



5. This gloomy picture is not, of course, unique to the UK. The unprecedented recession in the shipbuilding market has caused severe contraction round the world. Only the South Koreans seem to have increased capacity and employment; even Japan has retrenched substantially (a 37 per cent reduction in employment between 1977 and 1985 - compared with 78 per cent in BS) and the once great Swedish industry has now folded up entirely. I was interested to note also earlier this week a leading article about the French shipbuilding industry in Le Monde which told a very similar story to that in this report and pointed towards similar conclusions.

6. The report's basic conclusion, in the light of strategic, competition and economic considerations, is that there is no case for any major Government intervention. As the Secretary of the Boilermakers section of the GMBU admitted in a letter of 17 June to the Financial Times earlier this week (17 June), "It does not make long-term sense to subsidise workers to produce goods no body wants". Accordingly, the report's recommendations focus on maintaining present aids to shipping and shipbuilding, and considering now how most effectively to develop and target existing job and training schemes, so as to cushion the effects of rundown on the areas worst affected. In this I have very much in mind the desirability of preparation well in advance; we must avoid recurrence of the situation of a few weeks ago when, in response to the BS redundancies, we put a rushed employment package together from scratch in little more than 24 hours.

6. I am, however, also very conscious of the political and social considerations that might make Ministers wish to go beyond the above conclusions. While further redundancies in this relatively small industry are not significant on a national scale, they will cause acute problems for the particular communities affected, most of which are already suffering serious unemployment and industrial decline. I have therefore included in the paper (paragraphs 67 to 77) a "menu" of alternative policy options which could be considered further if Ministers so wished.

J B UNWIN

REPORT OF THE OFFICIAL GROUP ON THE
SHIPBUILDING INDUSTRY

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Advanced copy. To be circulated to E(A) after final checking.

REPORT OF THE OFFICIAL GROUP ON THE SHIPBUILDING INDUSTRY

INTRODUCTION

The British shipbuilding industry is in serious difficulties. Faced with an unprecedented world wide slump in demand, and cut throat competition from the Far East, it has long been in decline. Total employment in the UK in shipbuilding and shiprepair (excluding the Royal Dockyards) has fallen from over 91,000 in 1977 to only about 48,000 in April 1986. And recently the picture has become even more gloomy. Despite earlier contraction, there is still substantial surplus capacity for both merchant and warship building, and it is conceivable that British Shipbuilders (BS), for example, could find themselves without any work within the next one or two years while at least two of the warship yards face an uncertain future. Ministers will soon have to take a number of key specific decisions affecting parts of the industry: these include consideration of BS Corporate Plan with consequential decisions on the extent of external finance and contract support; a review of reports on Harland and Wolff (HW) including plans for overhead reductions, flexible working practices and prospects for penetrating the offshore market; and decisions on the procurement by MoD of Type 23 Frigates.

2. Since the Government effectively control the future of the industry, Ministers will be subject to intense lobbying when these decisions have to be made. As the owner of the major merchant shipbuilding yards (BS and HW) they are involved with, and identified with, decisions on closures, and they bear a substantial share of the cost. Moreover, the Government as providers of 'state aids' and export credits are seen to be in a position to help the industry. Although the warship yards have been transferred to the private sector, the Ministry of Defence is almost their sole customer, and the Government therefore effectively determine the future of this sector through their procurement decisions. In the past the Government have offered contracts preferentially to help the survival of particular yards, and will be pressed to do so again. The recent decision on the Auxiliary Oiler Replenishment vessel AOR 02 is an example of this.

3. Ministers have recognised the danger of making individual decisions in isolation against a background of intense political pressure and the need to take into account a variety of wider strategic, social, economic and competition policy issues. They therefore asked the Cabinet Office to set in hand an inter--departmental study on the shipbuilding industry (E(A)(86) 13th Meeting; also E(A)(86) 15th Meeting).

4. This report therefore reviews the background to the present problems, and attempts to assess the likely result of continuing with current policies. It then examines the case for Government intervention and identifies the cost of certain options. (Other relevant material will be presented in the context of the BS Corporate Plan.) The Report covers both the industry itself and the wider economic and regional policy consequences of any further decline. Although shipbuilding is no longer a major industry in this country - with about 40,000 employees in the major yards it is, for example, only a quarter the size of the coal industry or the post office and smaller than many service industries - it is of great significance to particular communities, many of which are already hard hit by industrial decline. The report therefore briefly reviews steps which might be taken to cushion the impact on these areas.

THE SHIPBUILDING INDUSTRY

Global perspective

5. Other countries face similar problems. The World market for merchant ships has suffered from the profound imbalance of supply and demand since the oil crisis of 1973. Large investment and new capacity in the early 1970s came on stream precisely as world trade fell away as a result of the first oil price increase. World output in 1974 was 20 million compensated gross tonnes (cgt). In recent years the level of output has fallen to 13-16 million cgt. The situation remains extremely depressed, and new orders last year were at an exceptionally low level - below 11 million cgt.

6. The slump in demand has affected the shipbuilding industry world wide in recent years. Japan's problems have been compounded by the appreciation of the yen against the Dollar, and they plan substantial cuts in capacity - perhaps by up to 30 per cent. The Koreans appear to have decided to shelve any plans for increases in capacity, but to preserve existing capacity. Western European shipbuilders continue to decline. Between 1976 and 1984 the UK capacity has been cut by 55 per cent, German by 50 per cent, and France by 20 per cent. The

Major Shipyards in the UK

- Merchant Shipbuilding
- ▲ Warship building

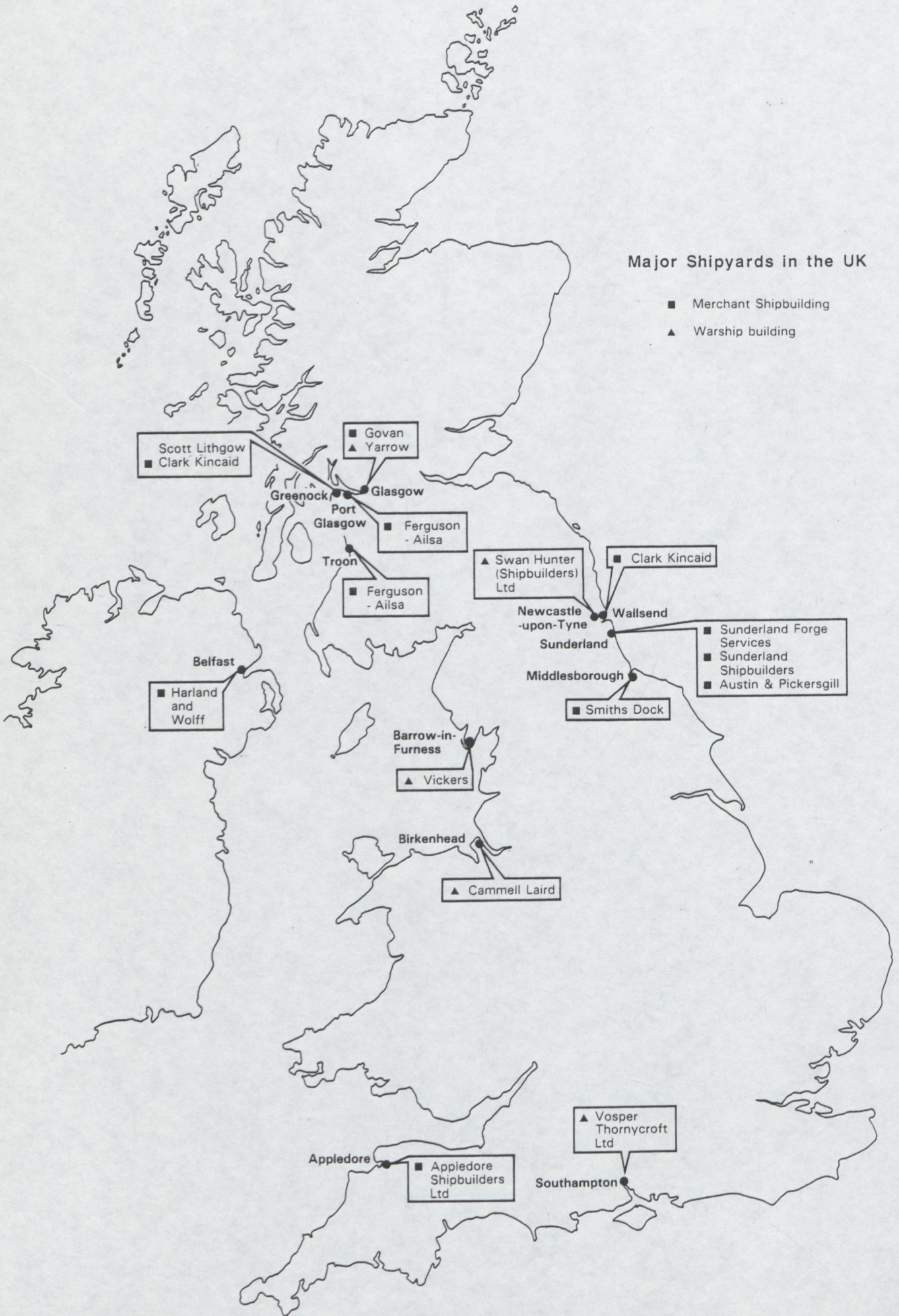


Table 1

MAJOR SHIPBUILDING YARDS IN THE UNITED KINGDOM

Region (Unemployment Rate)	Yard	Employment	Unemployment		
			Travel to Work Area\$ rate	no	
Northern (19.1 %)	Austin & Pickersgill	1,238	Sunderland	22.3%	38,538
	*Clark Kincaid	382	Newcastle	18.9%	67,848
	*Smith's Dock	1,534	Middlesborough	23.0%	30,201
	Sunderland Shipbuilders	1,869	Sunderland	22.3%	38,538
	Swan Hunter	4,500	Newcastle	18.9%	66,848
North West (16.3%)	Vickers	8,750	Barrow	11.18%	42,888
	Cammell Laird	1,320	Wirral and Chester	18.4%	39,186
South East (10.1%)	Vosper Thornycroft	2,700	Southampton	11.2%	19,610
South West (12.2%)	Appledore	650	Bideford	19.9%	1,790
Northern Ireland (21.7%)	Harland and Wolff	4,900	Belfast	18.3%	62,118
Scotland (15.8%)	Clark Kincaid	536	Greenock	21.5%	10,206
	Ferguson Ailsa	420	Greenock		
	*Ferguson Ailsa	378	Ayr	14.7%	6,961
	Govan	2,348	Glasgow	17.6%	113,579
	Scott Lithgow	1,560	Greenock	21.5%	10,206
	Yarrow	4,600	Glasgow	17.6%	113,579

* closure announced.

\$April 1986 figures

Swedish industry, once the third largest, has closed completely.

United Kingdom Industry

7. The merchant shipbuilding industry in the United Kingdom comprises BS and the small private sector yards in Great Britain, and HW in Belfast. The warship building industry is largely distinct, and comprises five major yards, all now in the private sector; in addition a dozen smaller yards mainly in the private sector meet MOD's requirement for small vessels. The main yards are shown in the following map, and listed in Table I. Total employment in shipbuilding in the UK has fallen from about 82,000 in 1977 to some 42,000 in April 1986. Most of the decline has occurred in BS' shipbuilding and engine-building operations where numbers employed have fallen from 45,000 in 1977 to 10,000 in April 1986, and are planned to fall to 6,200 by next year. In addition, there is a large marine component sector. Numbers employed cannot be established with certainty but up to two thirds of the cost of a ship is accounted for by bought-in materials, equipment and services. The ship repair industry is also largely distinct, and is described separately in Annex A.

British Shipbuilders (BS)

8. BS was formed in 1977 on the nationalisation of the major British yards. Capacity has fallen from about 600,000 cgt a year in 1977 to about 250,000 cgt now. BS announced in May the closure of about a third of the current capacity, and once that is complete their remaining facilities will be those based at Appledore (North Devon), Ferguson - Ailsa (Port Glasgow), Govan (Glasgow), and Austin & Pickersgill and Sunderland Shipbuilders (Sunderland). Details of these yards are shown in Annex B. BS also have a marine engine building capacity, employing about 900 now. The Wallsend site is, however, due to close this year, leaving a single operation at Greenock (500 employees).

9. In view of the uneconomic prices for ships generally and the particular advantages of shipbuilders in the Far East for simple ships (tankers and bulk carriers), BS have effectively withdrawn from this sector. Since October 1983 their primary objective has been to concentrate on developing the cost--effectiveness of their mainstream merchant business. BS' marketing strategy has been to seek niches within the market, for example offshore diving and support vessels or ferries, where their ability to build sophisticated and

technologically complex vessels put them in a better competitive position. They are also seeking markets for simpler vessels where the ability to offer complex financial packages is an advantage.

10. At March 1986, work in progress totalled 193,000 cgt. The greater part of this will, however, be completed by the end of this year. Their current problems arise because instead of their budgeted order intake of 200,000 CGT in 1985-86, (compared with an actual 200,728 CGT in 1984-85), they won only 23,000 CGT.

11. Since 1983 the Government have supported BS' strategy within a framework of tight and decreasing financial support. Support levels have been set so as to put BS on a downward 'glide path'. The Government have not imposed a specific capacity target: if, through improved performance, BS could maintain a higher level of activity within the same financial constraints there would be less pressure on them to contract. This strategy was intended to bring BS closer to a normal commercial basis of operation, although it has always been recognised that they would not be able to operate without subsidy in the foreseeable future.

Harland and Wolff (HW)

12. HW is the second largest manufacturing employer in Northern Ireland, accounting for 5 per cent of manufacturing employment. Between World War II and the late 1960s HW built a wide variety of vessels - merchant, passenger and naval - with a workforce of over 20,000 and some 17 slipways. They reinvested in the late 1960s and early 1970s to concentrate on very large tankers and bulk carriers, but completion of this reinvestment coincided with the oil crisis of 1973 and the recession in new building. HW have been incurring losses since the early 1960s; by 1975 these had grown to the point where public ownership was the only alternative to closure.

13. Since that reinvestment, HW have closed all the slipways, building solely in the dry dock, and have halved the workforce. Their three major activities are shipbuilding and major conversions (employing 4100), engineering and engine building (640), and shiprepair (200).

14. The yard has aimed at diversifying away from large, relatively unsophisticated vessels such as tankers and bulk carriers into more complex tonnage, including offshore vessels, reefers and naval auxiliaries. They have met some success, but the sheer size of their physical facilities gives them an incentive to seek a base load of large unsophisticated tonnage in order to spread overheads.

15. The Government have recognised that there is no commercial case for preserving HW, but they have agreed to continue support (funded by the NI block budget) in view of the company's importance in regional, economic and political terms. The Government's main aim has been to reduce the company's external financing requirements, currently running at £38.5 million per year. A system of Contract Support Limits has been introduced in order to strengthen control over the company, and to force it to reduce its losses from both contracts and overheads. The financial discipline attached to the award of AOR 01 should further strengthen that control, and Ministers have agreed that failure to perform on the AOR contract could result in closure. The Government have also sought urgent studies of the scope for reductions in overheads, increased contracting out, and greater flexibility in using the workforce: reports are due shortly. Decisions will be required on the total level of financial support for the yard in 1987-88.

Scott Lithgow (SL)

16. SL is sui generis. It was sold in 1984 by BS to Trafalgar House, who intended to develop the business as a mixed purpose yard for offshore, merchant and warship work. Direct employment has fallen from 5,000 to 1,560 as the remaining major work - a rig for Britoil - nears completion. The yard also uses nearly 500 sub-contract staff. All attempts since the sale to obtain significant new work of any kind have been unsuccessful. For the purposes of this report, we treat SL as a warship yard.

Smaller Shipbuilders

17. There are some two dozen shipyards in the UK that have the facilities to build ships in the range 100 to 3500 gross tonnes. Total employment work is 2,000 - some 1200 on merchant work, and 800 on work for MoD. As the public sector merchant shipbuilding component shrinks, these small private yards (the largest of which are in East Anglia, Humberside, Merseyside and Aberdeen) become relatively more significant. Even so in March 1986 their order books accounted

for only 13 per cent of the total UK merchant order book. A number have recently built smaller vessels for the MoD or for foreign navies, and they are also involved in refit work. Generally, these yards require subsidy for merchant work but are able to make a profit on very small vessels eg fishing vessels or on MoD work. Many of them, however, are loss-making or barely profitable (three have closed in 1986) and many would go out of business if subsidies were withdrawn.

Warship Building

18. There are five major yards currently involved in new construction for the navy. All were previously owned by BS, but have recently been privatised. They are:

Vickers Shipbuilding and Engineering plc, (VSEL) at Barrow-in-Furness ('Vickers') and Cammell Laird Shipbuilders (CL) in Birkenhead owned by an Employee Consortium.

Yarrow Shipbuilders Ltd (YS), on the Clyde owned by GEC

Swan Hunter (Shipbuilders) Ltd (SH) at Newcastle-upon-Tyne, owned by management

Vosper Thornycroft Ltd (VT) in the Southampton area, owned by management

Scott Lithgow (SL) on the Clyde, owned by Trafalgar House.

19. The yards have a substantial programme of work and employ 28,700 people. There are over 20 major warships currently on order, and due for completion over the next four years or so. Details of employment and current workload for each yard are shown in Annex C. In addition HW have recently re-entered the Defence field as a builder of Auxiliary Vessels.

Marine Equipment Industry

20. Since up to two thirds of the cost of a ship arises from bought-in components, materials and services, the numbers employed in the ancillary industries supplying UK yards may be comparable to those employed in shipyards. The most important sector is the marine equipment industry. This consists of a wide range of firms, some dedicated solely to supplying the shipbuilding/boat-building sectors, whilst for others marine equipment represents only a small

proportion of their total output. Despite contraction in world markets, the main trade association for marine equipment claims that over 70 per cent of its members' output is exported, indicating a sound engineering and design base in the UK. Nevertheless they regard the UK market as an essential springboard for their continuing ability to export. Generally, however firms in the field of equipment supply for warships are not now predominantly dependent on work for the shipbuilding industry for their survival. In the light of the decline in merchant shipbuilding, MOD workload and the MoD competition initiative firms have generally diversified.

STATE AIDS FOR SHIPBUILDING

Support Mechanisms

21. The main mechanisms of support for the merchant shipbuilding industry are:

- a. the Shipbuilding Intervention Fund (IF) under the Industrial Development Act 1982, from which the Government can pay grants to shipbuilders in Great Britain up to 20.5 per cent of the contract price of a ship to match foreign competition. Northern Ireland runs its own scheme for HW with a maximum grant level of 25.5 per cent for very large ships, otherwise 20.5 per cent. IF expenditure on BS and HW falls within their External Financial Limits (EFL). Expenditure on IF for the private sector runs at a low level, estimated at £4 million in 1986/87;
- b. the financing of BS' and HW's working capital and losses through the External Financing Limit (EFL). BS' EFL for 1986-7 has been revised upwards from £73 million to £130 million, largely to cover closure costs and the creation of British Shipbuilders Enterprise Ltd. Of this, £95 million is for trading purposes (and includes IF payments of £25.5 million), £5 million is for BS Enterprise Ltd, and the remainder is for restructuring. HW's 1986-7 EFL is £38.5m;
- c. the Shipbuilding Home Credit Scheme under which, in accordance with the terms of the OECD understanding, the Government offer fixed rate credit comparable to export credit. The terms available are an 8 1/2 year repayment period at 7.5 per cent interest rate. The Department of Trade and Industry operate the scheme for all UK shipbuilders, including HW and the private sector. The main cost is the interest support for

past orders - the latest estimate for 1986-87 is £34.4 m;

d. the Shipbuilding Redundancy Payments Scheme (due to end at 31 December 1986) to meet most of the costs of redundancies from BS. Estimated cost in 1986-87 is £16.7 m. Northern Ireland runs a parallel scheme for HW, at a cost of £2 m this year.

e. all merchant ships built in the UK are eligible for a relief (known as shipbuilders' relief) from hydrocarbon and motor vehicle licence duties valued at 2 per cent of the contract price of a ship.

22. It has recently been confirmed that in appropriate cases, merchant ships are eligible (like other sectors of industry) for the Aid and Trade Provision (ATP). No recent contracts have been won using ATP but BS are pursuing an order from China under the ATP soft loan facility.

23. In addition long term export credit cover from ECGD is available for both warships and merchant ships. Although terms might be varied to meet competition, ECGD's normal approach is as follows:-

i. for merchant ships to apply the terms of the OECD Understanding on Ships (ie a maximum credit of 8 1/2 years from delivery with interest at 7.5 per cent). These are the same terms as offered for the Home Credit Scheme and although the credit repayment period is less than for some other major exports (eg 12 years for large jets, 15 years for nuclear plant) the interest rate involves a significantly larger subsidy than for other exports subject to the general OECD Consensus (under which minimum interest rates currently range from 8.8-11.2 per cent).

ii. for warships, although these are not governed by either OECD agreement, the maximum credit period is 8 1/2 years and standard Consensus interest rates are applied. Thus the terms are marginally less good than for other industries but are the same as for other arms sales.

Amount of Government Support

24. Government support to the shipbuilding sector (including redundancy and closure costs) from 1 April 1979 to 31 March 1986 amounted to £2,232 m (excluding ECGD interest rate support). Of this, £1092 m has been paid directly to BS and £225 m to HW, to fund capital expenditure (including for the now privatised warship yards), losses restructuring and closure costs and working capital, and £294 m by way of IF payments (£235m for BS, £41 m for HW and £18m for the private sector). The net cost of the Home Credit Scheme in this period is £359m. In addition redundancy payments under the SRPS amount to £195 m of which £177 m is for workers from BS and £18 m for those from HW.

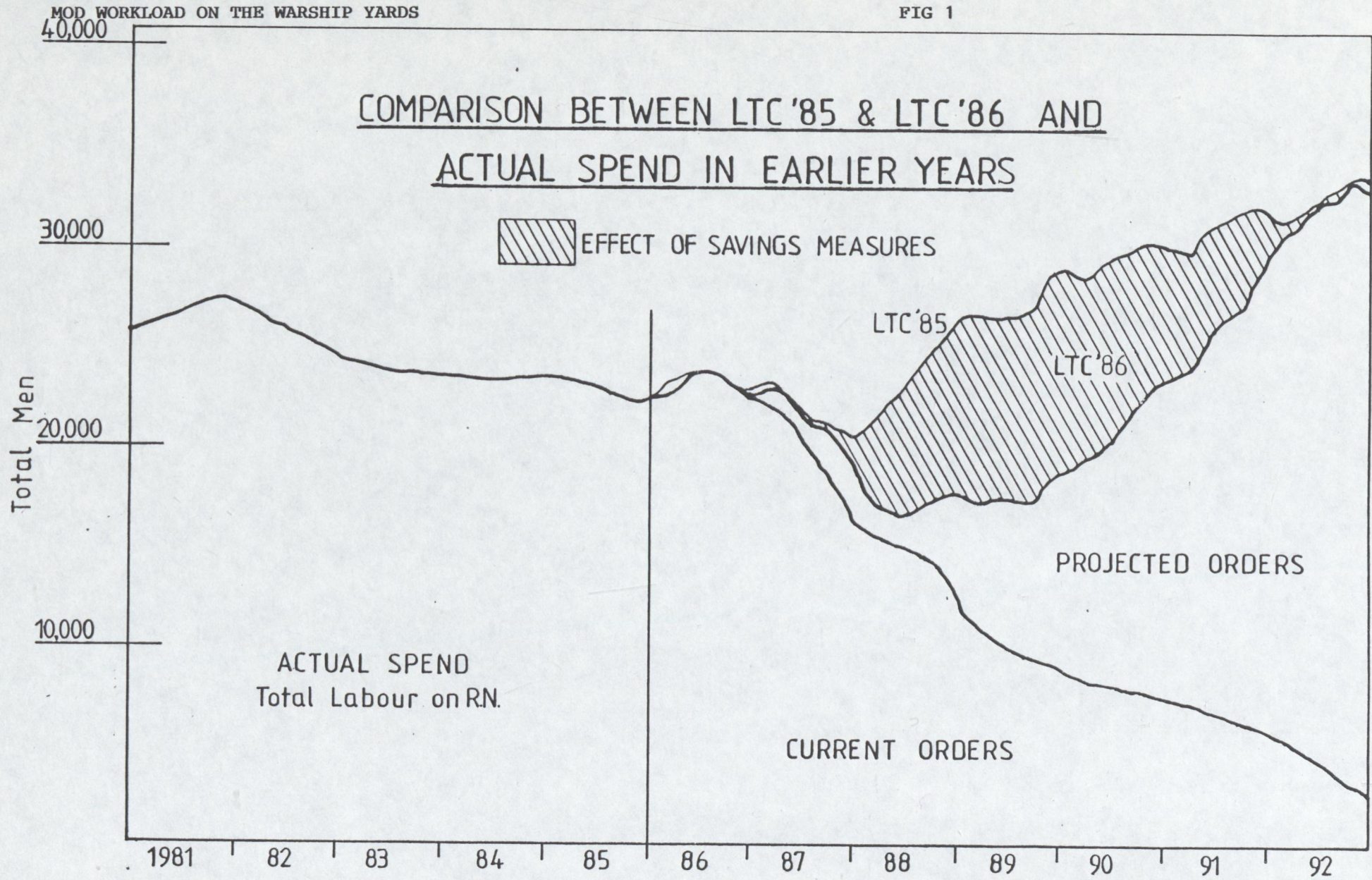
25. The current annual cost of supporting the merchant shipbuilding industry (ie excluding restructuring and redundancy costs and the interest support costs on ships long completed but including an estimate of the Net Present Value of the interest support costs of new contracts undertaken in 1985-86) is £125 m (of which direct support to BS is £78 m, IF for the private sector is £4 m, interest support costs are £5 m and direct support for HW is £38 m). Ship subsidies are generally in the range 30-50 per cent of the total cost.

European Community Aspects

26. All aids to merchant shipbuilding in the Community are currently governed by the Fifth Directive on Aids to Shipbuilding which expires on 31 December 1986. The Fifth Directive is aimed primarily at direct production aids (such as our IF arrangements) which are permitted in exchange for commitments to restructure the industry to reduce the degree of overcapacity) and at credit regimes. It does not attack indirect support such as favourable tax regimes for shipowners or investors or mixed credit arrangements. The Fifth Directive will need to be replaced or prolonged if state aids are to be permitted after that date. The UK has been pressing for a more equitable regime which looks at the totality of aid both direct and indirect. The Commission seem reasonably favourable to this but have yet to table proposals. It seems likely that they will seek to impose a common basic ceiling on production aid, taking into account all forms of aid bearing on the costs of new ships to their owners. In addition, they may propose an additional element of aid for new orders from less efficient yards linked to irreversible restructuring resulting in improved productivity. Whatever regime is eventually agreed seems likely to place a continuing constraint on the UK's freedom of action.

08/05/86

FIG 1



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although it is possible that the recent fall in oil prices will stimulate the demand for ships somewhat earlier than previously forecast. Whether the upturn will quickly restore the market to balance and thus enable merchant shipbuilding to be profitable or at least unsubsidised will depend on whether the Japanese and the Koreans cut capacity in the interval.

Oil

30. The Offshore Oil Sector also provides a potential market and we have examined the possibilities here. Traditional shipyards lack the facilities and skills to build jackets or modules for fixed platforms, but can offer service vessels, including diving support vessels, supply boats, and semi-submersible drilling rigs. At present UK yards (mainly BS and HW) have about £250 m of work in hand for this sector. Their performance has been patchy, with a number of contracts running very late, although some yards have a good reputation for supply boats. In general, however, the prospects for offshore related work in the short-term are very poor. With the dramatic fall in oil prices exploration has been cut back, and several potential new projects have been postponed. On a longer time scale, up to 15 new supply vessels a year will be needed to replace existing fleets, and UK shipbuilders might expect to secure about 6-10 of these. The Offshore Supply Office has an initiative in hand to improve the UK market share, but it is clear that this sector does not offer a significant lifeline to the UK Shipbuilding industry.

Defence Procurement

31. The 1981 Defence White Paper 'The Way Forward' (Cmmd 8288) made it clear that there would be a reduction in the scale of new warshipbuilding and therefore in the work load for the industry. The Falklands campaign has slowed the run down.

32. There remains considerable uncertainty over the resources which the Ministry of Defence is likely to be able to devote to new shipbuilding orders. Following seven years of real growth to 1985-86, on present public expenditure plans the defence budget will decline by 6 per cent in real terms over the next three years. Following the 1986 Long Term Costing exercise, the Ministry has concluded that in order to maintain balanced forces overall while keeping within financial constraints the new ship programme will have to be cut back, with Type 23 frigate orders up to 1988 reduced from 7 to 4 and a one year delay to minehunters. Figure 1 shows the pattern of current and projected orders until

1992. This shows a decline in workload from the current year until 1988, rising again in the early 1990s (on the assumption, which Ministers have yet to consider in the PES context, that the defence budget remains level in real terms after 1988-89).

33. There is also the possibility of building warships for export (see paragraphs 28 above). But in the medium term the prospects for sales of complete warships are poor; the only prospect recently in view - two frigates for Pakistan - has receded.

34. Overall, currently forecast RN and export orders are likely to result in a general contraction and the closure of at least two of the five warship building yards, although, depending how orders are placed, the navy's workload could be sufficient to sustain four in the 1990s.

Future Concepts for Warships

35. The Type 23 frigate and Auxilliary Oiler Replenishment Vessel are planned to account for the bulk of warship procurement (outside the specialist submarine area). With the EH101 helicopter, they reflect a new concept to exploit the towed array sonar (which allows Russian submarines to be detected and engaged at long ranges). There will be a natural opportunity to review the new approach as MoD move towards the second batch of Type 23s. Amongst the factors to be reviewed will be:

- a. An unarmed (and hence cheaper) support ship (possibly on the lines of the BS FSK 20/20) linked to a frigate with an enhanced frigate capability;
- b. Developments in new weapons technology;
- c. The outcome of the enquiry into hull shapes.

36. However, even if a change of approach were adopted, this would not have significant implications for the warshipbuilding industry in the 1980s. At least 3 years are needed to work up the design of any new frigate and begin building the first of class before follow-on production can begin. New designs of support ship can be produced more quickly, but none is scheduled beyond the second AOR for this period.

37. In the longer-term MoD is interested in unconventional hull forms, particularly the Small Waterplane Area Twin Hull (SWATH) - a development of the catamaran - and the Surface Effects Ships (SES) - a hybrid between hovercraft and catamaran. There are several small design houses promoting such ideas along with the established firms and the ships could be built in existing frigate yards.

CONSEQUENCES OF CONTINUATION OF EXISTING POLICIES

38. This precise course of developments is, of course, impossible to forecast, But this section attempts to forecast the consequences of continuing with existing policies over the next few years. It is not possible to produce more than a broad brush picture, and, for the merchant ships at least, actual events will depend mainly on developments outside the control of the UK Government.

Prospects: Merchant Yards

39. For BS, the present order book will be exhausted by mid-1987. Their future even at their new reduced level of capacity therefore depends on winning sufficient orders for new work in the very near future. Although they are currently pursuing some quite hopeful prospects none can yet be guaranteed. They will undoubtedly find it difficult to fill their remaining yards in the face of substantial world over-capacity, and with the Far East competitors able to undercut European prices even after allowing for state aids. Unless new work is found quickly, there will therefore be further contraction beyond the 3,500 redundancies announced in May. Since overhead recovery becomes an increasing burden as the workload diminishes it is not inconceivable that BS could be disbanded by 1988 with most, if not all its yards closed. This is made clear in the new BS Corporate Plan which asserts that if the order book in 1986-87 is as low as in the previous year, then in 1987 BS would cease to exist unless it were decided that a minimum level of capacity should be maintained despite the absence of any work.

40. HW's current order book is longer but will be exhausted on completion of AOR 01 in 1989-90. The company is exposed to the same general market pressures as BS in the merchant market, save that its capacity, unique in the UK, to build the largest vessels enables it from time to time to gain orders in this category albeit often at unattractive prices. The company has been looking to the possibility of taking off-shore orders as a means of providing a continuing

workload, but as explained in paragraph 30 above, this market segment is unlikely to offer much in the next few years. Prospects of follow on AOR orders are low before 1990 (unless SH decline AOR 02).

Prospects: Warship yards

41. For the Warship yards, the continuing demand for naval vessels will ensure that a core of the industry survives, but since there is substantial overcapacity few individual yards are guaranteed a future: in theory, VSEL/CL (at Barrow and Birkenhead) and one other yard would have sufficient physical capacity to meet the entire requirement for steel vessels. The precise future shape of the industry will be determined by the effect of individual procurement decisions. The general policy of the Ministry of Defence for achieving value for money in defence procurement is now based on competitive tendering wherever possible (although Ministers have on occasions diverted orders for wider political or other reasons). This produces the greatest pressure for efficient management, improved productivity and innovation in design, and encourages firms to put forward novel and more cost-effective ways of countering the Warsaw Pact's capabilities.

42. The outcome of competition alone is unlikely to be the sole consideration in placing contracts. For example, if contraction has already reduced the field for a given vessel type to two firms, as seems inevitable in some areas given current overcapacity (and assuming no Government intervention), the Government could be faced with awkward choices of either departing from strict competition in order to sustain the second yard for competition on future contracts or relying on overseas competition. Nevertheless it is possible to suggest the following outcome of a pure competitive regime:

- a. VSEL/CL (but not necessarily the Birkenhead yard) survives because it is the sole source for nuclear-powered submarines.
- b. SL closes.
- c. if SH are unsuccessful in the current frigate competition (ie no more than the one frigate promised) they will be in jeopardy.

d. if VT do not secure a frigate order at home or abroad they will face a serious work shortage in 1988-89 (but MoD would not be sufficiently concerned to take special action at this stage to preserve their specialist Glass Reinforced Plastic design capacity).

e. YS will be in serious difficulties if they do not win frigate orders.

43. On the basis of the currently planned pattern of work and assuming a competitive regime there should be enough work to ensure the survival of three of the existing five firms in the medium term. But this would still imply 6,000 more redundancies at Newcastle, on the Clyde and around Southampton.

Summary of Prospects

44. To summarise, if present trends continue there is likely to be a considerable further retraction in both merchant and naval capacity. In all there might be a further 10-15,000 redundancies largely in the North East and the Clyde over the next three years. There would also be almost as many redundancies again in the supplying industries, but relatively few firms depend solely on shipbuilding for their survival.

45. The scale of possible redundancies must however be seen in the context of of recent changes in this and other industries. Only five years ago BS employed 20,000 on merchant shipping compared with 6,500 who will be employed by the end of this financial year. The National Coal Board made 36,500 miners redundant in 1985-6, and on present plans another 28,250 will leave by 1990. Employment at British Leyland has declined by some 44,000 over the past five years after taking account of the privatisation of Jaguar. The number of employees at the British Steel Corporation has fallen by over 110,000 over the past six years. The National Bus Company expect to make up to 7,000 driver/fitters redundant in September this year while a further 9,000 redundancies are expected to be announced by the PTEs following deregulation. The reorganisation of BREL is likely to lead to between 6,000 and 7,000 job losses in the next three years. Many of the above job losses will be concentrated in areas where unemployment is already high such as the North East and Scotland. None of these developments makes the further likely job losses in the shipbuilding industry easier to bear in the areas affected (nearly all of which are already suffering from industrial decline and high unemployment). But we believe it right to view these losses in

the wider perspective of the economy as a whole, while recognising the difficulties which regions such as Northern Ireland, Clydeside and the North East are experiencing in participating in the functioning of the national economy..

THE CASE FOR GOVERNMENT INTERVENTION

46. Against this gloomy prognosis, Ministers will wish to consider whether there is a case for the Government to intervene to prevent further contraction or the possible closure of the merchant shipbuilding industry and a contraction of the naval yards, for wider strategic or economic reasons.

Strategic Case for Maintaining the Shipbuilding Industry

47. As a Maritime nation Britain depends on its fleets for trade and defence. It has therefore often been argued (frequently of late in Parliament) that the United Kingdom must maintain an indigenous shipbuilding industry for strategic reasons. Indeed the argument is often expressed far more widely on the lines that maritime commercial and national interests - the merchant navy, the Royal Navy, shipbuilding, fishing, seabed resources, law of the sea issues, ship broking, marine research, marine insurance, carrage of imports and exports by sea - are of such special importance to the UK as to require a 'maritime policy' and far greater co-ordination than there is at present. We examine these arguments briefly below.

The Merchant Fleet

48. The number of ships on the UK register - about 670 of over 500 grt - has been falling as many companies are increasingly using foreign registers where operating costs are lower. The Government's policy is to come to terms with this inescapable fact: accordingly various means are under consideration for ensuring that as far as possible vessels on foreign registers can be readily made available in an emergency. For strategic purposes, the UK fleet is therefore most appropriately defined by reference to vessels owned or controlled from the UK. This comprises some 900 vessels, of which about 30 per cent were built in the UK.

49. Merchant vessels would have two distinct functions in times of tension or war: to operate in support of the armed services, and to maintain the flow of essential imports to support manufacturing and the civil population.) Recent studies by the Department of Transport have shown that adequate ships are available to meet the first requirement, although certain deficiencies may arise in the near future and measures are being considered to deal with them. As for the second function, there would certainly be a significant shortage of some types of vessel during the first two months of a major conflict, but NATO pooling arrangements exist to help deal with national problems of this kind and a study by the Alliance is in hand to assess the adequacy of the pool.

50. It is at present possible to have all types of merchant vessel built overseas, and there is no reason to expect this to change in the future in peace-time. In a period of tension or war, however, it is likely that many or most overseas sources would not be available. The value of UK sources at such times would, however, be limited.

a. they would of course be liable to attack and would therefore not be an absolutely secure source;

b. given the scale of merchant shipping that would be needed and the attrition that could be expected in war, the contribution that the UK shipbuilding industry could make, while helpful, would be relatively small;

c. the lead times for building ships are longer than UK endurance planning assumptions.

The Group's view, therefore, is that that the strategic need to preserve the UK's present merchant shipbuilding capability is not great enough to justify very substantial public expenditure.

51. There is however, a strategic requirement for repair facilities. If Europe were reinforced a large number of ships would be involved in supplying the UK, and facilities would be needed to carry out repairs to keep them servicable. At present this requirement can be more than met by the existing ship repair industry (described in Annex A) and does not affect our basic judgements on the shipbuilding industry.

Warships

52. In the case of warship building, it is clearly more important that there should be an indigenous industry. As a matter of policy, the possibility of procuring naval ships overseas is not ruled out, but in practice it is difficult to integrate the advanced weapons systems (which account for over 50 per cent of cost) into ships from other countries. Overseas procurement of major warships would also, of course, be politically controversial.

53. From a strategic viewpoint MoD has an essential requirement to maintain VSEL for submarine design and construction (VSEL/CL capacity then provides a capability for many other areas too). For the medium-term it is also necessary to sustain YS's capability for the design of frigates and VT for GRP ships. In the longer-term it might be possible to consider relying on foreign sources in some areas if this proved economically sensible and was acceptable to Ministers politically. But this is not a practicable option for the period to the mid 1990s because the first of class new ships - SSBN, Type 23 frigate, the new minehunter, AOR, and Upholder Class submarines - are already being built domestically. In any case, as has been indicated in paragraphs 43-41 above, there is more than enough UK capacity to meet any foreseeable naval requirements.

Competition Policy

54. Given the availability of ships from elsewhere there are clearly no competition reasons for maintaining UK merchant shipbuilding capability. But as indicated earlier, there may be a case for ensuring that sufficient yards remain in business to provide competition for future naval procurement. The MoD would like to have as many competing sources available as possible for its orders. For small craft it is common to have 6-10 small yards tendering. But

for major warships, which require a complex mix of different specialist skills to be brought together on each of a limited number of vessels, a wide spread cannot be expected. The major benefit comes from the absence of monopoly (ie where there are two fully fledged competitors); this immediately puts both firms under pressure for efficiency and innovation. While there are some extra benefits from a wider spread of three or more firms, the MoD's experience is that the major step change comes from preventing a single firm from controlling the domestic market.

55. The strategic requirements coupled with the limits on the capacity of individual yards will together ensure at least competition between two firms for most foreseeable ship orders to the mid 1990s (other than nuclear submarines, where there is only one supplier). VSEL and YS would be competitors for frigates and SSKs (covering 17 of the 22 major orders envisaged up to 1991 outside the nuclear submarine area); YS and VT would compete for the 8 GRP minehunters. Thus the Department would have to consider special steps to preserve competition for VSEL on the AOR (and in the longer-term other larger ships) only if all of SL, HW, and SH were in jeopardy - a fairly remote contingency.

56. Given its stretched programme, MoD is unlikely to be able to justify devoting resources specifically for increasing competition in shipbuilding beyond a field of two. Such resources would almost certainly give a better return in breaking monopolies faced by the Department elsewhere, for example in aircraft or weapon production or among specialised sub-contractors.

57. In short, the strategic considerations above and competition policy point to the same conclusion:: so long as VSEL, and YS, together with one of SL, SH and HW for the support vessels survive, the Navy's requirements can be satisfied competitively.

Economic and Social Considerations

58. Any further decline in the shipbuilding industry is likely to give rise to increasingly strident calls for the Government to take action for wider economic or social reasons. It will be argued that the Government have a duty

to prevent the extinction of this sector, particularly since the areas which will be hardest hit - the North East and Clydeside - already have exceptionally high levels of unemployment. Greenock/Port Glasgow, for example, already has a male unemployment rate of nearly 26 per cent, and this would rise to over 32 per cent if Scott Lithgow were to close.

59. The fact is, however, that shipbuilding is no longer very significant to the national economy overall. The direct contribution of BS and HW to GDP appears to be negative. They account for about 0.05 per cent of the UK employed labour force, and there are at least 200 larger companies in the UK. BS is, for example, about a tenth of the size of Marks and Spencer. Its turnover is similar to that of a single large engineering company.

60. Although the economic case for sustaining the merchant shipbuilding industry is undoubtedly weak, the argument has been made that the Government should not let the industry run too far down when there may be a significant upturn in demand in the 1990s, and shipbuilding worldwide may once more become profitable. This argument is advanced in the new BS Corporate Plan. It is, however, more speculative whether even in these circumstances shipbuilding in Europe generally or the UK would become profitable. On the other hand, while the capital costs of entering the market are not high, all new entrants start building simple standard ships and it takes a long time to acquire the necessary skills to build sophisticated vessels (even now the Japanese appear not to be competitive for passenger ferries). It could be argued, therefore, that if the UK were to withdraw from the large merchant shipbuilding sector, it might be difficult later to reassemble the necessary skills to re-enter and we would therefore lose the capability of operating in a potentially (but not certainly) profitable sector. Since, however, the prospect is so speculative the Group as a whole do not regard this as invalidating the general economic conclusion above.

61. The DTI, in their analysis of BS Corporate plan, will prepare detailed costings of the effect of rapid closure of BS' merchant operations. This will include the effects on ancillary industries. Preliminary figures indicate that the full costs to the Exchequer on top of those for the current round of

redundancies, could be of the order of £114 m using a three year re-absorption and £235 m using a five year re-absorption period, though in the main areas affected it could take much longer for everyone to be re-employed.

62. Any closures would, however, have a significant local impact on the communities concerned, increasing substantially (in the short term at least) levels of unemployment. Some communities - Sunderland, Belfast or the Clyde - have traditionally looked to shipbuilding as their main employment, and there is considerable local pride associated with each yard. Moreover, the shipbuilding industry has naturally been concentrated in areas of heavy engineering activity which have been severely hit by the restructuring in the coal and steel industries. Even though job losses may be absorbed in the economy as a whole, this will take much longer in local areas. There may therefore be a social argument for action to alleviate unemployment, at least in the short-term while local communities adapt.

63. Shipbuilding is particularly significant in Belfast: Northern Ireland has neither a coal nor steel industry, and HW is the only heavy industry in the Province. A study undertaken jointly by NIO and the Treasury and presented to E(NI) in July 1983 concluded that, whereas the job losses associated with closure of HW might be absorbed in the national economy within 5 years, the local Northern Ireland economy would be unable to replace jobs lost locally at the same rate; rather there would be a substantial increase in unemployment which could take up to 15 years to clear. The regional economy has since continued to decline and overall unemployment is projected to increase significantly in the medium term. The importance of HW has if anything increased in regional economic terms. Throughout direct rule Ministers have found it difficult to contemplate HW's closure, particularly at times of heightened tension in Northern Ireland, and successive Secretaries of State have allocated support from within the Northern Ireland block whilst increasingly seeking to apply discipline to the company. Whilst it is unlikely that the Northern Ireland parameters will ease in the short term, the logic of current policy is that if the company is unable to deliver ships according to programme and to obtain fresh orders HW will shrink and eventually close. Ministers explicitly accepted this in their discussion of

the AOR contract at E(A) in May.

Summary: A Case for Government Intervention

64. To summarise, we do not believe there is any overriding strategic or general economic case for maintaining the merchant shipbuilding yards at a higher level of activity than commercial considerations would suggest. There might however be a stronger social or regional case for some further action to help this sector. On the other hand, there is a continuing strategic need to maintain a warship building capacity. But this could be met by only three of the present five yards. It is desirable to maintain at least two competitors for each class of vessel, but this also does not require that all five present yards should continue in existence. In both the merchant and warship sectors the consequent run-down would not be serious in terms of the economy overall. But it would exacerbate severe existing problems of unemployment in the particular towns affected.

POLICY OPTIONS FOR THE GOVERNMENT

65. Against this background, Ministers will need to consider

- i. whether to continue with present policies towards merchant shipbuilding and warship procurement, which will almost certainly result in substantial further contraction of UK shipbuilding capacity within a two year timescale;
- ii. whether to try to slow down, or prevent, the further contraction of merchant shipbuilding, or alternatively to accelerate it;
- iii. whether to intervene to reduce the extent of contraction of warshipbuilding capacity;
- iv. given the prospects for shipbuilding, what measures should be taken to provide, or encourage the growth of, alternative employment opportunities in the areas affected by shipbuilding and other heavy industry-related redundancies.

66. The outlook for shipbuilding on present policies has been set out in full in this report. For the merchant yards it means as a probability of some further early contraction of BS beyond the closures recently announced, with a possibility of total closure by the end of 1988. For the warship yards it means early closure of SL, a very doubtful future for SH, and a threat to VT (particularly outside its GRP capacity). For HW current policies can be expected to result in reducing capacity and, conceivably, closure.

Measures to Support Merchant Shipbuilding.

67. The objective would presumably be to defend some or all of BS's surviving capacity, in the hope that it could become strong and profitable in the 1990s when world shipbuilding orders may recover. Possible measures include:

a. bringing forward public sector orders. With the exceptions of a bulk carrier for BSC which only Harland and Wolff could undertake, a resupply vessel for St Helena and some small ferry vessels, there are no public sector orders in prospect for merchant vessels;

b. speculative building. There is no reason to expect that ships built in advance of firm orders could be sold in 1-3 years time at other than the lowest distress prices, imposing heavy losses on BS and therefore increasing public expenditure;

c. additional subsidies for shipbuilding, if orders could be found. There is unlikely to be much room for these within the new EC state aid regime to follow the Fifth Directive which expires at the end of this year. Such subsidies would in a number of cases also be contrary to the UK's general stance on limiting export credit competition;

d. measures to assist UK shipowners. The Secretary of State for Transport is considering the scope for some kind of investment aid for UK shipowners. The speed and extent to which this would give benefit to UK ship builders is uncertain. While some benefit may be expected in the medium term, the amount of new investment will of course depend on

developments in world shipping markets; with the current world surplus of shipping, purchase of second-hand ships will in many cases be the most sensible way for UK (as opposed to EC) shipowners to modernise; and it would be difficult to limit to UK shipbuilders the construction of aid-assisted new ships.

e. work-sharing among BS shipyards. The idea would be to spread work as widely as possible over the remaining yards, deliberately foregoing opportunities to rationalise and cut overheads. There could well be EC constraints on the successful operation of such a policy, which would be far from satisfactory from the standpoints of management and workforce, although in the very short run it might avoid some restructuring and redundancy costs. This option would, however, reduce BS's competitiveness, so prejudicing future orders. DTI will be exploring the implications of this in considering BS's 1986 Corporate Plan;

f. keep the yards open despite the absence of work. Although this might be cheaper than keeping the yards open by building ships which could only be sold for less than the costs of materials, it could not in practice be done for more than very limited periods when early new orders were in prospect. It would not be possible to keep the facilities and skilled workforce idle for several years. As the Secretary of the Boilermakers' Section of the GMBU admitted in a letter of 17 June to the Financial Times, "It does not make long-term sense to subsidise workers to produce goods nobody wants".

68. None of these expedients is intrinsically desirable, and there can be no guarantee that any combination of them would ensure the survival of a chosen group of BS yards. Rather than prolong the agony, there could be a case for facing up to total closure as soon as possible, and then pursuing other policies to boost alternative employment opportunities. The implications of this course will be explored in the context of the BS Corporate Plan, but whatever the merits it would seem likely to present major political and employment difficulties.

Measures to support the warship yards.

69 Possible steps relate to the volume, timing and conditions of orders for the Royal Navy, and the terms on which UK-built ships are sold to foreign armed forces.

a. A planned approach to ordering

70. For the warship yards, a deliberate policy to guarantee the future of the UK industry would involve identifying now the core yards needed for strategic and competition purposes and ensuring that they received a steady flow of orders. The non-core yards would not be allowed to compete for further naval work, thus allowing the remaining yards to spread overheads over more vessels and providing economies through batch ordering. Such a 'planned' approach would reduce the spur to improve efficiency provided by the current highly competitive environment; guaranteeing core yards' work would effectively create monopolies. It would also appear to run counter to general assurances given prior to privatisation that the yards would be allowed to compete for any work of which they were capable. A less overtly dirigiste approach would be to leave the non-core yards to compete, but on the basis that the Government would not depart from the results of competition in order to secure their survival. There would be a risk that the 'wrong' yards might win competitions, so threatening the future of facilities elsewhere judged to be necessary for defence. But it would always be open to the Ministry of Defence to override, in exceptional circumstances, the natural result of competition to sustain key facilities.

b. Rephasing orders

71. Another option would be action to reduce the trough in orders and workload inherent in MOD's current plans (which were shown in Figure 1). A steadier pattern of ordering would reduce the need for redundancies in the next 1-3 years only to be followed by a renewal of recruitment in the early 1990s. It would also avoid the risk of the cash flow short-fall resulting from the hiatus in orders putting at risk firms for which there would be enough defence work again by the 1990s. Bringing forward orders could, however, only be achieved within the existing defence budget by diverting resources from other defence programmes (requiring at least equally painful cuts elsewhere and

producing a less effective defence capability in total), or by an increase in provision. There are also limits on what is technically feasible. Since it takes 18 months between placing an order and the start of significant fabrication work in a yard, the dip in loading in 1987 is now unavoidable. The best that could be achieved would be to prevent the loading falling as far as expected in 1988. This could be achieved, for example, by:

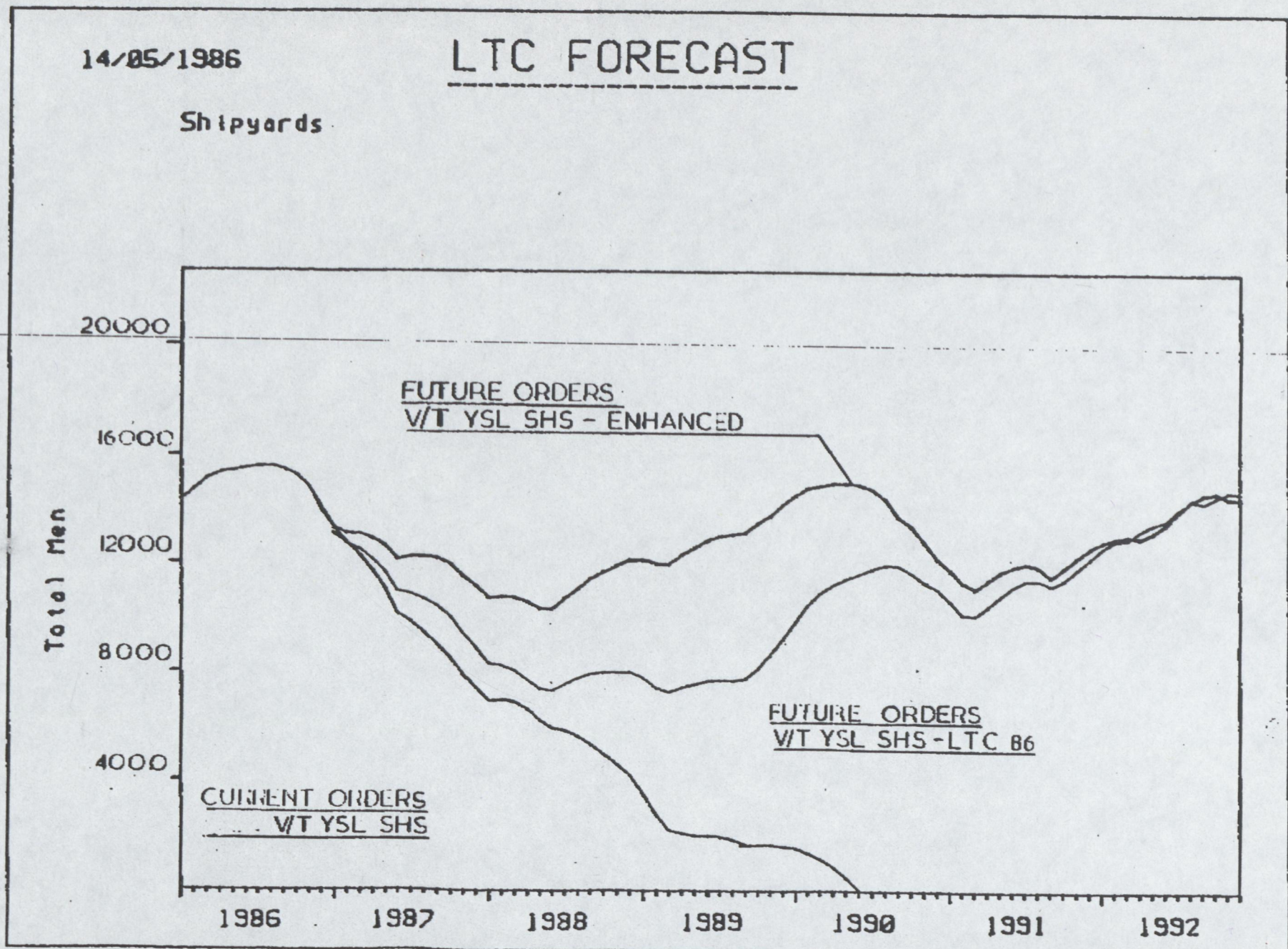
- a. Adding to the two frigate orders planned for 1986 and one for 1987 by bringing forward 3 more Type 23 Frigates from the early 1990s (to begin building in 1987 and early 1988). The cost profile would be:

					£m
1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
+ 5	+ 30	+ 55	+ 78	+ 80	+ 39'
1992-93	1993-94	1994-95	1995-96	Later years	
- 23	- 61	- 82	- 60	- 61	

- b. Bringing forward the Single Role Minehunter Programme by one year. In theory a greater acceleration would be feasible, but this would involve substantial procurement risk given that the first of class had only recently begun construction. The cost profile would be:

					£m
1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
0	+ 3	+ 15	+ 13	+ 7	0
1992-93	1993-94	1994-95	1995-96	Later years	
- 12	- 13	- 10	- 2	- 1	

FIG 2



Together these measures could produce a raised workload as shown in Figure 2.

72. The impact of such rephasing on individual yards would clearly depend on what orders they won. The MoD preliminary assessment, however, is that if the weaker yards (VT and SH) had firm orders ahead of them they might struggle through the lessened dip in 1988 with wastage and short time working. About 4,000 jobs might be saved in the short term, although as the expense of a similar number of job opportunities in the 1990s. The total gross cost in discounted cash flow terms of bringing forward these orders is about £60 million at 1985-86 prices, though increasing public expenditure by more in the PES years. The discounted net cost to the Exchequer allowing for tax, national assurance and benefit flows would be much less, at about £5 million.

73. Improved Export Credit Support for Major Warships

As noted in paragraph 27, UK warshipbuilders have had little success in recent years in securing major export orders. Such orders have substantial advantages, not only for the yards themselves but also for potential UK suppliers of all the equipment, civil and military, needed in the ships. One possibility for consideration would therefore to be made some improvement in the financial terms UK yards are able to offer secure new orders. Although softer export credit terms would not in themselves guarantee success, other arms exporting countries may well be covertly offering credit on concessional terms; for example the US FMS credits can involve long term loans to potential customers at rates equal to half the cost of US government funding. A possible scheme would be:

a. each of the four major yards (VSEL, YS, VT and SH) would be given a private assurance that ECGD would match the concessional credit terms provided by the US government (say 85 per cent credit over 20 years from contract at 5 per cent interest) for its first major export order for frigates/submarines up to (say) 1988;

b. this credit would apply to the UK content of the contract price only;

c. the sales would have to be accommodated within the ECGD cover available for the country concerned, and other underwriting requirements would have to be satisfied.

74. There are no OECD or other international regulations governing the terms of export credits for defence sales. The Government are therefore free to offer such a relaxation in ECGD's terms of cover so long as they are prepared to absorb the substantial additional subsidy costs. The main objections are as follows:-

a. greater use of soft credit terms runs counter to the lead taken by the UK in developing and promoting OECD arrangements to avoid an escalating trade credit war to the UK's economic disadvantage;

b. prudential limits on ECGD cover for many prospective markets mean that a sizeable warship order may displace other, usually less subsidised, UK military and civil business;

c. there might be pressure to extend such concessions to other defence sales (including smaller naval vessels) leading to higher subsidy costs;

d. other shipbuilding countries would be likely to respond in kind generating a futile and expensive credit competition which the UK would be ill placed to win;

e. ECGD would have difficulty in underwriting recourse to the weaker privatised yards (eg VT and SH) without some external financial backing. (Such recourse is exercised if default on a guaranteed loan is due to the performance failure of the exporter).

75. If support were given to the sale of one frigate value £100 m on the above terms the gross interest subsidy would be approximately £59.0 m compared with an estimated subsidy of £14.3 m on normal terms for the poorest countries. On a discounted basis this would involve a gross subsidy of £27m (£18.6m net for the poorest countries) per ship. (For intermediate and richer countries

the net subsidy will be higher). The cost per job in shipbuilding (based on the gross subsidy) is estimated at about £7,500 a year. Such a scheme could not be justified on defence grounds, but could be an alternative to other possible schemes (described below) to cushion the regional and social impact of decline in the industry.

Employment Support Measures

76. Despite the lack of any strategic requirement to maintain shipbuilding capacity, shipbuilding has attractions as a means of sustaining employment: the industry has provided traditional manufacturing jobs, regarded by some as 'real jobs', the yards are an important focus of local pride and they are often in areas where newer industries have been slow to take root. To the extent that parts of the industry - principally the warship yards - can be seen as having a clear future, policy should reasonably be directed to ensure that future. But there can be little case for trying to sustain artificially those parts of the industry with no commercial future. To do so would tie up precious resources which might be better used to create jobs in newer industries with a better chance of a long-term future. The average gross cost per job of supporting state owned merchant shipbuilding has been around £7,000 a year in recent years, though this seems set to rise given the current low prices for ships. Thus the BS Corporate Plan suggests a figure of some £10,000 in the period ahead. On the other hand, every 10 jobs in shipbuilding support 7 in supplying industries taking the average cost per job secured by continued support for BS to around £6,000. This is close to the average Exchequer cost of revenue lost and benefits available to the unemployed. By way of comparison with job creation schemes, the approximate gross cost of each filled place in the community programme in 1985-86 was £4,350, with a net Exchequer cost of around £1,900.

77. In the past, redundancies in shipbuilding and other sectors have been met by ad hoc packages developed at short notice as crises have occurred. The response to the BS redundancies announced in May was to set up British Shipbuilders Enterprise Ltd, partly financed by resources from existing programmes. The company was provided with £5 m in 1986-87 for financial support to advise, retrain, and give business loans to redundant workers. In

addition £5m has been earmarked from existing allocations to provide retraining and environmental improvement work. As an alternative to direct increases in shipbuilding subsidies, such measures could be used to cover further redundancies, either at the cost of additional public spending or diversion of existing resources.

78. Such an approach, however, merits more careful consideration and advance preparation than on the last occasion. In other words, the strategy should be prepared in advance of the crisis. One approach would be to devise and keep on the shelf a flexible package of additional measures which would build on existing employment and environment schemes and would concentrate on encouraging the growth of new and small businesses. It would, of course, be for consideration by Ministers whether such measures should be financed by reallocation of existing expenditure provision or by additional expenditure.

CONCLUSIONS AND RECOMMENDATIONS

79. The Group's principal conclusions are:

- i. there is substantial excess capacity in both the merchant and warship-building sectors;
- ii. on any reasonable assumptions about the continuation of present trends and policies (including no new subsidy schemes for shipbuilding and continuation by MOD of a vigorous competition policy within the framework of present defence plans/resources) there will be further substantial closures and redundancies. By the early 1990s the industry could be reduced to a rump of warshipbuilders comprising Vickers, Cammell Laird, Yarrow and the glass fibre capacity of Vosper Thornycroft;
- iii. there is no strategic case for intervention to avert this rundown (there is a strategic requirement for repair facilities, but adequate capacity is available at present and studies are in hand to examine longer term capacity);

iv. nor is there any overriding economic case for intervention in favour of this particular (relatively small) industry;

v. there is, however, a potential case for some intervention to help cushion the effects of shipbuilding closures and other redundancies in the worst hit areas. This could take the form of a continuation of current aids to merchant shipping and an extension in a limited way to warship exports, as well as policies directed towards encouraging alternative employment in these areas;

vi. for future MoD orders, all yards capable of undertaking the work should be allowed to compete. But the Government should only depart from the results of the competition where necessary to secure the survival of capabilities which are strategically essential.

80. We therefore recommend that consideration should be given now to how most effectively existing DE, DOE and DTI schemes (and corresponding schemes in Scotland and Northern Ireland) can be developed and targetted on the areas worst affected by shipbuilding and other redundancies, either by diversion of existing public expenditure provision or by additional resources.

81. These steps would constitute the Government's minimum response. Further consideration may suggest some case for measures to of the kind discussed in paragraphs 66 to 77 above. But we make no recommendations on these now, and decisions will turn among other things on a judgment about their place in overall public expenditure priorities.

ANNEX A

THE SHIPREPAIR INDUSTRY

1. This annex describes the existing shiprepair capacity available in the UK and comments on the size of the existing world market.

PRIVATE SECTOR SHIPREPAIRS

2. The British shiprepair industry is distributed around the coast and is represented at all the major ports. The business involved ranges from relatively small specialised repair services to yards offering the full range of docking and refit facilities. Moreover, many private sector shipbuilders engage in shiprepair work including the smaller ship yards which were never taken into public ownership as well as the newly privatised warship yards. All these yards can be expected to compete more for shiprepair business as competition for shipbuilding becomes increasingly fierce.

3. Statistics about the shiprepair industry - both here and in other European countries - are difficult to obtain. However, the Association of Western European Shipbuilders (AWES) estimates that average employment in British shiprepair during the year to 31 March 1986 was 6250. (This figure excludes the Royal Dockyards which, as will be seen below, dwarf these figures.) The numbers employed fluctuate widely since typically a company

employs a small permanent workforce, supplemented as necessary by casual labour. By way of example, Tyne Shiprepair Ltd has a core of 350 supplemented by 600 casual employees; similarly Smiths Shiprepairers (North Shields) Ltd permanent workforce of 200 can be increased by 700 casual workers.

4. The major private sector shiprepair yards are:

NAME	LOCATION	TURNOVER (1984) £m
Tyne Shiprepair Ltd	South Shields	12.8
Smiths Shiprepairs Ltd	North Shields	13.3
Vosper Shiprepairs Ltd	Portsmouth	18.2
Falmouth Shiprepair Co Ltd	Falmouth	6.0
Brooke Marine	Lowestoft	3.9
Clyde Dock Engineering Co Ltd	Govan	6.0
Grangemouth Dockyards Ltd	Grangemouth	1.3
Bristol Channel Shiprepairers Co Ltd	Cardiff, Barry, Swansea, Bristol	1.9
Humber Shiprepairers ltd	Immingham	NA
Seaforth Welding Co Ltd	Liverpool	5.2
Tyne Dock Engineering Ltd	South Shields	3.0

By way of comparison, the turnover of Devonport Dockyard was £208 m in 1984 and Rosyth Dockyard £140 m.

The warships also compete for repair work.

5. The turnover figures include refit work which shiprepairers would classify as shiprepairing. Some of the traditional warship builders, such as Vosper Thornycroft (UK) Ltd, carry out extensive refit work although they do not have dry dock facilities. If dry docking were required, public or private dry docks could be hired and then the main refit carried out at the shipyard.

Harland and Wolff

6. In addition, Harland and Wolff offer facilities. H&W's shiprepair capacity in terms of manpower is low (approximately 200). The physical facilities are limited and basic, consisting mainly of a repair key although the company has the use, on a rental basis, of a one million tonne dry dock. The repair division also has access to the company's shipyard and engineering division where necessary. The volume of work depends on local traffic, but the repair activity makes a useful contribution to overheads.

The Royal Dockyards

7. On contractorisation the Royal Dockyards, which employ over 11,000 at Devonport and 6,000 Rosyth, will be guaranteed work equivalent to only three-quarters of their present capacity. They will have to compete for the remainder, worth perhaps £100 m a year, with the private sector. This could be a significant source of work, although since the Ministry of Defence workload is declining and since the private sector will find it hard to be competitive, too much reliance should not be placed on it.

UK SHIPREPAIR MARKET

8. The total amount of work carried out by UK shiprepairers (excluding Royal Dockyards) is declining, turnover reducing from £100.6 m in 1982 to £83 m in 1984 and £68 m in the year to March 1986. This work was predominately for UK ship owners, only some 10 per cent of business in 1984 arising from foreign ships.

9. The decline in shiprepair reflects the reduction in the size of the UK registered fleet. The number of vessels over 100 gross registered tonnes in UK registered ownership is now less than half the number of registered in 1960; it has been suggested that this tends to break the traditional link between ship ownership and the use of national repair facilities. In addition, changes in the technology of shiprepair and design have lengthened the service intervals required between routine dockings and inspections. Two recent improvements are the change to self-polishing compolymer hull coatings and performance monitoring and planned maintenance.

10. The above factors have together reduced the size of the potential demand for shiprepairing facilities in the UK and contributed to the decline in the size of the shiprepair industry. AWES have been unable to provide data about the potential size of the market and consequently we do not know what proportion of work for UK owners is placed in UK shiprepair yards nor whether the yards are losing their share of repair work for UK owned ships.

POLICY TOWARDS THE SHIPREPAIR INDUSTRY

11. The largest shiprepair companies came under public ownership in 1977 as the result of nationalisation but British Shipbuilders were subsequently instructed to sell, close or dispose of their shiprepairing activities. This has now been completed.

12. The Government's view is that there is a surplus of shiprepairing capacity in the UK - which will be exacerbated following contractorisation of the Royal Dockyards. Government policy is to refuse aid to shiprepairers which have run into financial difficulty. Furthermore, any such aid would have to be notified to the European Commission in accordance with Article 4 of the fifth directive on aid to shipbuilding. Shiprepairing yards are not capital intensive but any investment aid exceeding 5 m ECUs (approximately £3 m) would also have to be notified. In view of the over-capacity in shiprepairing throughout Europe the granting of aid for rescue or for major investment seems likely to be challenged by the Commission.

CONCLUSION

13. The amount of shiprepairing capacity provided by the private sector companies is difficult to assess by there appears to be considerable over-capacity. The Government has not provided aid to avoid a run down in this sector. Some further contraction seems inevitable.

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address
 Appledore Shipbuilders Ltd
 New Quay
 Appledore
 North Devon, EX39 1LX
 Tel : 02372 3281

Facilities etc
 2 Slips . Largest Ship 10,000 dwt.
Ship Type : General cargo vessels;
 bulk carriers; dredgers; chemical
 and products tankers; container vessels;
 offshore supply ships; naval auxiliary ships.

Managing Director: Mr C Benton

Constituency: Devon West & Torrridge	M.P.: Sir Peter Mills	Party : Con
Others with) Devon North	M.P.: Tony Speller	Party : Con
an interest)	M.P.:	Party :
)	M.P.:	Party :

Location: Bideford	TTWA: Bideford	Unemp Rate: 20.2%
Employment	a) Vesting: 870	b) 1984/85 : 818
		c) Jan 86 : 650
Redundancies	a) Last Announcement: 70 (HR1 issued October 1985)	b) Outstanding : 3

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/
Profit(loss) (£m):	-0.3	-2.1	-1.6	-0.4	-0.1	-4.4	-7.4	
Turnover (£m):	17.0	17.2	21.4	14.6	20.8	24.4	14.7	
No. of Orders Taken:	3	2	2	3	2	2	-	2
Ships Completed:	-	3	1	-	2	2	3	3

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987			
	I	J	I	M	I	A	I	M	I	A	I	M
Contract No: 141												
Owner: ARC Marine												
Ship Type: Dredger												
Contract No: 142												
Owner: ARC Marine												
Ship Type: Dredger												
Contract No:												
Owner:												
Ship Type:												
Contract No:												
Owner:												
Ship Type:												

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Austin & Pickersgill Ltd
 PO Box 38, Southwick
 Sunderland
 Tyne & Wear, SR5 2BJ
 Tel : 0783 486100

Facilities etc

2 Slips
 Multi-Purpose Standard Cargo Vessels
 (from 9,000 to 22,000 dwt)
 Standard Bulk Carriers (from 26,000 to 35,000 dwt)

Managing Director: Mr G H Parker

Constituency: Sunderland North M.P.: Mr Robert Clay Party : Lab

Others with) M.P.: Party :
 an interest) M.P.: Party :
) M.P.: Party :

Location: Sunderland TTWA: Sunderland Unemp Rate: 22.4%

Employment a) Vesting: 2906 b) 1984/85 : 1781 c) Feb 86 : 1238

Redundancies a) Last Announcement: 465 (announced Feb 1985) b) Outstanding : 59

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss) (£m):	0.8	-5.87	-11.54	-8.95	0.4	-19.71	-8.03	
Turnover (£m):	45.2	45.8	50.4	65.5	61.4	27.1	22.0	
No. of Orders Taken:	3	2	8	12	-	2	4	1
Ships Completed:	8	11	7	7	6	3	5	4

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987			
	I	A	M	I	I	A	M	I	I	A	M	I
I Contract No: 1431												
I Owner: Liberia												
I Ship Type: Multi King 22L												
I												
I Contract No: 1432												
I Owner: Liberia												
I Ship Type: Multi King 22L												
I												
I Contract No: 1434												
I Owner: J P Knight												
I Ship Type: N Sea Barge												
I												
I Contract No: 1435												
I Owner: J P Knight												
I Ship Type: Barge												
I												

CLARK KINCAID (Greenock)

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Clark Kincaid Ltd
Greenock Works
PO Box 31
18 East Hamilton Street
Greenock, PA15 2AE
Tel : 0475 20441/6

Facilities etc

Slow-speed engines (under licence from
MAN-B&W and Sulzer
Propeller Shafting, Bearings, Stern tubes and Seals
Tanker Hatch Covers, Exhaust Gas Valves
General Fabrication and Machining

Managing Director: Mr W Scott

Constituency: Greenock & Port Glasgow M.P.: Mr N A Godman Party : Lab

Others with) M.P.: Party :
an interest) M.P.: Party :
) M.P.: Party :

Location: Greenock TTWA: Greenock Unemp Rate: 22.4%

Employment a)Vesting: 1411 b)1984/85 : 700 c) Jan 1986 : 536

Redundancies a)Last Announcement: 76 (HR1 issued 1 Nov 1985) b)Outstanding 14

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss)^ (£m):	-0.45	-2.66	-5.24	-1.90	-2.18	-6.11	-11.01	
Turnover (£m):	10.8	9.6	19.7	19.5	14.6	6.4	8.68	

CURRENT ORDERS

(Key : O=Order ; S=Shop Trial Completion)

Engine	1985					1986					1987				
	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I
Contract No: 504															
Customer: Smiths Dock															
Engine Type: Sulzer 5RLB56															
Contract No: 505															
Customer: A & P															
Engine Type: B&W 4L70MNCE															
Contract No: 506															
Customer: A & P															
Engine Type: B&W 4L70MNCE															
Contract No: 511															
Customer: (Land Engine)															
Engine Type: SW 8TM620															
Contract No: 512															
Customer: (Land Engine)															
Engine Type: SW 8TM620															

Note Traded separately as John Kincaid Ltd until October 1984.
1984/85 results are for combined Clark-Kincaid company.
Work on current engine orders is split between the Greenock and Wallsend sites.

BRITISH SHIPBUILDERS : YARD DATA RECORD

<p><u>Address</u> Clark Kincaid Ltd Wallsend Works P.O. Box 8, Wallsend, Tyne and Wear. NE28 6QH Tel : 091 267 8941</p>	<p><u>Facilities etc</u> Medium - speed engines, Various engine components, Ships cranes and general engineering work.</p>
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Managing Director: Mr W Scott

Constituency: South Shields	M.P.: Dr D Clark	Party : Lab
Others with) an interest))	M.P.:	Party :
	M.P.:	Party :
	M.P.:	Party :

Location: Newcastle	TTWA: Newcastle	Unemp Rate: 18.8%
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Employment	a) Vesting: 1938	b) 1984/85	575	c) Feb 1986 : 382
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Redundancies	a) Last Announcement:	84 (HR1 issued 1 Nov 1985)	b) Outstanding	0
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	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss)^ (£m):	-1.4	-5.1	-8.4	-2.3	-2.3	-9.5	-11.00	
Turnover (£m):	19.0	15.2	18.1	24.9	24.9	8.1	8.58	

CURRENT ORDERS

(Key : O=Order ; S=Shop Trial Completion)

Engine	1985				1986				1987			
	I	J	I	A	I	J	I	A	I	J	I	A
IContract No: 504												
ICustomer: Smiths Dock	-----								-----			
IEngine Type: Sulzer 5RLB56	-----								-----			
IContract No: 505												
ICustomer: A & P	-----								-----			
IEngine Type: B&W 4L70MNCE	-----								-----			
IContract No: 506												
ICustomer: A & P	-----								-----			
IEngine Type: B&W 4L70MNCE	-----								-----			
IContract No: 511												
ICustomer: (Land Engine)	-----								-----			
IEngine Type: SW 8TM620	-----								-----			
IContract No: 512												
ICustomer: (Land Engine)	-----								-----			
IEngine Type: SW 8TM620	-----								-----			

Note Traded separately as Clark Hawthorn Ltd until October 1984.
1984/85 results are for combined Clark-Kincaid company.
Work on current engine orders is split between the Greenock and Wallsend sites.

Bref 42

FERGUSON-AILSA (Port Glasgow)

BRITISH SHIPBUILDERS : YARD DATA RECORD

<p>Address Ferguson-Ailsa Ltd Newark Works Port Glasgow Renfrewshire, PA14 5NG Tel : 0475 42214</p>	<p>Facilities etc 3 Slips (Max Length 100m) LPG Carriers up to 5,500 dwt Ferries, General Cargo Vessels, Tugs, Small Bulk Carriers, Dredgers, Fishing Vessels, Small Naval Auxiliary Vessels Offshore Supply Vessels</p>
<p>Managing Director: Mr J L Peach</p>	

Constituency: Greenock & Port Glasgow	M.P.: Mr N A Godman	Party : Lab
Others with an interest) Carrick Cumnock & Doon Valley)	M.P.: Mr George Foulkes	Party :
	M.P.:	Party :
	M.P.:	Party :

Location: Port Glasgow	TTWA: Greenock	Unemp Rate: 21.6%
Employment	a) Vesting: 363 b) 1984/85 : 390	c) Feb 1986: 420
Redundancies	a) Last Announcement: 48 (announced Feb 1986)	b) Outstanding: 48

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss)^ (£m):	-	-2.75	-3.55	-6.28	-1.14	-1.96	-2.23	
Turnover (£m):	-	17.2	13.7	15.0	24.0	20.3	16.1	
No. of Orders Taken:	1	1	2	3	2	-	3	0
Ships Completed:	3	1	2	2	2	2	3	1

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987																					
	I	J	I	F	I	A	I	M	I	J	I	A	I	S	I	O	I	N	I	D	I	J	I	F	I	M	I	A	I	M
Contract No: F567																														
Owner: John Townsend Ltd	B	—	—	—	L	—	—	C																						
Ship Type: Tug/Supply Ship																														
Contract No: F568																														
Owner: Arctic Offshore M	B	—	—	—	L	—	—	C																						
Ship Type: Tug/Supply Ship																														
Contract No:																														
Owner:																														
Ship Type:																														

Note ^ In 1978/79 Ferguson Bros was part of Scott Lithgow, thereafter results/performance are included within the Ferguson-Ailsa figures.

B.P.L. 9F

FERGUSON-AILSA (Troon)

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Ferguson-Ailsa Ltd
Troon
Ayrshire
KA10 6DN
Tel : 0292 311311

Facilities etc

2 Slips (max length 114m); 2 Docks (max length 122-
LPG Carriers up to 5,500 dwt
Ferries, General Cargo Vessels, Tugs,
Small Bulk Carriers, Dredgers, Fishing Vessels,
Small Naval Auxiliary Vessels
Offshore Supply Vessels

Managing Director: Mr J L Peach

Constituency: Ayr

M.P.: Rt Hon George Younger Party : Con

Others with)
an interest)
)

M.P.: Party :
M.P.: Party :
M.P.: Party :

Location: Troon

TTWA: Ayr

Unemp Rate: 14.5%

Employment a) Vesting: 456 b) 1984/85 : 380 c) Feb 1986 : 378

Redundancies a) Last Announcement: b) Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss) (fm):	-1.0	-2.75	-3.55	-6.28	-1.14	-1.96	-2.23	
Turnover (fm):	4.8	17.2	13.7	15.0	24.0	20.3	16.1	
No. of Orders Taken:	1	1	1	1	4	2	4	0
Ships Completed:	-	3	1	-	2	2	3	2

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985					1986					1987									
	I	J	I	F	I	M	I	A	I	M	I	J	I	A	I	M	I	A	I	M
Contract No: A569																				
Owner: Seaforth Maritime																				
Ship Type: Supply Ship																				
Contract No: A570																				
Owner: Seaforth Maritime																				
Ship Type: Supply Ship																				
Contract No: A571																				
Owner: MAFF																				
Ship Type: Research Vessel																				

Note From 1979/80 onwards the Ailsa results/performance are included within the Ferguson-Ailsa figures

GOVAN

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Govan Shipbuilders Ltd
 1048 Govan Road
 Glasgow
 G51 4XP
 Tel : 041 445 2351

Facilities etc

Multi-purpose Dry Cargo Vessels (15,000-24,000 c
 Bulk Carriers
 Standard and Specialised Passenger/Car Ferries
 Other Specialist Vessels
 Re-engining

Managing Director: Mr E D Mackie

Constituency: Glasgow Govan M.P.: Rt Hon Bruce Millan Party : Lab
 Others with) Glasgow Garscaddon M.P.: Mr Donald Dewar Party : Lab
 an interest) Glasgow Provan M.P.: Mr Hugh Brown Party : Lab
) Greenock & Port Glasgow M.P.: Mr N A Godman Party : Lab

Location: Glasgow TTWA: Glasgow Unemp Rate:22.0%
 Employment a)Vesting: 5662 b)1984/85 : 2823 c) Jan 1986 : 234
 Redundancies a)Last Announcement: b)Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/
Profit(loss) (£m):	-14.88	-14.92	-12.98	-6.29	-12.48	-12.85	-18.35	
Turnover (£m):	41.25	25.74	40.68	52.63	67.51	32.83	30.14	
No.of Orders Taken:	-	2	2	5	2	-	4	0
Ships Completed:	4	9	4	2	3	3	2	3

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985			1986			1987		
	I	A	I	I	A	I	I	A	I
Contract No: 264									
Owner: CEGB									
Ship Type: Collier									
Contract No: 265									
Owner: P & O Ferries									
Ship Type: RO/RO Ferry									
Contract No:									
Owner:									
Ship Type:									
Contract No:									
Owner:									
Ship Type:									

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

South Bank
Middlesbrough
Cleveland
TS6 6UH
Tel : 0642 454252

Facilities etc

3 Slips
Dry Cellular and Reefer Container Vessels
Refrigerated Vessels
RO/RO and other specialised vessels up to
30,000 dwt
Oil Refinery Maintenance Contracts

Managing Director: Mr D Spence

Constituency: Middlesbrough

M.P.: Mr Stuart Bell

Party : Lab

Others with)
an interest)
)

M.P.:

Party :

M.P.:

Party :

M.P.:

Party :

Location: Middlesbrough

TTWA: Middlesbrough

Unemp Rate: 23.5%

Employment

a) Vesting: 3718

b) 1984/85 : 1525

c) Feb 1986 : 153

Redundancies

a) Last Announcement:

b) Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85
Profit(loss) (£m):	-5.225	-9.946	-6.058	-2.202	0.106	-1.180	-11.025	
Turnover (£m):	45.21	21.57	26.76	30.69	38.33	25.62	22.82	
No. of Orders Taken:	1	2	-	2	2	-	5	0
Ships Completed:	3	3	2	2	-	3	1	1

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985					1986					1987									
	I	J	I	F	I	I	A	I	M	I	I	J	I	A	I	I	O	I	N	I
Contract No: 1356																				
Owner: BUE Ships																				
Ship Type: Diving Support																				
Contract No: 1357																				
Owner: Cyprus																				
Ship Type: Cargo																				
Contract No: 1358																				
Owner: Cyprus																				
Ship Type: Cargo																				
Contract No: 1359																				
Owner: Cyprus																				
Ship Type: Cargo																				
Contract No: 1360																				
Owner: Cyprus																				
Ship Type: Cargo																				

SEE1

18 APRIL 1986

SUNDERLAND SHIPBUILDERS

BRITISH SHIPBUILDERS : YARD DATA RECORD Brief 41

Address

Sunderland Shipbuilders Ltd
 PO Box 1, Pallion
 Sunderland
 Tyne & Wear, SR4 6TX
 Tel : 0783 670143

Facilities etc

3 Slips
 Standard Bulk Carriers (from 20,000dwt to Panamax size).
 Cargo Liners from 12,00 to 20,000 dwt
 Tankers, Product Carriers, Diving Support Vessels.

Managing Director: Mr E Welsh

Constituency: Sunderland North

M.P.: Mr Robert Clay Party : Lab

Others with) Sunderland South
 an interest)
)

M.P.: Mr Gordon Bagier Party : Lab
 M.P.: Party :
 M.P.: Party :

Location: Sunderland

TTWA: Sunderland

Unemp Rate: 22.7%

Employment a)Vesting: 4614 b)1984/85 : 2030 c) Feb 1986 : 1869

Redundancies a)Last Announcement: 250 (HR1 issued 1 Jan 1986) b)Outstanding 145

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/
Profit(loss) (£m):	-5.23	-19.32	-0.62	-5.61	-1.81	-12.66	-4.87	
Turnover (£m):	98.74	47.60	55.77	59.32	58.55	50.11	52.17	
No. of Orders Taken:	-	2	5	5	4	4	1	-
Ships Completed:	7	6	6	4	3	5	1	2

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987																				
	I	A	M	I	J	I	J	I	A	I	S	I	O	I	N	I	D	I	J	I	F	I	M	I	A	M	I	J	I
Contract No: 868																													
Owner: ITM Offshore	—————				B	—————				L	—————				C	—————													
Ship Type: Crane Ship																													
Contract No: 24																													
Owner: Northern Coaster	—————								L	—————				C	—————														
Ship Type: Diving Support																													
Contract No: 25																													
Owner: Northern Coaster	—————												L	—————				C	—————										
Ship Type: Diving Support																													
Contract No:																													
Owner:																													
Ship Type:																													

BRITISH SHIPBUILDERS : EMPLOYMENT AND REGIONAL BRIEF

[February 1986]

COMPANY	* EMPLOYEES *	* TTWA *	* UNEMP % *	* CONSTITUENCY *	* M P *	* PARTY *
Appledore Shipbuilders	650	Bideford	20.2	Devon West & Torridge	Sir P Mills	Con
Austin & Pickersgill	1238	Sunderland	22.0	Sunderland North	R A Clay	Lab
Clark Kincaid - Greenock	536	Greenock	21.6	Greenock & Port Glasgow	N A Godman	Lab
Clark Kincaid - Wallsend	415	Newcastle	18.8	South Shields	Dr D Clark	Lab
Ferguson-Ailsa Pt Glasgow	420	Greenock	21.6	Greenock & Port Glasgow	N A Godman	Lab
Ferguson-Ailsa Troon	378	Ayr	14.5	Ayr	G Younger	Con
Govan Shipbuilders	2348	Glasgow	17.6	Glasgow Govan	B Millan	Lab
Smith's Dock	1472	Middlesbrough	23.0	(Middlesbrough (Redcar)	(S Bell (J Tinn	Lab Lab
Sunderland Forge Services)	311	Sunderland	22.0	(Sunderland South	(G Bagier	Lab
Sunderland Shipbuilders)	1855			(Sunderland North	(R A Clay	Lab
Britparts	12	Newcastle	18.8	Wallsend	W Garrett	Lab
B.S.(Training)	40	Glasgow	17.6	Glasgow Govan	B Millan	Lab
		Aberdeen	6.6	Aberdeen South	G Malone	Con
		Barrow	11.5	Barrow in Furness	C Franks	Con
Marine Design Consultants	172	Sunderland	22.0	Sunderland South	G Bagier	Lab
		Dundee	16.7	Dundee East	G Wilson	SNP
-----	-----	-----	-----	-----	-----	-----
TOTAL : MS & EB COMPANIES	9847					
=====	=====	=====	=====	=====	=====	=====
B S STAFF	187					
-----	-----	-----	-----	-----	-----	-----
TOTAL BS EMPLOYEES	10034					

Note: Unemployment rate (GB)(including school leavers)(unadjusted): 13.6%
 Unemployment rate (UK)(including school leavers)(unadjusted): 13.7%

MAJOR UK SHIPBUILDERS

1. VSEL/CAMMELL LAIRD

Location

VSEL - Barrow-in-Furness
Cammell Laird - Birkenhead

Workforce

VSEL - 8750 (3780 tradesmen and helpers)
Cammell Laird - 1320 (750 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

VSEL - SSN16, December 1986
SSN17, March 1988
SSN18, February 1990
SSN19, February 1991
SSK01, February 1988
SSBN05, Early 1990s

Cammell Laird - Type 23-13, February 1989
SSK02, January 1990
SSK03, August 1991
SSK04, February 1993

Remarks

The VSEL/Cammell Laird conglomerate is by far the largest shipbuilding company in the UK. VSEL have a large design staff and a monopoly of SSN/SSBN construction. The ongoing expansion of facilities will give them the capacity in future to build all such boats required by the RN. Indeed, optimum plant utilisation will in the near future require additional surface ship or conventional submarine work. If the TRIDENT programme is to be maintained more than 1000 additional tradesmen and helpers will be required by the early 1990s.

Facilities and labour force at Cammell Laird could be readily expanded to maintain an output of one frigate and one conventional submarine a year if the combine win the orders.

2. YARROW SHIPBUILDERS LIMITED

Location

Glasgow

RESTRICTED COMMERCIAL IN CONFIDENCE

Workforce

4600 (including 2400 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

Type 22-08, November 1986
Type 22-11, September 1987
Type 22-12, January 1988
Type 23-01, March 1989

Remarks

A frigate specialist with a comprehensive design capability. It was purchased last year by GEC and has the capacity to build a Type 23 frigate every nine months. Such a programme would stabilise the workforce at about 5000 with 2800 tradesmen and helpers. The yard's Glass Reinforced Plastic shipbuilding facility has been mothballed because of a lack of orders.

3. VOSPER THORNYCROFT

Location

Woolston and Porchester

Workforce

2700 (including 1100 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

MCMV 10, December 1986
MCMV 12, December 1987
MCMV 13, March 1989
SRMH 01, March 1989

Remarks

Vosper Thornycroft was bought by its management at the end of 1985. The Woolston yard has design and construction facilities for Glass Reinforced Plastic-hulled minehunters. The GRP facility is currently fully loaded, but longer term prospects are uncertain as the SRMH programme is being deferred. Since the modern frigate building facility has no work the outcome of the negotiations on the Pakistani Type 21 order is critical to the future of the yard.

4. SWAN HUNTER LIMITED

Location

Tyneside (north bank) - Wallsend, Neptune

RESTRICTED COMMERCIAL IN CONFIDENCE

Tyneside (south bank) - Hebburn

Workforce

4500 (including 2600 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

Type 22-09, November 1987
Type 22-10, February 1988
Type 22-14, September 1989
LSL Sir Galahad, July 1987

Remarks

Swan Hunter was privatised by a management buy-out team earlier this year. The company can design merchant ships and first of class naval auxiliaries, and follow-on warships where design is limited to the introduction of changes. It cannot design a first of class warship. The yard at Hebburn is already largely in care and maintenance, but the industrial workforce is likely to remain fairly steady for the next year or so working on existing orders.

5. HARLAND AND WOLFF

Location

Belfast

Workforce

5200 (including 2500 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

RFA ARGUS, March 1987
AOR 01, August 1990

Remarks

Harland and Wolff was modernised to allow the company to compete for Very Large Crude Carriers and Bulk Carriers. As this market has shrunk, and the remnant been cornered by the Japanese and South Koreans, the company has sought to return to the naval new construction market after a 20 year gap. This has put them in direct competition with the established naval builders on the mainland.

6. SCOTT LITHGOW

Location

Greenock - Cartsburn and Port Glasgow

RESTRICTED COMMERCIAL IN CONFIDENCE

Workforce

1560 (including about 1000 tradesmen and helpers)

Current MOD Orders

None

Remarks

The first BS yard to be privatised, being sold to Trafalgar House in 1983. The Cartsburn facility is in care and maintenance. The Port Glasgow yard is fitting out a drilling rig due for completion in November 1986. The yard has no other significant work.

Note

Unless otherwise stated, all data is as at May 1986.

RESTRICTED COMMERCIAL IN CONFIDENCE

SUMMARY TABLE: GOVERNMENT FINANCIAL ASSISTANCE TO THE SHIPBUILDING INDUSTRY IN THE MAJOR PRODUCING COUNTRIES

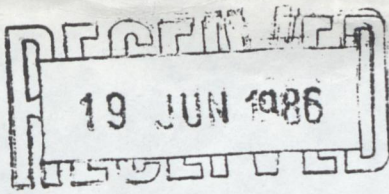
COUNTRY	DIRECT SUBSIDIES	EXPORT CREDIT	DOMESTIC CREDIT			TAX ALLOWANCES ETC
			CREDIT SHARE OF PRICE	REPAYMENT PERIOD	INTEREST	
Belgium	Nil	OECD terms	80% Interest relief subsidy max 3 percentage points	15 yrs		
Denmark	Nil	OECD terms	Ship credit fund 80%	14 yrs including 4 yrs grace period	8%	Ship lease finance scheme. investors in new marine vessels possessing a bank guarantee for 20% contract price could apply to the Danish Investment Fund (DIFKO) for the rest of funds. DIFKO would launch scheme enabling individual investors to purchase blocks of shares. Cost payable over several yrs but holder may claim tax rebate on the whole sum. Scheme abolished in December 1984 and led to collapse in orders in 1985. Consideration being given to the introduction of a similar but limited scheme.
Federal Republic of Germany	Nil	KFW provides export credit on OECD terms and special conditions for developing countries	Investment grants. Up to 12.5%. If owners comply with certain conditions 20% for conversions. 2% subsidy rate for domestic owners. Interest free loans for ships flying the FRG flag which were built between 1972 & 1982			Tax concessions for shipping companies. Tax allowances for private investment in shipbuilding. <i>ditto</i> like the Danish scheme. Lander support for companies buying ships

SUMMARY TABLE: GOVERNMENT FINANCIAL ASSISTANCE TO THE SHIPBUILDING INDUSTRY IN THE MAJOR PRODUCING COUNTRIES

COUNTRY	DIRECT SUBSIDIES	EXPORT CREDIT	DOMESTIC CREDIT			TAX ALLOWANCES ETC
			CREDIT SHARE OF PRICE	REPAYMENT PERIOD	INTEREST	
France	20% for large & medium yards 10% for small yards	OECD Terms	8½ years @ 7½%			
Italy	25% Large yards 15% Medium yards 11% Small yards Plans for demolition subsidies on a 2 old tonnes for one new tonne basis Additional 5.3 for yds in the Mezzogiorno	OECD Terms	OECD Terms			All materials used in shipbuilding are exempt from VAT. No customs duties on imported materials on equipment. Incentives for rationalisation and reorganisation leading to reductions in capacity 30% - for large yards 20% for medium - small yards. 35 million lira allocated for research & development in 1986
Netherlands	Up to 7%	OECD Terms	80%	8½ yrs	8%	
			With 2% subsidy for ocean-going vessels			
Spain	9.5-14.5% linked to Govt approved restructuring schemes & high tech vessels. 0-9.5% for the rest	OECD terms Special fund for exports to developing countries	85%	12 yrs with grace period	8%	Customs rebate of 5.5% on imports of parts & materials.
			Conversion & Repairs: 75%	8 yrs with up to 2 yrs grace period	8%	Customs duties on ships imported from the EEC 9.3% - to be progressively reduced to nil over 7 years.



4/128



10 DOWNING STREET

THE PRIME MINISTER

19 June 1986

Thank you for your letter following your decision not to join the one day strike on 20 May.

I congratulate you on your decision to stay at work. It does not show a lack of concern about jobs at British Shipbuilders. On the contrary, the only way to secure these jobs is to win orders - and that means demonstrating a determination to work hard to fulfil orders on time and to cost. For our part, we in Government shall continue to give the most effective support we can.

I was certainly impressed by the Stena Seawell. It is a fine achievement for your yard, and I know it will help strengthen Sunderland's position in the tough competition for the orders which are available.

Managers of Wear SAIMA Branch



CCBQ

BF

MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

19 June 1986

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

I have seen David Young's recent minute to you about the situation in the North East created by the BS redundancies, and Nicholas Ridley's comments of 23 May.

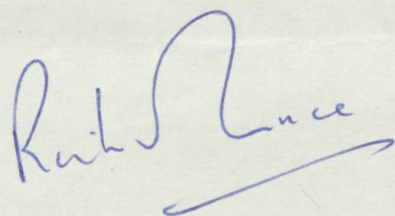
When we took office in 1979 we took a decision to bring financial reality to the existing plans for the dispersal of government work to the regions. Our own programme of dispersal has been a success. We have moved nearly 5,000 jobs out of London and we are more than 85% of the way to our target. The programme is well understood. Were we now to introduce an additional element of "dispersal" (called by this name) we should create confusion, particularly in the North East which has always regretted our decision to exclude from the programme the transfer of PSA work to Middlesbrough. Fourth-fifths of Civil Service jobs are already outside London, and the northern region has the fifth highest number of civil servants in relation to its population as compared with the ten other regions.

I suggest, therefore, that in seeking to alleviate the impact of BS's problems on the North East we keep any transfer of government work quite separate from the dispersal programme.

I believe that we can do this under the existing policy for the relocation of government work. This already takes account of regional, urban, and inner city development needs. Departments wishing to move from their existing location are required by Cabinet Office (MPO) and the Treasury to provide regional interests with an opportunity to show, by means of cost benefit analysis, which receiving locality is most advantageous. The analysis includes any regional financial assistance that might be available to the private sector on relocation. That is intended to provide scope for ensuring that the pressing needs of the regions, one against another, are properly met, once the true costs to the economy and to the Exchequer of making a move have been established.

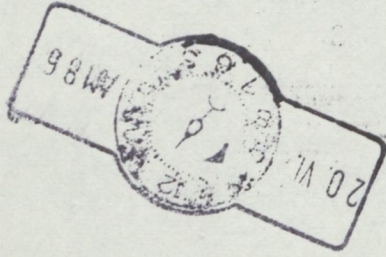
John MacGregor and I should be very ready to make available the technical expertise of our departments to ensure that the situation created by the BS redundancies is considered constructively in accordance with the procedures for the relocation of Government work.

I am sending copies of this minute to Willie Whitelaw, Nigel Lawson, Paul Channon, Nicholas Ridley, Malcolm Rifkind, John MacGregor and Sir Robert Armstrong.



RICHARD LUCE

NAT ind
STAPBUICUNG
0970



CONDICION
M

27582 CABOFF G
21877 COMEU B
27582 CABOFF G
537037 CIVSUN G
IF 4/6
DATE 19.6.86

TO MR. M. ADDISON
P/S TO THE PRIME MINISTER
10, DOWNING STREET
LONDON

③ DUTY CLERK No 10.

① FILE

1) MGA
CC DEN

SUNDERLAND BOROUGH COUNCIL: MEETING WITH THE PRIME MINISTER

I AM GRATEFUL TO THE PRIME MINISTER FOR AGREEING TO SEE THE
BOROUGH COUNCIL ON MONDAY NEXT AT 4.00PM.

THE COUNCIL WILL BE MEETING, BEFOREHAND, THE DELEGATION OF
MP S AND TRADES UNIONS WHO WILL ALSO ATTEND THE DISCUSSIONS.
IT IS OUR INTENTION THEN, BUT SUBJECT OF COURSE TO THE TIMETABLE
AND WISHES OF THE PRIME MINISTER, TO AGREE A STRUCTURE FOR
OUR LATER MEETING WITH HER, AS FOLLOWS:

- THE GENERAL SITUATION IN SUNDERLAND
- WHAT WE HAVE BEEN DOING ABOUT IT,
- IMMEDIATE AND FUTURE SHIPYARD REDUNDANCIES,
- PROPOSALS FOR THE FUTURE OF SHIPBUILDING, BOTH GENERALLY
AND ON THE WEAR,
- PROPOSALS TO IMPROVE AND DEVELOP THE TOWN'S ECONOMIC BASE

WE HOPE THAT THE COUNCIL'S IDEAS AND THOSE OF OUR FELLOW
DELEGATES WILL PROVIDE THE MAJOR FOCUS OF THE MEETING AND, AS
FAR AS POSSIBLE, SECURE THE PRIME MINISTER'S BACKING.

COUNCILLOR DONNELLY WILL BE THE PRINCIPAL SPOKESMAN FOR THE
DELEGATION.

G.P. KEY
CHIEF EXECUTIVE

27582 CABOFF G
537037 CIVSUN G



CEB

Department of Employment
 Caxton House Tothill Street London SW1H 9NF
 Telephone Direct Line 01-213.....5949.....
 Switchboard 01-213 3000

The Rt Hon Nicholas Ridley MP
 Secretary of State for the Environment
 2 Marsham St
 London
 SW1P 3EB

18 June 1986

NBP at this stage

Dr. [unclear]

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

I have seen your minute of 28 May to the Prime Minister which includes a first appraisal of the possibility of moving some PSA functions to the North East. I am very keen to see this examined further because, in the light of my recent visits to Tees-side, I have become convinced that the area will not recover until some major new employers move in.

You may know that we have experience with the same sort of decision having moved the Manpower Services Commission to Sheffield and some of the functions of the Health and Safety Executive to Bootle. I would not seek to deny that there are difficulties but they are not insuperable. The arguments which you put in your minute gainst dispersal were of course all raised at the time of the dispersal of MSC but the move has been successful and has resulted in jobs for local people.

I am very doubtful about arguments that there are any efficiency grounds to reject further dispersal of PSA functions. You personally will not need to be persuaded that the North East is not a desert and it is perfectly possible to recruit skilled staff there. Any staff who decided to resign in order to remain in Croydon would have no difficulty in finding alternative employment there in the private sector.

We are already making some moves to transfer responsibility for government offices from PSA to government departments. More extensive transfer of responsibility and privatisation of some functions would both allow greater dispersal of PSA activities regionally and greater use of "scarce disciplines" in the private sector.



I am therefore glad that you would be willing to contribute to exploring the scope for dispersal of government activities to the North East. And I hope that examination would be able to draw on our own experience of dispersal.

I am sending copies of this letter to the Prime Minister, the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and for Scotland, the Chief Secretary to the Treasury and Sir Robert Armstrong.

KENNETH CLARKE

NAT IND Shipbuilding ATO





(77)
COMOD
DTI

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 June 1986

The Prime Minister has asked me to thank you for your letter and enclosure of 16 June.

Mrs. Thatcher is, as you know, very much aware of your concern about the orders you mention. But I am afraid the pressures on her diary make it difficult for her to see you. The Prime Minister has suggested that you might find it helpful to meet instead Mr. Younger or one of his Ministers, who would be very willing to discuss this with you.

(David Norgrove)

P. Vaughan, Esq.

CAS



HOUSE OF COMMONS
LONDON SW1A 0AA

Mark Addison
Private Secretary
10 Downing Street
London SW1

17 June 1986

Dear Mr Addison,

MUSA

DEPUTATION FROM SUNDERLAND - 23 JUNE 1986

Further to my letter to you of 5 June 1986, giving names of those attending the meeting on 23 June, I write to inform you that, because of a meeting of the Federation of Shipbuilding Unions in Llandudno that day, Mr Tony Carty will be unable to come to London. He will be replaced by Mr Jim Baldwin, a member of Austin & Pickersgill Joint Shop Stewards Committee.

Yours sincerely,

Bob Clay

BOB CLAY, MP

NAT INA Shipbuilding PTIO





10 DOWNING STREET

Pompe Hunter¹

Erwan Hunter

Naval Director would
like to meet you again.

Agree that they should

see Mr Younger or me of
his Director?

Yes

no

DLW

17/6.

MR. TAYLOR

COPIED FROM hle
HOME AFFAIRS
CRIME PREVENTION
SEMINAR
PT 2

ca

call Mr J Coe.

MONDAY 23 JUNE

We had a word today about the Crime Prevention Seminar, which runs from 1630 to 1900. The Home Office are making the arrangements for this, and the Seminar is to be chaired by the Home Secretary.

Also on that afternoon is a meeting with a delegation from Sunderland, consisting of Councillors, MPs and trade unionists to discuss shipbuilding closures. That meeting is scheduled for 1600-1700 hours. The Prime Minister has agreed it should be held in the Cabinet Room. The Sunderland delegation will consist of 13 people. The timings of the two meetings should avoid any mixing up of those coming and going to and from each. Jim Coe is trying to ensure that the press who will be around to cover the Seminar do not also bump into the Sunderland delegation.

MARK ADDISON

17 June 1986

ECL/26

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CC/BG

Swan Hunter Shipbuilders Limited

WALLSEND SHIPYARD · P.O. BOX 1 · WALLSEND · TYNE & WEAR NE28 6EQ
Telephone National Tyneside (091) 262 8921 Telex 53151
International +44 91 262 8921 53556

Your Ref

Our Ref/v/jgh/13601

16 June 1986

The Prime Minister
10 Downing Street
LONDON

Dear Mrs. Thatcher,

When we met on 25 April at Newcastle Airport to discuss the future work required for the survival of Swan Hunter, we accepted then, as we do now, the overriding importance of submitting tenders which are competitive on price, conditions, delivery and represent value for money. Since privatisation, we have taken a number of steps to streamline the Company, including last week's announcement of 825 redundancies, further economies in purchasing and increased labour efficiency. These improvements in our cost structure have been built into the very keenly priced tender we have now submitted for the second Type 23 Frigate on a single ship basis at a price of £57.8 million.

Evaluation of this price must in fairness be on a like for like basis. Our price assumes that we will not be required to absorb either the cost of the lead yard design or VAT on equipment purchased by GEC-Yarrow, the lead builder, who do not have to bear either cost. In the absence of this assumption, the MOD would be placing the lead builder in a monopolistic position. This defeats MOD's aim of "encouraging the maintenance of a competitive base for warship construction".

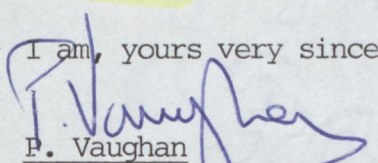
We have also submitted prices for this vessel as a part of various batch combinations for Frigates 02 to 08. As you would expect early multiple orders will result in substantial reductions in the unit price per vessel.

Of other matters raised at our meeting, we remain anxious that design work in MOD's programme should be brought forward to enable us to retain our remaining key design staff.

Naturally, we are most eager to take advantage of the opportunity you afforded us for tendering for AOR-02 at an early date. We have not yet, however, received any information to enable us to tender and would very much appreciate your help in accelerating this process.

The resolution of all these issues is material to the survival of our Company and we would very much welcome an early meeting with you to explain our situation.

I am, yours very sincerely,


P. Vaughan

Joint Managing Director

Signed on behalf of the four Joint Managing Directors -
Alex Marsh, Peter Vaughan, Ken Chapman and Roger Vaughan

Registered Number 924707 England

Registered Office: Wallsend Shipyard, Wallsend, Tyne & Wear NE28 6EQ

Swan Hunter Shipbuilders Limited

WALLSEND SHIPYARD · P.O. BOX 1 · WALLSEND · TYNE & WEAR NE28 6EQ

Telephone National Tyneside (091) 262 8921

Telex 53151

International +44 91 262 8921

53556

Your Ref

Our Ref ajm/dr/0613/11

13th June 1986

Mr. F.G. Dufty, ADC/SS5
Directorate of Contracts,
Procurement Executive,
Ministry of Defence,
Block F,
Foxhill,
Bath. BA1 5AB

Dear Sirs,

INVITATION TO TENDER TYPE 23.02 LIGHT FRIGATE

1. We are responding to your telex 0510152Z JUN 86 requiring us to consider agreeing a fixed price for 23.02 close to £53 million and agree other contractual terms.
2. Your telex 291130Z JAN 85 confirming the Secretary of State for Defence's announcement in relation to Type 23.02 stated your intention to negotiate an order for the second Type 23 frigate with Swan Hunter Shipbuilders as soon as this could sensibly be done and subject to satisfactory agreement on price and other terms. The price for this frigate also to reflect the economies obtainable with an order for 2 frigates rather than one and to be competitive. The Secretary of State made reference in his Parliamentary Statement to the competition for Type 23.03 which would be entered into by all builders and against which competitiveness was to be judged.
3. In the event the delays in ordering 23.02 and the fact that 23.02 is a totally different ship from the Type 22 frigate have meant that there are no economies obtainable by virtue of the fact that Type 22.14 was ordered from Swan Hunter Shipbuilders at the time of the Secretary of State's announcement.
4. With regard to competition, in our experience as a follow on builder of many different classes of warship, competition has been carried out on the basis of direct shipyard costs and due regard is taken for the necessity for any follow on shipbuilders to be provided with both lead yard service information and long lead

13th June 1986

Mr. F.G. Dufty,
Directorate of Contracts

equipment items free of charge. Additionally at the time of the Secretary of State's announcement and in relation to the Type 23 Frigates, the need for set up costs also to be taken into account was clearly understood. These set up costs relate to the once off technical work required to commence construction for a class of ship in any follow on shipyard. The national need for competition dictates that these costs will of necessity be incurred.

5. Your telex referred to above and the Secretary of State's announcement on 28th January 1985 both clearly indicated that the intention was to place with Swan Hunter Shipbuilders a class of ship new to that Company with the overhead burden (noted in 4 above) of maintaining competition borne by the Ministry of Defence. You will recall that the direction of Type 23.02 to Swan Hunter was recompense for the award of Type 22.13 to Cammell Laird on non-commercial grounds. Clearly our first Type 23 Frigate in lieu of a repeat Type 22 frigate must involve additional set up costs, lead yard services etc.
6. You confirmed that your figure of £53 million is not a price quoted by any other contractor but rather is a price that ensures that we totally bear the additional costs of lead yard services, VAT on Yarrow-procured items and set up costs. That is to say that you would expect Swan Hunter Shipbuilders to absorb any costs that you would pay to the lead builder for lead yard services and also further absorb VAT which would be recoverable by the lead yard on long lead items but not by Swan Hunter Shipbuilders under current Customs and Excise rules because of the way you have organised their procurement, and of course set up costs as defined in para 4.
7. This represents a total change in the Ministry's procurement policy regarding follow on builders and must jeopardise the stated MOD policy of encouraging the maintenance of a competitive base for warship construction..

The net effect of your requirements (which amount to an additional cost burden for a follow builder of many millions of pounds and which in this context would be borne totally by Type 23.02) would be to preclude follow on builders from bidding successfully against the lead shipbuilder. This is not the spirit of the competition referred to in the Secretary of State's announcement in 1985.

8. The lead builder, in this case Messrs Yarrow, a member of the GEC group, have received the order for the first of class without any competition at all and appear now to be able, through your changed policy, to win all follow on work. This can only lead to a GEC monopoly.

13th June 1986

Mr. F.G. Dufty,
Directorate of Contracts

9. In relation to the nature of this tender you have stated that Type 23.02 will be formally classified as a non-competitive risk tender and in our telex of 6th June 1986 to J.L.P Davis, Director of Contracts (Surface Ships), we pointed out that the standard conditions of Government Contracts and the spirit of agreement with the CBI state that in non-competitive risk contracts fair and reasonable prices shall be paid. Your implied change of procurement policy referred to above with regard to follow on builders does not result in a fair and reasonable price.
10. We are unable to absorb these additional costs which are rightly yours to take and yours to minimise with the lead builder. We have, however, further considered our tendered price for this ship and in view of the dire consequences for this Company and to the local community and for the prospects for genuine long-term competitiveness in the industry if we were not to receive an order for a Type 23 frigate, we are prepared to offer the following best and final price:- £57.8 million (FIFTY SEVEN MILLION EIGHT HUNDRED THOUSAND POUNDS).

You should note that this price includes a reduction in the previously quoted schedule 14 costs quoted in our tender of 1st June 1986 of £860,000. For your information this reduction is made up of £375,000 for dry docking, £200,000 for ELI attendance of representatives and £285,000 for Yarrow Shipbuilders commercially supplied information. We would wish these items to remain on Schedule 14 list with their new values. We are however, prepared to reflect these savings in the proposed ceiling price for Schedule 14 which we should now be £300,000 above the resultant schedule 14 price. We will send you new schedules tomorrow.

You should be aware that in our view Yarrow Shipbuilders are charging an extortionate amount for information provided under commercial contract. Their quotation for commercially supplied information is in excess of £700,000 per ship and reflects a 900% increase for comparable information compared with that provided for Type 22.14. Our proposed schedule 14 cost is the amount which we believe is necessary to provide if we were to carry out this work ourselves.

We believe that this price on the terms of the competitive procurement policy for follow on ships that existed hitherto is both fair and reasonable.

13th June 1986

Mr. F.G. Dufty,
Directorate of Contracts

11. As you are well aware, we have already offered substantial savings for a number of combinations of multiple ship orders and we are prepared to reflect this in our offered prices for 23.02 as follows:

Type 23.02 ordered as first of a pair with 03 or 04 or 05 £56.9 million (FIFTY SIX MILLION NINE HUNDRED THOUSAND POUNDS).

For your information the Schedule 14 reductions are for the same items as noted above but is now a total reduction of £717,500 from the previous Schedule 14 value. The same provisions with respect to a ceiling price will apply as above vis £300,000 above the resultant Schedule 14 price after taking above reduction.

Type 23.02 ordered as first of three with 03 and 04 or 03 and 05 or 04 and 05 £56.2 million (FIFTY SIX MILLION TWO HUNDRED THOUSAND POUNDS). The schedule 14 reductions in this case amount £670,000 comments as above apply.

Type 23.02 ordered as first of four with 03,04 and 05 £55 million (FIFTY FIVE MILLION). Schedule 14 reductions are £646,250, comments as above.

12. With respect to multiple ordering we would again draw your attention to the substantial savings included in our tender for Type 23.03 et seq. For multiple orders of two or more follow on frigates our unit price changes from £54.7 million for two to £50 million for 03 to 08 inclusive.
13. With respect to the various contractual conditions with which you would look for compliance listed in paragraphs 4 and 8 in your telex, we would comment as follows:-
- i Design uncertainty - We have already confirmed that we are bearing the costs associated with our response to ITT paragraph 11, within the tender price. It is confirmed that this also applies to the above offered price.
 - ii Clause 29a Force Majeure - Your objection to our proposal appears to be our requirement for force majeure for nominated and de facto monopoly suppliers. As explained to you earlier this week, because the Ministry are involved in the specification of nominated sub-contractors and because certain items, again due to specification, result in a de facto monopoly supply it is impossible to carry out competitive tenders with these groups of sub-contractors. They therefore have an overwhelming bargaining strength.

13th June 1986

Mr. F.G. Dufty,
Directorate of Contracts

Force majeure purely relates to the payment of liquidated damages for contract delay. We are prepared to undertake responsibility for the performance of all those suppliers and sub-contracts, selected by us, preferably after competition. We feel however that the achievement of satisfactory contractual terms with your nominated and de facto monopoly suppliers is extremely difficult and therefore we consider it fair and reasonable for you to carry the responsibility in terms of force majeure and potential liquidated damages for delay caused by these suppliers. We would point out that in the event of a default of nominated or de facto monopoly suppliers, we are already prepared to carry the consequential costs in relation to programme delay, dislocation or disruption. This in our view is a totally adequate incentive for us to put whatever pressure we can bear on these sub-contractors.

If you continue to nominate suppliers of your choice or specify unique equipment, then you too must carry some of the burden of control. Our proposed clause 29a therefore stands subject to any modification to incorporate the above intent.

iii Clause 25 - Payment - You have stated that it is the Ministry's intention to use contract cash flow as a significant lever. You have proposed that the Ministry operate a cash regulator so that the contractor at any time is not paid more than £1.5 million in excess of the contractor's total expenditure including contract profit. This we accept.

You are also requiring us to accept that this cash regulator clause no longer works in the opposite direction, i.e. you will not fund any excess of contract cost over receipts, which has been the practice hitherto. As we explained to you earlier this week, the following observations are relevant:

- a) We have already accepted your intention to withhold any instalment payment on the basis of any default of our contractual obligations subject only to being given two month's notice in writing. Effectively, this means you already have the ultimate lever through cash flow for ensuring contract performance.
- b) The operation of the regulator to maintain a near neutral cash flow both for the contractors' and the Ministry's benefit is to smooth the inevitable peaks and troughs in cash flow which are the result of an instalment scheme based on cardinal date programmes which are, in this industry, a relatively imprecise document. These programmes are themselves subject to change due to shifting critical paths, MOD modifications

13th June 1986

Mr. F.G. Dufty,
Directorate of Contracts

and other practical factors concerned with the construction of large complex projects over a number of years.

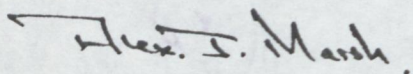
- c) We cannot believe it is in the Ministry's interests to have their contractors concerned about instalment patterns to the exclusions of issues of efficiency, performance and customer satisfaction which the threat of insolvency would imply - only companies such as GEC-Yarrow can afford to take a relaxed view of this issue.
 - d) You have further requested and we have accepted that contract instalment patterns are confirmed at contract award which due to the early stage of contract definition further exacerbates the position.
 - e) Our offer is therefore based on the acceptance of our proposed revisions to Clause 25 contained in our last tender.
- iv Clause 27 Liquidated damages - Your required change to the liquidate damages clause is acceptable.
- v Price Variation Clause 21 on labour costs - We have already agreed the tender index date and table in the manner normally practiced. This was confirmed at clarification, reference CMQ524/7 and 524/8. Our offer is on the basis of the clause 21 provision contained in our last tender in accordance with CMQ 524/7 and CMQ 524/8.
- vi Clause 59 Guarantee - Your proposed guarantee clause requires us to guarantee the total ship including those components designed by the lead shipbuilder and including those components already procured by the lead shipbuilder for which we have no contractual relationship with the supplier. Your clause also does not exclude consequential costs which is contrary to all normal commercial practice and contrary to your agreement to accept a guarantee provision and not rely on common law. We are unable to get insurance on the commercial market for either the liability for consequentials or for lead builder's design and procurement errors and therefore we believe it unreasonable for you to require this guarantee from us. In relation to design we assume that by the time 23.02 is in its guarantee period, all design uncertainty will have been resolved and therefore our proposed Clause 59 is reasonable for the guarantee period and as such forms the basis of our tender.
- vii Your requirement for a change in delivery date to CAD 15 November 1990 is accepted without additional cost.

13th June 1986

Mr. F.G. Dufty,
Directorate of Contracts

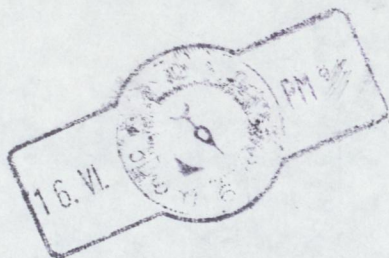
14. We understand that the above items form the substance of all outstanding major issues leaving minor issues for clarification, along with issue of financing which will be discussed at a later stage.

Yours faithfully,



A.J. Marsh
Managing Director - Operations

Copies to: Rear Admiral Hugh Thompson,
J.L.P. Davis, Director of Contracts
Vice Admiral Sir Derek Reffell, Controller of the Navy



PRIME MINISTER

FRIGATE ORDERS

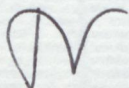
Mr. Nick Brown MP telephoned to ask to see you about the two Type 23 frigate orders which are likely to be decided early next month. He maintains that the Ministry of Defence do not understand the wider implications of the importance of these orders to the North East.

Tim and I suggest that you should not see him. There are four yards in the running for the orders and if you see Mr. Brown you will be under great pressure to see a number of other MPs. (The four yards are represented by a dozen or more MPs.)

Your normal practice is to see MPs about closures in their constituencies. This case falls on the margin, because the MPs are bound to fear substantial redundancies in the yards which do not get the orders. But as the line slips the number of MPs you could see grows very substantially. The lobbying you experienced over the AOR orders should really be the exception rather than the rule.

I should like, if you agree, to tell Mr. Brown you fully understand his concerns. But you hope that he would agree to see Mr. Younger if his concerns are directed specifically at the Type 23s or Mr. Channon if he would like to discuss shipbuilding more generally. If of course he wanted to set out his concerns in writing you would make sure they were given full consideration. I would also say that a decision is unlikely to be taken for several weeks. *-and point out-*

the fact in para 2. I can't see an M.P. and refuse to see 11 others.




pp (David Norgrove)
9 June 1986



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Ack/ 9 June 1986

BF || I attach for information a copy of a letter from Bob Clay MP, which provides details of the delegation who will be attending the meeting with the Prime Minister on 23 June.

I am copying this to Iain Mackinnon (Department of Employment), Brian Leonard (Department of the Environment) and Michael Stark (Cabinet Office).

(Mark Addison)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

BM



HOUSE OF COMMONS
LONDON SW1A 0AA

CF 113

Mark Addison
Private Secretary
10 Downing Street
London SW1

5 June 1986

1. DWS - HSE
2. M&A to Jerrard (PDT)
M&A due
I suggest someone
from the Cabinet office
might also attend
this.

Dear Mr Addison,

BF 11

DEPUTATION FROM SUNDERLAND - 23 JUNE 1986

I understand that you have agreed to increase the delegation by one.

DRS
9/6

The names of those attending are as follows :-

BOROUGH OF SUNDERLAND

- Cllr J Donnelly, JP
- Cllr J Connor
- Cllr J D S Brown
- Cllr F D Hall

the only Conservative attending

Mr G P Key (Chief Executive)

WEAR SIDE CONFEDERATION OF SHIPBUILDING AND ENGINEERING UNIONS

- Mr John Spoors - Secretary
- Mr Nick Wales - Vice-Chairman

AUSTIN & PICKERSGILL JOINT SHOP STEWARDS COMMITTEE

- Mr Tony Carty - Chairman *Jim Baldwin - Member*
- * Mr Peter Callaghan - Secretary

SUNDERLAND SHIPBUILDERS JOINT SHOP STEWARDS COMMITTEE

- Mr Cedric Morse - Chairman
- * Mr David Stores - Secretary

MPs

- Mr Gordon Bagier, MP for Sunderland South
- * Mr Bob Clay, MP for Sunderland North

Yours sincerely,

Bob Clay

BOB CLAY, MP

NAT IND Shipbuilding P110



HOUSE OF COMMONS
LONDON



P 02084

MR NORGROVE

CONFIDENTIAL

From: J B UNWIN
5 June 1986

cc Sir R Armstrong
Mr Wiggins
Mr Roberts

THE SHIPBUILDING INDUSTRY

We spoke briefly about progress on the current work on this yesterday and I thought it would be helpful to summarise for you where we stand and how I think we should aim to handle matters in the coming weeks.

2. First, the review of the shipbuilding industry in MISC 127. As I told you, I hope to be able to complete the report for submission to E(A) within the next 2-3 weeks. I shall aim for submission by the end of the week beginning 16 June, but it is an important and complex piece of work, and it may take a few days longer.

3. This report will contain some recommendations in its own right. It will also, however, provide the background to a number of specific operational questions due to come to Ministers in the next few weeks. These are:-

- the British Shipbuilders (BS) Corporate plan;
- decisions on the current MOD frigate tender (invitations have gone out for Type 23-03 and 04, and negotiations are still proceeding with Swan Hunter on 23-02 which was promised to them subject to price);
- a report on efficiency improvements and working practices at Harland and Wolff.

4. The Departments concerned expect to be able to bring forward papers on the first two by the end of the month. The Northern Ireland Office ought to meet the same timetable on Harland and Wolff, and we

1. ~~That~~ *Coli*
plp/k.

2. *Caroline*

for para 5. Yes.

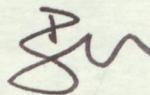
JRS
6/6.

MOD
I have offered
3 plots in the
week beginning
30 June etc.

CONFIDENTIAL

are in touch with them. Provided there is no delay in these papers, it would seem to me desirable to bring them to E(A) on one agenda together with the MISC 127 report. This would be a very weighty agenda indeed, and E(A) might well need to have more than one discussion. But it must be the sensible way to handle these sensitive and inter-related industrial issues.

5. If you think this would be acceptable to the Prime Minister, I will plan on this basis. In which case, I should be grateful if you would begin to earmark a spot for E(A) round about the end of the month (say, in the week beginning 30 June). It would be prudent, if possible, to allow at least 1 1/2 hours for the first meeting.



J B UNWIN



906

Mr. Notgrove
(Not send)

ce dn
file
E 01.7!
5 JUNE 1986
FILING INSTRUCTION
FILE No.

CONFIDENTIAL
and Commercial in Confidence

MR UNWIN

cc Mr Roberts

To Unwin
Many thanks. The politics
of a ship for BSC being built
abroad are not at all attractive.

HARLAND & WOLFF:
Relationship with MISC 127 work

DEW
6/6.

I have discussed the timetable for further Ministerial consideration of Harland and Wolff with Mr Watkins, DED Belfast.

2. DED expect the Swedish consultants' study to be completed and submitted to the H & W Board around the end of this month. Meanwhile the Company are themselves exploring the scope for savings through increased labour flexibility, but this subject is bound up with the current year's pay negotiations - the Company have proposed complete abolition of all demarcation lines, but the unions have not yet accepted this. There is also outstanding a remit to the Company to explore the scope for additional offshore oil-related work. Given the need for discussion by the H & W Board before reports are formally submitted to the Northern Ireland Secretary, DED do not expect to have a paper ready for E(A) until the second half of July.

3. Now that the AOR order has been given to H & W, there is no risk of the yard running out of work during the next three years. Ministerial discussion will thus need to focus on the extent and timing of any contraction in capacity at H & W, which would be implied by action to cut overheads. The view of the DED officials concerned appears to be that it would be sensible to decide in the near future to cut overheads sharply, so ending H & W's ability to take more than one major vessel at a time. This would be consistent with the present work schedule, which provides for the virtual completion of the SWOPS vessel for BP before major steel work begins in 1988 on the AOR. It would mean a decision that H & W should not compete for a 170,000 tonne bulk carrier for BSC on which work would start in 1987. This would eliminate the possible need for Intervention Fund Support for the BSC bulk carrier - no remaining BS yard is capable of building a ship of this size, although Swan Hunter are thought to retain some ambitions in this direction.

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Commercial in Confidence

4. The DED position is that, whereas it would have been very difficult had Ministers been obliged to take decisions on H & W in advance of the MISC 127 report, it would not matter if they had to deal with H & W after decisions had been reached on the GB shipbuilding situation. I think this is probably fair enough, provided we can be satisfied that there is no realistic possibility of the BSC bulk carrier being built by a GB yard. On the other hand, if Swan Hunter are realistic contenders for this ship, that would be a significant element in Ministers' consideration of the future of that yard. As to the substantial question of the reduction of H & W capacity, it appears that the consultants' study shows the most successful continental yards to be those which have retained the flexibility to do more than one ship at a time, although DED will be reluctant to accept this conclusion in relation to H & W. In the end the decision whether or not to take early action to cut H & W capacity should depend on a costs/benefit analysis of the alternative options, once all the facts are available. If Ministers were to decide on new measures to assist the GB merchant yards, it might be a little more difficult to cut H & W capacity in the near future, although the AOR order (and the fact that there is no imminent threat of total closure) could be argued to represent an alternative measure of assistance already given to H & W. If Ministers decide against any action to help BS, that would be an argument against additional subsidies to H & W to enable them to undertake the BSC bulk carrier.

x | 5. Mr Watkins has undertaken to keep us abreast of developments in relation to H & W as the MISC 127 discussions proceed. We shall need to consider later on this month whether to call for some kind of interim report on H & W, in order to give E(A) the full background.

JW
A J WIGGINS
Economic Secretariat.
5 June, 1986

*You should see this note.
I do not think it affects the
basic proposal in my earlier
minute to you. We shall
probably need to call for an
interim note on H & W, as
at X above.*

2
CONFIDENTIAL

JW
5/5/86

PRIME MINISTER

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

Lord Young has suggested that further Government work should be dispersed to the North East, including future computer developments and perhaps some PSA functions. He would like officials to explore the scope for this and to report urgently.

Mr Ridley, in his new role, does not believe it would be right on efficiency grounds to consider further dispersal of PSA functions.

Policy Unit accept that it would be wrong to move some parts of PSA but believe that other parts and other Departments could transfer functions to the North East. They support a study and suggest that a target should be given to some of the major Departments with a view to producing early results.

// Agree that, although the PSA dispersal proposal does not look very hopeful, you would not object to a quick assessment by officials of the pros and cons of further dispersal of other Departments?

Agree also that the study of an Urban Development Corporation in Middlesbrough agreed by E(A) should be moved along urgently?

DW

MS

David Norgrove

5 June 1986

df pps



Borough of Sunderland

G.P. Key, LL.B
P.O. Box No. 100,
Town Hall and Civic Centre
Sunderland SR2 7DN
Telephone 76161
Telex 537037

Geoffrey Key
Chief Executive

Our Ref: GPK/ABC
Your Ref:

Extension:
Date 4th June 1986

Dear Mr. Addison,

Further to my telephone conversation of today, I confirm that you agreed that Sunderland Council's delegation can be increased by one, thus increasing the overall number to 13. I am grateful for your accommodation.

Mr. Clay will respond formally to your letter giving you full details of the delegation.

Yours sincerely,

G. P. Key

1. DK Bsee
2. Ric.

Mr. M. Addison,
Private Secretary,
Prime Minister's office,
10 Downing Street,
London SW1



Borough of Sunderland



[Faint, illegible handwritten text]

Mr. Noygrove

(note at
end)



MANAGEMENT IN CONFIDENCE

CCBC

F051

~~MR UNWIN~~

c Mr Wiggins

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

You asked for any comments on the Environment Secretary's Minute of 28 May to the Prime Minister (A5462). Mr Ridley is responding to Lord Young's suggestion that some PSA work might be dispersed to the North East. The obvious candidates are the 850 staff located at Hastings (mainly the PSA mainframe computer) and, 1,900 HQ staff at Croydon and Chessington. There was a plan in the mid 1970s to move the PSA's headquarters to Middlesborough, but this was abandoned shortly after the present Administration came to office.

ATTACHED
IN
FOLDER

From the point of view of PSA, dispersal would not be welcome. As with any proposal to move staff away from London, communication with Ministers and Senior Officials would become more difficult, and the staff in general would prefer to remain in the South East. No doubt there would be some advantages in savings on rent and London Weighting payments, and it might be easier to recruit secretaries for example. But on balance it is clear that the PSA would prefer not to go.

The other side of the coin is whether dispersal would help the North East. Most of the PSA staff are in the Professional and Technological Group, and would be expected to move with the PSA. Some local people would be recruited particularly for non-mobile jobs including, for example, clerical staff, messengers, typists, and security guards. So there would be some local job opportunities. Against this, many of those moving with the Agency would bring dependants, adding to the local labour supply. There would also be a more general economic stimulus from the spending power of the PSA staff.

My guess would be that the benefits for the North East would probably not be great, and not worth the additional cost and inconvenience which would be



MANAGEMENT IN CONFIDENCE

caused to the PSA. I would therefore not have thought it worthwhile to commission a more detailed study; but equally I do not think any harm would be done if Officials were asked to do a quick assessment of the benefits and disbenefits.

(I should declare a personal interest. As a member of DOE it is conceivable that I might be posted to PSA at some stage, and I would much prefer to work in Croydon rather than move to the North East.)

The more important proposal is the possibility of an Urban Development Corporation for Middlesbrough on which Mr Ridley is working urgently. It would be helpful to tie this in with our report on Shipbuilding (MISC 127).

This is
in hand

J E ROBERTS

4 June 1986

I agree with the above.

IF the Prime Minister comments, I suggest that she ~~should~~ should :-

- (a) Stress the need to get on urgently with considering the case for an Urban Development Corporation for Middlesbrough;
- (b) Take the line that, although the PSA disposal proposal does not look very hopeful, she would not object to a quick assessment by officials of the pros & cons of disposal if Lord Young still thought it worth pursuing².

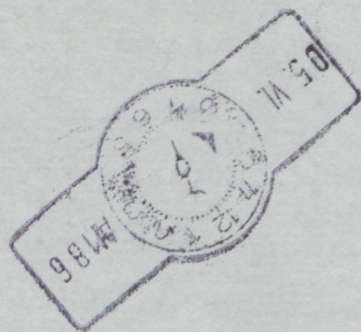
4/vi/86.

MANAGEMENT IN CONFIDENCE

NAT IND

SHIPBUILDING

PT 10



BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

We agree with Nicholas Ridley's view that the idea of moving the PSA's Croydon operation as a whole to the North East should not be resuscitated for the reasons that led to its abandonment.

On the other hand, moves of some departmental work of a non-specialist or administrative nature would be desirable. To provide an indication of which departments might have the scope to make a substantial contribution to this, without transferring a vast part of their total staff, the following departments occupy the greatest amount of headquarters space in London:

	<u>Sq. metres</u>
Defence	361,000
DTI	155,000
DHSS	113,000
Home Office	103,000
Inland Revenue	100,000
PSA	<u>85,000</u>
<u>TOTAL</u>	<u>917,000</u>

Transfer of 5% to 10% of this total space, together with employees, would provide a significant amount of help to the North East since, to the extent that employees do not move, local employment would be created.

We support David Young's suggestion that the scope for dispersal of Government activities to the North East should be explored, a target being given to the above listed departments with a view to producing early results.

David Hobson

DAVID HOBSON



10 DOWNING STREET

29 May 1986

From the Private Secretary

This is to confirm that the Prime Minister will be meeting a delegation of MPs, local authority and trade union representatives, on 23 June at 1600 hours, to discuss the difficulties faced by Sunderland following the recent announcement of the redundancies by British Shipbuilders. I have allocated an hour for the meeting, as well as half an hour for a briefing meeting immediately beforehand, starting at 1530.

Mr. Bob Clay M.P. has agreed to act as the coordinating point for the delegation as a whole. I attach copies of the letter from Mr. Clay, and from Mr. Key, Chief Executive, Sunderland.

B.F. || I should be grateful if you would coordinate a brief for the meeting, in consultation with the other Departments involved.

I am copying this letter to Iain Mackinnon (Department of Employment), Brian Leonard (Department of Environment) and to Michael Stark (Cabinet Office).

(MARK ADDISON)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

6



File

JAI/ASX
cc Mr Clay MP

10 DOWNING STREET

29 May 1986

From the Private Secretary

This is to confirm, following my telephone conversation with Mr. Hunter yesterday, that the Prime Minister has agreed to meet representatives of the Council as you requested in your letter of 21 May. The delegation will also comprise Members of Parliament and trade union representatives, as suggested by Mr. Bob Clay M.P. in his letter to the Prime Minister of the same date. The meeting will take place here at No.10 at 1600 hours on Monday 23 June.

I have asked Mr. Clay to let me have the names of all those in the delegation, which will need to be restricted to no more than 12 in total, and he will be in touch with you about this.

I am sending a copy of this letter to Mr. Bob Clay.

(MARK ADDISON)

Geoffrey Key, Esq.

GA



File

AIASW

cc Mr Key
✓

10 DOWNING STREET

29 May 1986

From the Private Secretary

This is to confirm that the Prime Minister has agreed to meet a delegation as you proposed in your letter of 21 May, and that we agreed the meeting would take place here at No.10 on Monday 23 June at 1600 hours. I explained that we should need to restrict the total number of the delegation to no more than 12, for reasons of space.

I should be grateful if you would let me know in due course, and after consultation with Sunderland Council, the names of those who will be in the delegation.

I am also sending a copy of this letter to Geoffrey Key, Chief Executive of Sunderland.

(MARK ADDISON)

Bob Clay, Esq., M.P.

OA



cc J. Fuller (CBG)
 Richard Luck's office
 | BF 12.6.76
 DW(0/1) for
 comments
 from him

Prime Minister

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

The Secretary of State for Employment in his recent minute expresses the hope that other measures be explored to bring new enterprise and employment to the North East. He refers specifically to the case for an urban development corporation in Middlesbrough and dispersal of Government work to the North East, including future computer developments and perhaps some PSA functions.

Following the discussion in E(A) of 8 May, I am urgently considering how best to proceed with a further UDC initiative.

A first appraisal of the PSA position does not lead me to conclude that it would be right on efficiency grounds to consider further dispersal of PSA functions. 74% of the non-industrial staff and almost 100% of the industrial work force are already located in some 200 offices throughout the UK. Of the remaining 3,700 staff some 8,500 are located in Hastings as a result of an earlier dispersal. The largest tranche of HQ staff are in Croydon and Chessington, some 1,900, and consist of professional and technical teams engaged on major design and project management together with their specialist support. The only practical solution would be to move the whole of Croydon operation together with its professional and administrative supporting services to the North East. This was the proposition under the dispersal programme announced by the previous Government in 1974 which we abandoned, following a review shortly after we came into office in 1979. The arguments which were then deployed against dispersal to Middlesbrough remain valid today:-



- a Dispersal would have been of little value in making jobs for local people in Middlesbrough and conversely we would have had more difficulty in recruiting skilled professionals and administrators to work there.

- b Liaison with London based clients would have been more difficult.

- c Many staff would resign rather than move and those most likely to resign would be those in shortage disciplines.

Should you decide to adopt David Young's suggestion that officials be invited to explore the scope for dispersal of Government activities to the North East, we would of course wish to contribute to that examination.

I am sending copies of this minute to the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Employment, Trade and Industry, and Scotland, the Chief Secretary and Sir Robert Armstrong.

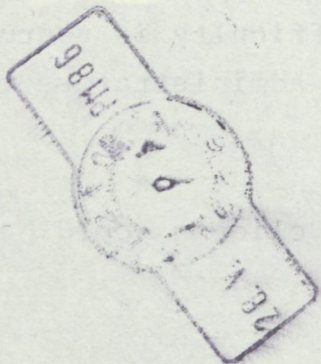
A handwritten signature in dark ink, appearing to be 'NR' with a stylized flourish.

N R
28 May 1986

NAT IND. Shipbuilding: Pt 10



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CF
10 MS
CCO

10 DOWNING STREET

THE PRIME MINISTER

23 May 1986

Dear Mr. Hares,

Thank you for your letter of 30 April about the Fleet Support King 20/20.

The navy at present has no approved requirement for a supply vessel of the FSK 20/20 type. However the possibility of a mixed fleet of armed and unarmed replenishment vessels has not been ruled out for the future, and the meeting to be held between British Shipbuilders and Ministry of Defence officials in June will allow a full discussion of your modified design.

But I fear that a requirement for a vessel similar to the FSK 20/20 is unlikely to emerge until the 1990s at the earliest. The MOD would of course want to mount a competition if and when the requirement arises, in which other shipbuilders would also have an opportunity to tender.

The Defence Sales Organisation will be very ready to help market your design overseas if you wish.

I am sorry that I cannot send a more encouraging reply. I very much admire the effort and skill which have gone into designing your alternative to the present AOR.

Yours sincerely
Margaret Thatcher

P.D.G. Hares, Esq., C.B.E.

file *BM*
cc: Mr. Addison

MR. FLESHER

We are to discuss at the next diary meeting the letter from Sir Edward du Cann asking the Prime Minister to meet the All Party Committee on Shipping.

The Chief Whip spoke to me again today about this. As you know, he had advised that the Prime Minister should not meet the Committee. He suggests that she should reply to Sir Edward's letter on the lines that it is not her practice to meet All Party Committees, but that she knows Paul Channon would be willing to talk to them. (Something that we need to confirm). She should go on to say that if Sir Edward wishes to see her after the meeting with Mr. Channon, she would, as always, be willing to meet him.

N.L. WICKS
23 May 1986

BM2ANN

pp's please
att.

PRIME MINISTER

You will remember when you met the trade unionists from Sunderland last month you told Bob Clay that you would be willing to consider another meeting with a larger delegation in London.

Bob Clay has now written in, backing a request from Sunderland Council, to seek such a meeting.

I think you will have to agree to this, and there are precedents. But we could ask Bob Clay and Sunderland to keep the size of the delegation reasonable, and arrange for the relevant Ministers (Secretary of State for Trade and Industry, Secretary of State for Employment, and Mr. Peter Morrison) to be present too.

Agree that we should set up a meeting after the Recess?

Yes

Would you prefer this to be at the House?

no here me

DTI, DEmp, DAE contact with
15.30-17.00 on Tuesday 23/6.
Sunderland writ (Key's deputy, Hunter)
will come back & states it is correct.
I said more delegation, in Nov, 12.
I need to try Bob Clay tomorrow.

Met 2/75

Mark Addison

MARK ADDISON

note to conf in name Bob Clay
to file etc

22 May 1986

MARK
—

John E note of res.
2 DN u u
3. MEX

Michael Gilbertson is checking to see whether any request has been received from Sunderland Borough.

He said that Bob Clay and other fellow MPs had met Mr. Channon on Monday of this week. Some Labour MPs met Philip Hares of British Shipbuilders on Tuesday night. The S/S has not met any union leaders or local council members.

The S/S has left today for a visit to the North East and could well meet some representatives from Smiths Dock. But there are no plans to meet Wearside representatives.

Mr. Gilbertson will come back re Sunderland Borough.

JR

22 5 86

PRIME MINISTER

FLEET SUPPORT KING 20/20

You were sceptical of the proposition that the Royal Navy should be supplied from a small number of large, armed and very expensive ships. You declined to reply to a letter from Mr Hares arguing the case of the Fleet Support King 20/20 until you saw the MOD case argued more fully.

I attach a letter from the MOD setting out the arguments for their decision in favour of the AOR one-stop support ship. They say, however, that they have not ruled out a mixed fleet of armed and unarmed replenishment ships for the 1990s.

I find it difficult to judge the arguments. Commonsense would suggest that the one-stop AOR puts a lot of eggs in one expensive basket. If it is destroyed, you are in trouble. But I can't see much future for re-opening the decision this time round. The time to challenge the concept is when a decision has to be taken on further orders of support ships for the mid-1990s. You could give notice now that you will want a full interdepartmental discussion then, before MOD Ministers reach their decision. Agree?

Agree now to sign the letter to Mr Hares?

Yes

C.D.P.

Charles Powell

22 May 1986



HOUSE OF COMMONS
LONDON SW1A 0AA

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

21 May 1986

Am
R 22

Dear Prime Minister,

I understand that the Borough of Sunderland have requested that you receive a delegation from the Borough to discuss the serious situation facing the town consequent upon the recent announcement of further redundancies in Wearside shipyards and the continuing absence of orders.

You will remember that when we met at Newcastle Airport you did say that you would meet such a delegation, providing that that commitment was not publicised. ||

I hope you will now be able to suggest a time when you could receive a delegation of MPs, local authority leaders and trades unions. We have already held meetings with Paul Channon and with Phillip Hares of British Shipbuilders.

Yours sincerely,

Bob Clay

BOB CLAY, MP

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PRINTED BY THE
HOUSE OF COMMONS





MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

MO 26/3/1L

21st May 1986

Dear David,

Thank you for your letter of 8th May requesting further information for the Prime Minister before she responds to the letter from Philip Hares (British Shipbuilders) about the FSK 20/20.

The Royal Navy is currently replenished at sea by a fleet of 21 specialised ships - tankers for fuel, and a variety of store ships for ammunition, food and spares. In order to remain operational in war a warship would need to meet up every few days with each kind of replenishment vessel. Each task group of Anti-Submarine Warfare carrier, destroyers and frigates is usually supported by about 3 of these ships. This has a number of disadvantages:

- a. Loss of a single type of support vessel (eg ammunition) could jeopardise the operational capability of the whole task group.
- b. The warships spend considerable periods of time being replenished by each support vessel during which they are vulnerable to attack and not available for operations.
- c. To exploit towed array sonars which can now detect submarines at much greater distances, frigates need to be deployed well forward of the main task group; replenishment ships will be particularly vulnerable when circulating round these outlying frigates. Since the current support ships have no capability to defend themselves, frigates have to be deployed specifically to protect them when they are away from the main force.

To meet this new operating environment, the Royal Navy completely reassessed its replenishment concept when considering how to replace the current ships which will come to the end of

David Norgrove Esq
10 Downing Street



their life from the late 1980s onwards. Extensive battle modelling pointed clearly to the "one-stop" support ships which could replenish warships with fuel, stores and ammunition simultaneously. These would both reduce the vulnerable time spent on replenishment at sea and give greater operational availability. Since each task group could be supported by 2 such ships, the loss of one of these, though damaging, would not immediately threaten the operational effectiveness of the whole task force since the other could supply the whole range of support required until a replenishment arrived from the UK base. Because the one-stop concept allowed a reduction in the number of ships, and because their operational role would put them at greater risk of attack, it was both prudent and affordable to give the new class a self-defence capability. This consists of both the Sea Wolf missiles (capable of dealing with all known Warsaw Pact aircraft and missiles) and a robust design so that the ship has a greater chance of surviving a hit. These features add about £30M to the capital cost but this is good value compared to the cost of the cargo which can be worth up to £150M.

The move to a one-stop ship also suggested a review of the amount of maintenance capability (particularly for helicopters) carried on frigates themselves, requiring expensive on-board support equipment. Studies showed that there were useful economies to be made by transferring much of this to the support ship. This has contributed to making the Type 23 frigate some 25 per cent (£35M) cheaper than its predecessor, the Type 22, and with a crew of only two thirds the size. Since the one-stop ship already needed to be able to operate a helicopter for replenishment purposes, the increase in capital cost was only some £10M.

All these factors were considered together in an extensive review by Defence Ministers in 1983. Other options considered included an even larger and more capable AOR, continuation of the traditional concept of specialised support ship, and 2 types of smaller, unarmed, one-stop ships based on commercially available designs. A summary of the investment appraisal undertaken is shown at Annex for the first six ships and, as you will see, the option A adopted was in the middle of the band. Although cheaper, the smaller one-stop ships were assessed to give poorer value for money overall when account was taken of their lack of self-defence capability and vulnerability if hit.

Nevertheless, the Department is keeping an open mind. Following E(A) decisions on AOR 01 and 02, we do not plan to order any more support ships before the end of the decade but there will be a natural opportunity to review the current Type 23/AOR approach as we move towards the second batch of Type 23s current due for introduction in the mid 1990s. The studies which I referred to in my letter of 7th May, therefore, look further at the possibility of a mixed fleet of armed and unarmed



replenishment vessels. The balance of helicopter support facilities between the support ship and the warship will also be reviewed, although any change here would require a compensating change in the Type 23 frigate.

[Handwritten signature]

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(RICHARD HATFIELD)

CONQUEROR

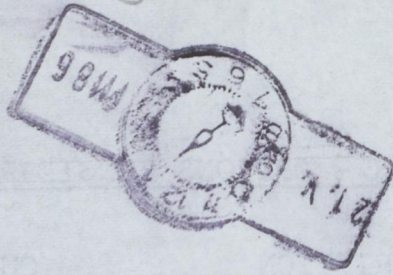
AOR - OPTIONS CONSIDERED

<u>OPTION</u>	<u>DESCRIPTION</u>	<u>CURRENT VALUE COSTS *</u> (£M Av 82/3 prices)	<u>DISCOUNTED VALUE COSTS *</u> £M
A	AOR to NSR 7012 (six ships)	1049.7	674.8
B	AOR to NSR 7012 with increased speed and complement (six ships)	1133.4	729.1
C	Single-commodity ship (6 tankers and 2 stores ships)	1166.4	742.3
D	One-stop commercial design vessel - STAT 32 (six ships)	826.3	532.4
E	One-stop commercial design vessel - STAFF 24 (six ships)	753.7	486.4

(* covers development, production and support for 6 ships
(or equivalent in the case of Option C) over the period
1983/4 to 2001/2)

Note 1. Option D and E fall far short of the requirement *and*
to be paid as all other capability

NAT. IND: Shipbuilding : Pt 10



from the office of the Chief Executive



Geoffrey Key

G. P. Key, LL.B.
Town Hall & Civic Centre
Sunderland
SR2 7DN
Telephone 76161
Telex 537037

21st May 1986 R22

Dear Prime Minister,

I am writing on behalf of my Council to express grave concern for the future of our Town in the wake of the redundancies recently announced by British Shipbuilders. Added to an already critical unemployment situation, the very real prospect of the ultimate cessation of shipbuilding on the Wear brings fears of irretrievable local economic decline.

At this crucial juncture in Sunderland's history, the Council's first priority has got to be to help Wearside shipbuilding survive until there is an upturn in demand.

You know from your own recent visit just what a superb, and highly competitive product our yards can deliver when they are given the chance. The 'Stena Seawell' must be at the forefront of innovative marine engineering technology and design. That is where Wearside's shipbuilding future lies.

We acknowledge, however, that even if this vital objective can be achieved, Sunderland's past maritime glories cannot be recreated. That is why the Council is trying so hard to diversify and modernise the Town's economic base; why, with others, it worked so single-mindedly to secure the Nissan development; and why, often in partnership with private capital, it is doing everything possible to create the conditions for self-sustained economic growth.

In matters affecting the local economy, there are no party politics in Sunderland. The Council recognises, as you do in your Government's regional assistance policies, that investment and enterprise in depressed areas like Sunderland frequently need the stimulus of prior public expenditure to realise their full potential. There may be disagreement on the required level of such expenditure, but not on the principle.

/2...

The Rt. Hon. Margaret Thatcher MP,
Prime Minister's Office,
10 Downing Street,
London SW1

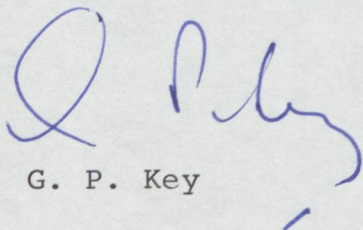
However, at this critical time, the Council is convinced that Sunderland has a just case for a greater input of Government financial resources. This need not imply additional public expenditure. It could be achieved simply by redistribution of existing funds, such as the Urban Programme, to reflect more accurately the incidence of the problems which these funds are designed to redress.

We do not ask for this simply to prop up an ailing economy. It will help us to retain and develop the best of the present - including our shipyards and the huge investment in men and facilities they represent - and to build for the Town's future. Confidence in Sunderland, despite Nissan, has been badly shaken by recent events. In partnership, and with adequate resources, Government, Council and local enterprise can restore the situation.

I cannot do justice in this letter to the range of positive measures which are being or could be pursued jointly with the Town's industrial, commercial and academic interests, to try to achieve the economic prosperity which Sunderland merits as the North East's largest centre of population.

I could do so, however, if you would agree to meet representatives of the Council. I therefore ask only that you give my Council's request for an early meeting your most urgent and serious consideration.

Yours sincerely,



G. P. Key

Mr. Hunter.



JU291

Secretary of State for Trade and Industry

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

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

19 May 1986

Christopher Roberts Esq
Chief Whip's Office
House of Commons
London SW1A 0AA

Dear Chris,

SHIPBUILDING DEBATE: 21 MAY 1986

... I attach a revised version of the Government's Motion for this Debate, which reflects comments on the text I circulated on Friday. I would be grateful if you could arrange for it to be tabled.

I am copying this letter and attachment to David Norgrove (No 10), Alison Smith (Lord Privy Seal's Office), Jill Rutter (Chief Secretary's Office), John Turner (Department of Employment), Sue Vandervoord (Department of the Environment), Andy Rinning (Scottish Office), and Michael Stark (Cabinet Office).

Yours ever,

Michael

MICHAEL GILBERTSON
Private Secretary

That this House notes the massive slump in demand for merchant ships which has led to cutbacks in shipyards throughout the world; regrets that this has inevitably led to contraction in the UK's own merchant shipbuilding industry despite the Government's extensive and continued support for British Shipbuilders (including over £1400m since 1979); and welcomes the Government's package of measures to provide special assistance to those affected.





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

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

JU251

Secretary of State for Trade and Industry

16 May 1986

RESTRICTED

Alison Smith
Private Secretary to the
Lord Privy Seal
Privy Council Office
Whitehall
London SW1

JK
The last part of the
motion is terribly coy.
DLW

Dear Alison,

SHIPBUILDING DEBATE: 21 MAY 1986

There is to be a half-day debate in Government time on ship-
building on 21 May. I attach a copy of the text of the motion
for this debate, as approved by my Secretary of State. I would
be grateful for any comments by noon on Monday 19 May.

I am copying this letter and attachment to David Norgrove (No
10), John Turner (Department of Employment), Murdo McLean (Chief
Whip's Office), Sue Vandervoord (Department of the Environment),
Andy Rinning (Scottish Office), and Michael Stark (Cabinet
Office).

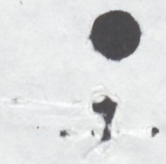
Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

That this House notes the massive slump in the shipbuilding industry which has led to reductions in capacity throughout the world, regrets that ^Xthis has inevitably led to contraction in the UK's own shipbuilding industry ^Xand welcomes the Government's package of measures to provide special assistance to those affected by this situation. ~~areas which will lose jobs.~~

the areas affected.

+ despite ~~any~~ \$1.5 billion





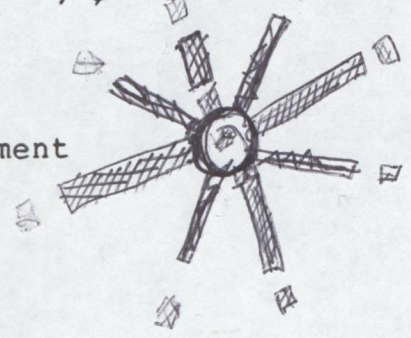
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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/
Secretary of State for Trade and Industry

John Turner Esq
Private Secretary to the
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1

14 May 1986



BSC (Business)
NEB (Enterprise)
w
u

Dear John,

BRITISH SHIPBUILDERS

... I attach a final version of the statement my Secretary of State will make this afternoon. I am copying this letter and attachment to the Private Secretaries to members of E(A), Alison Smith (Lord Privy Seal's Office) and Michael Stark (Cabinet Office).

Yours ever,
Michael

MICHAEL GILBERTSON
Private Secretary

Encl

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STATEMENT BY SECRETARY OF STATE FOR TRADE AND INDUSTRY
ON BRITISH SHIPBUILDERS

With permission, Mr Speaker, I should like to make a statement.

As the House will know, British Shipbuilders won only 23,000 compensated gross tonnes of orders last year. This was little more than a tenth of the amount forecast in their Corporate Plan. This was not for lack of Government support. The financial support for individual orders is not the problem. The problem is that orders are simply not there to be won. In Sweden, for example, which a few years ago had one of the most modern merchant shipbuilding industries in the world, the entire industry is closing down. This reflects the latest down-turn in the shipbuilding market, which has resulted in capacity reductions and redundancies across the world. Despite Government support of over £1,400 million since 1979 and the recent increase in the level of support for new orders, it has proved impossible for British Shipbuilders to maintain its current capacity in the absence of new orders.

British Shipbuilders have therefore today announced measures which deal with this over capacity. They include a decision to close by the end of the year, Smiths Dock, The Troon shipyard of Ferguson-Ailsa, and the Wallsend site of Clark Kincaid. In addition British Shipbuilders have, as part of

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their wage negotiations, proposed a two year deal which will seek to match manpower and capacity more closely to demand. The Government regrets that these necessary measures will lead to total redundancies of some three thousand five hundred people by March 1987. British Shipbuilders hope that a substantial number of these will be achieved by voluntary redundancy.

The Government propose to provide to British Shipbuilders immediate support of up to £5 million in the current financial year to enable them to set up a new subsidiary, British Shipbuilders Enterprise Ltd. This will provide expert and practical services for those facing redundancy. It will ensure that they have at their workplace counsellors with the skills and resources to guide them toward retraining and redeployment opportunities, and to provide financial support to take advantage of those opportunities. It will also offer financial help and advice to those wishing to take the initiative of setting up their own business.

In addition, my Rt Hon Friend the Secretary of State for Employment has asked the Manpower Services Commission to provide a further £1m specifically for the retraining of redundant employees of British Shipbuilders in direct co-operation with the new Enterprise Corporation. He will also make available £1m via the City Action Team for job creation measures and to stimulate enterprise in the North East.

The Community Programme is already being expanded in the North East from its present level of 22,000 jobs to 29,000 jobs at an extra cost of some £30m. My Rt Hon Friend has asked the Manpower Services Commission to explore urgently

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new ways in which the resources of the Community Programme and the Enterprise Allowance Scheme can be used in order to lead to permanent jobs in the North East.

In addition to these measures my Rt Hon Friend, the Secretary of State for the Environment has reviewed the derelict land reclamation and Urban Programmes in the areas affected. At £13 million, the reclamation programme in the North East region this year is already substantial but this will be increased by a further £1m. My Rt Hon Friend also proposes to allocate an extra £2m under the Urban Programme, adding to the region's £35m programme this year.

The British Shipbuilders Enterprise Corporation will also operate in Scotland. My Rt Hon and Learned Friend, the Secretary of State for Scotland will consider urgently additional measures to help the areas affected by the redundancies announced today.

The measures I have outlined will be in addition to the existing regional aid programmes including assistance via English Industrial Estates for which the areas concerned are already eligible.

DEPARTMENT OF TRADE AND INDUSTRY

May 1986

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CCBG
 cc J. Fuller
 RICHARD LUCE'S
 office
 B/F 12.6.86
 for comments
 from him

PRIME MINISTER

BRITISH SHIPBUILDERS: GOVERNMENT RESPONSE

1 You will have seen the draft announcement of the package of proposals we have put together to meet the situation created by the impending BS redundancies, as agreed at EA on 8 May (E(A)(86)15th). ATTACHED

2 The central proposal is for the creation of a new Enterprise Company by BS to provide help and advice to their redundant employees. It will be given funds of £5m (£1½m to be provided by DTI, £1m by the Scottish Office and £2½m from the Reserve). In addition the Secretary of State for the Environment is providing an extra £2m for Urban Programme expenditure in the North East and an extra £1m for derelict land reclamation. I am providing £1m to finance the cost of training up to 1000 redundant BS employees and a further £1m for the Newcastle/Gateshead CAT to spend on job creating measures. In total the package amounts to an additional £10m, of which £4m is specifically for the North East. The remaining £6m for the Enterprise Company and associated training provision will be available nationally.

3 Much of the detail of how the Enterprise Company will operate has still to be settled. Given that it will not have to meet the cost of training fees, I would hope that the bulk of its funds could be used to give direct financial assistance to those who want to set themselves up in business or to move

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to jobs elsewhere. We must ensure that this is tackled with vigour and imagination. Quite apart from the financial assistance the Company can provide, the redundant employees will have sizeable redundancy payments to invest and a range of existing assistance available to them, including the Enterprise Allowance Scheme. I will ensure that the staff of the Manpower Services Commission and my own Department's Small Firms Division work as closely as possible with the Company so as to avoid any duplication of effort. I am particularly concerned that the running costs of the Enterprise Company should be kept as low as possible. I also think it important that the Company should be run by someone from outside the shipbuilding industry.

4 Beyond this immediate package of measures I hope that we can explore other measures to bring new enterprise and employment to the North East. I believe there is a good case for an Urban Development Corporation in Middlesbrough and I hope that the appraisal agreed by EA can be carried out as soon as possible. In my view we should also disperse further Government work to the North East, including future computer developments and perhaps some PSA functions. I suggest that we ask officials to explore the scope for this and report urgently.

I am sending copies of this minute to the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry, the Environment and Scotland, the Chief Secretary and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "D Y".

D Y

May 1986

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DA



cc PGO CAL NIO
CO WPSO ITMT
DOT DOE BC
C&O WO
NAFF SO
DIM DIM

10 DOWNING STREET

From the Private Secretary

14 May 1986

Dear Mike,

BRITISH SHIPBUILDERS

The Prime Minister saw the draft statement about British Shipbuilders attached to your letter to me of 13 May.

The Prime Minister was generally content with it, except that she felt that the first paragraph could be made much more direct and graphic. It could explain that British Shipbuilders won only 20,000 tonnes of orders last year, less than a tenth of the amount called for in their corporate plan. This was not for lack of Government support. Indeed, the financial support provided by the Government to British Shipbuilders is as good as the best in the world. The problem is that the orders simply are not there to be won. This is an international problem, not confined to the UK. In Sweden, for example, which a few years ago had one of the most modern shipbuilding industries in the world, the entire industry has now closed down. In this country, a number of British Shipbuilders' merchant yards are coming to the end of their existing workload, and there is absolutely no prospect of new orders for the foreseeable future. In these circumstances, with the greatest regret, there is no alternative to closing them.

I am copying this letter to the Private Secretaries to members of E(A), Alison Smith (Lord Privy Seal's Office) and Michael Stark (Cabinet Office).

Jan,
David.

(David Norgrove)

Michael Gilbertson, Esq.,
Department of Trade and Industry.

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dg

E.R. 1
CCBI
PRIME MINISTER

The first paragraph of this statement could be far more graphic:

- BS only won 20,000 grt of orders last year;
- not for lack of Government support: the orders simply aren't there to be won;
- this is an international problem;
- the yards are fast running out of work and there is, with great regret, no alternative to closing them.

Agree to suggest amendments in that sense?

DN

Yes - much better
no

(DAVID NORGROVE)

13 May 1986



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

CCBB
CCBF

PS/

Secretary of State for Trade and Industry

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13 May 1986

David Norgrove Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear David,

BRITISH SHIPBUILDERS

I attach for your information a copy of the statement my Secretary of State intends to make tomorrow.

My Secretary of State is content with the arrangements set out in Mr Unwin's minute of yesterday. As officials made clear in discussion yesterday, my Secretary of State intends to find the £1.5 million DTI contribution to the proposed British Shipbuilders Enterprise Corporation from within the Department's overall nationalised industries EFL provision for 1986-87.

I am copying this letter and attachment to the Private Secretaries to members of E(A), Alison Smith (Lord Privy Seal's Office), and Michael Stark (Cabinet Office).

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary

ENCL

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STATEMENT BY SECRETARY OF STATE FOR TRADE AND INDUSTRY
ON BRITISH SHIPBUILDERS

With permission, Mr Speaker, I should like to make a statement.

copy as revised by David

As the House will know, shipbuilding orders throughout the world have dwindled to half what they were ten years ago, and there is now chronic over-capacity in the industry worldwide. British Shipbuilders has inevitably been affected by this phenomenon. Despite Government support of over £1,400 million since 1979, it has proved impossible for British Shipbuilders to maintain its current capacity in the absence of more orders.

Accordingly, they have informed me that measures are being announced today which deal with this over capacity. The Government agrees that in the circumstances these measures have to be taken. They include a decision to close by the end of the year, Smiths Dock, The Troon shipyard of Ferguson-Ailsa, and the Wallsend site of Clark Kincaid. In addition British Shipbuilders have, as part of their wage negotiations, proposed a two year deal which will seek to match manpower and capacity more closely to demand. I regret to say that these steps will lead to total redundancies of some three thousand five hundred people by March 1987. British Shipbuilders hope that a substantial number of these will be achieved by voluntary redundancy.

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The Government propose to provide to British Shipbuilders immediate support of up to £5 million in the current financial year to enable them to set up a new subsidiary, British Shipbuilders Enterprise Ltd. This will provide expert and practical services for those facing redundancy. It will ensure that they have at their workplace counsellors with the skills and resources to guide them toward retraining and redeployment opportunities, and to provide financial support to take advantage of those opportunities. It will also offer financial help and advice to those wishing to take the initiative of setting up their own business.

In addition, my Rt Hon Friend the Secretary of State for Employment has asked the Manpower Services Commission to provide a further £1m specifically for the retraining of redundant employees of British Shipbuilders in direct co-operation with the new Enterprise Corporation. He will also make available £1m via the City Action Team for job creation measures and to stimulate enterprise in the North East.

The Community Programme is already being expanded in the North East from its present level of 22,000 jobs to 29,000 jobs at an extra cost of some £30m. My Rt Hon Friend has asked the Manpower Services Commission to explore urgently new ways in which the resources of the Community Programme and the Enterprise Allowance Scheme can be brought together to start new projects which can lead to permanent jobs in the North East.

JF2BIK

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In addition to these measures my Rt Hon Friend, the Secretary of State for the Environment has reviewed the derelict land reclamation and Urban Programmes in the areas affected. At £13 million, the reclamation programme in the North East region this year is already substantial but this will be increased by a further £1m. My Rt Hon Friend also proposes to allocate an extra £2m under the Urban Programme, adding to the region's £35m programme this year.

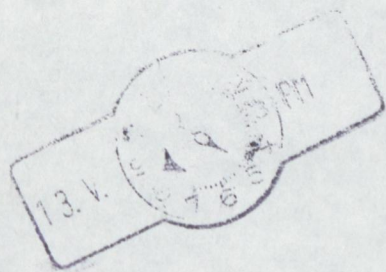
The British Shipbuilders Enterprise Corporation will also operate in Scotland. My Rt Hon and Learned Friend, the Secretary of State for Scotland will consider urgently additional measures to help the areas affected by the redundancies announced today.

The measures I have outlined will be in addition to the existing regional aid programmes including assistance via English Industrial Estates for which the areas concerned are already eligible.

DEPARTMENT OF TRADE AND INDUSTRY

May 1986

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COMMISSIÃO LA COMBIDIS CE
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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NA

WBRN

Dear David,

13 May 1986

BRITISH SHIPBUILDERS PACKAGE: DRAFT STATEMENT

at 11.01

I have seen Brian Unwin's minute of 12 May outlining a proposed package of measures and the accompanying draft statement.

I think this package now represents a credible response to the situation now created by the announcement of British Shipbuilders' redundancies. I would be prepared to go along with it, including finding £2½ million from the Reserve provided that all other colleagues affected, including the Secretary of State for Scotland, similarly agree to find the sums recommended in Brian Unwin's minute from within their existing provisions.

On a more detailed point I would want my officials to be consulted about the level and nature of the income support proposed for redundant BS employees involved in training under the auspices of the Enterprise Corporation.

The draft statement seems generally satisfactory, subject to a small change in the last sentence of paragraph 3. The ideas mentioned there have not yet been properly considered and I would not like to be tied down too precisely at this stage. I would therefore like the last sentence to be amended to read:

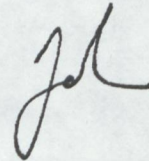
"My Right Hon friend has accordingly asked the Manpower Services Commission to make a special effort to explore ways in which the resources of the Community Programme and the Enterprise Allowance Scheme can be used in order to lead to permanent jobs in the North East."

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I am copying this letter to the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Trade and Industry, and for information to the Lord President and the Prime Minister.

Yours ever,



JOHN MacGREGOR



CCBG



Caxton House Tothill Street London SW1 9NF

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

M Gilbertson Esq
 Private Secretary to the
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1 Victoria Street
 London SW1

WBP 17

13 May 1986

Dear Mike

BRITISH SHIPBUILDERS (BS) : ESTABLISHMENT OF ENTERPRISE CORPORATION AND OTHER MEASURES TO ASSIST THE AREAS HARDEST HIT BY REDUNDANCIES

My Secretary of State has seen the Cabinet Office paper of 12 May covering the draft statement about the British Shipbuilders package.

He is content with the proposals and thinks that the financing arrangements are sensible.

He has proposed some textual changes to the statement as follows:

- para 2, line 2, after Secretary of State for Employment delete "will also" and insert "has asked the Manpower Services Commission to";
- para 4, lines 1 and 2, delete "direct" and delete "to help those suffering redundancy as a result of the BS closures".

I am sending a copy of this letter to the Private Secretaries to the Secretary of State for the Environment, the Chief Secretary, the Secretary of State for Scotland and for information to David Norgrove at No. 10, Miss MacNaughton in the Lord President's Office and Brian Unwin at the Cabinet Office.

Yours sincerely
 John Turner

JOHN TURNER
 Principal Private Secretary

NAT IND
SHIPBUILDING

PT 10





10 DOWNING STREET

Prime Minister

This is the package of measures as agreed at official level, but not yet by Lord Yang, Mr Baker and Mr Ripkin (or the Chief Secretary).

If they were content, would you be?

(The measures are hamstrung by the lack of new money except for the BS Enterprise Corporation.)

I think they

just about get by
no

JHS
12/5.

eeB6

CONFIDENTIAL

P 02056

From; J B UNWIN

12 May 1986

SECRETARY OF STATE FOR EMPLOYMENT

BRITISH SHIPBUILDERS (BS): ESTABLISHMENT OF ENTERPRISE CORPORATION AND OTHER MEASURES TO ASSIST THE AREAS HARDEST HIT BY REDUNDANCIES

You were invited at E(A)(86)15th Meeting to prepare, in conjunction with the other Ministers most closely concerned, an announcement to be made on 14 May of Government measures to assist the areas hardest hit by redundancies.

2. To take matters forward quickly, I have considered this with officials from your Department and the other Departments concerned, and summarise in this minute a possible package, together with a draft statement announcing it. I assume that the latter will be made orally by the Secretary of State for Trade and Industry, and will be prefaced by appropriate reference, which DTI will prepare, to the BS announcement on the same day.

Package of Measures

3. The package we have considered may be summarised as follows:-

(i) British Shipbuilders (Enterprise) Corporation

4. BS have agreed to set this up. Its main purpose will be to ensure that redundant BS employees have every opportunity for retraining and employment, and for setting up new businesses, taking advantage of existing agencies where available. More specifically, its functions will cover:

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- (a) Active counselling of redundant employees
- (b) Facilitate and where necessary provide training
- (c) Facilitate re-employment in existing firms
- (d) Advise and assist former employees with setting up new businesses through
 - training
 - Rent subsidies or converting buildings no longer required for shipbuilding that cannot be sold on the open market
 - Equity or loan finance.

5. It will be established as a wholly owned subsidiary of BS with its own Managing Director and Non-Executive Directors from outside, with possibly MSC and DTI represented. The precise details of its structure and administration will, however, need to be discussed in detail with BS and the Departments concerned after the announcement, in particular to ensure that administrative and related costs are kept as low as possible.

6. On funding, I recommend that up to £5 million should be made available by the Government in the current year and that this should be found as follows:-

	£ Million 1986-87
DTI	£1.5m
Scottish Office	£1.0m
Treasury	£2.5m
(From the Reserve)	

The Treasury and the DTI have confirmed that they would accept this; the Scottish Office think that £0.5m would be a more reasonable contribution from them and have reserved their Secretary of State's

position.

7. In addition, you have offered to provide from your existing resources an extra £1 million specifically for the retraining of redundant BS employees in direct cooperation with the new Enterprise Corporation. This will pay the training fees for nearly 1,000 people for up to 13 weeks. The MSC will arrange for training to be provided and meet the full cost of the training fees. The Enterprise Corporation will pay income maintenance to all redundant employees who undertake such training. The level and nature of this income support are to be agreed between the DE/MSD and the Corporation.

(ii) City Action Team (CAT)

8. You have undertaken to make a further £1 million available from your existing resources for the CAT for Newcastle/Gateshead to spend on job creation measures and to stimulate enterprise in the North East. It will enable the Team to support projects that lack initiative or adequate funding but which show promise for the future.

(iii) Derelict Land and Urban Programmes

9. The Secretary of State for the Environment has agreed to reallocate from within his existing resources an extra £2m for the Urban Programme and £1m for the Derelict Land Programme in the North East Region (whose present allocations are £35m (Urban) and £13m (Derelict Land)). DOE foresee no problems in ensuring that the additional schemes meet the necessary value for money tests, and project proposals will be processed in the normal way.

10. In sum, the package will consist of the following:

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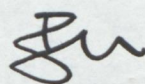
1986-87

<u>Measure</u>	<u>Cost £m</u>
BS (Enterprise) Corporation	5.0
Extra MSC Training	1.0
Newcastle/Gateshead CAT	1.0
Derelict Land	1.0
Urban Programme	2.0
Total	10.0

11. Of the £10.0m total, £7.5m will be found by Departments by reallocation of existing resources (subject to the reserve by the Scottish Office), and £2.5m from the Reserve. In addition, you will be asking the MSC to explore within existing resources new ways of increasing private sector sponsorship of projects within the Community Programme and the development of projects which can be floated off as small businesses; and the Secretary of State for Scotland will be examining with the Scottish Development Agency and other bodies what additional measures might be taken to help the areas in Scotland affected by the BS redundancies.

12. I attach a draft statement incorporating the above proposal. You will no doubt wish to know as quickly as possible whether your colleagues are content so that the statement can be finalised in good time to be made by the Secretary of State for Trade and Industry on Wednesday.

13. I am copying this minute and enclosure to the Private Secretaries to the Secretary of State for the Environment, the Chief Secretary, the Secretary of State for Scotland, the Secretary of State for Trade and Industry, and for information to Mr Norgrove at No 10 and Miss MacNaughton in the Lord President's Office.


J B UNWIN



British Shipbuilders Package; Draft Statement
by Secretary of State for Trade and Industry on 14 May

[Introductory passage on BS announcement, to be prepared by DTI]

The Government propose to provide immediate support of up to £5 million in the current financial year to British Shipbuilders to enable them to set up a new subsidiary, British Shipbuilders Enterprise Ltd. This will provide an expert and practical service for those facing redundancy. It will ensure that they have at their workplace counsellors with the skills and resources to guide them towards retraining and redeployment opportunities, and to provide financial support to take advantage of those opportunities. Most importantly, it will also offer financial help and advice to employees wishing to take the initiative of setting up their own business. The new company will be managed and staffed by professionally trained people.

2. In order to supplement and strengthen this initiative, my Rt Hon friend the Secretary of State for Employment will also provide a further £1m specifically for the retraining of redundant employees of British Shipbuilders in direct co-operation with the new Enterprise Corporation. He will also make available £1m for the City Action Team for Newcastle/Gateshead to spend on job creation measures and to stimulate enterprise in the North East.

3. The Community Programme is already being expanded in the North East from its present level of 22,000 jobs to 29,000 jobs at an extra cost of some £30m. The new Enterprise Corporation will work closely with the Department of Employment and the Manpower Services Commission to ensure that the maximum effective assistance is given to people who are looking for other jobs or who want to retrain. My Rt Hon friend has accordingly asked the Manpower Services Commission to make a special effort to explore new ways in which the resources of the Community Programme and the Enterprise Allowance Scheme can be brought together to start new projects which can lead to permanent jobs in the North East.

4. In addition to these direct measures to help those suffering redundancy as a result of the BS closures, my RHF the Secretary of State for the Environment has reviewed the derelict land reclamation and Urban Programmes in the worst hit areas. The reclamation programme in the North East region this year is already substantial at £13m but this will be increased by a further £1m.

Reclamation projects promoted by the private sector will have first call on these extra resources and the Government will also support reclamation schemes undertaken through the Community Programme and some additional local authority schemes.

5. My RHF also proposes to allocate an extra £2m under the Urban Programme, adding to the region's £35m programme this year. This will be used to give particular support to projects which encourage new businesses. Both the additional Derelict Land and Urban Programme resources will be specifically targetted on those localities that clearly need most help and could provide up to another [] jobs.

6. Finally, the new British Shipbuilders Enterprise Corporation will, of course, also operate in Scotland. My Right Hon and Learned Friend the Secretary of State for Scotland will therefore consider urgently with the Scottish Development Agency and other bodies the additional measures that they might take to help the areas affected by the redundancies announced today.

7. [I am confident that these measures will provide a substantial combination of incentive and practical help to those worst affected by the restructuring proposals announced by British Shipbuilders today. The new measures will, of course, be in addition to the existing regional aid programmes for which the areas concerned are already eligible].

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ate JH
SLHALO

10 DOWNING STREET

From the Private Secretary

8 May 1986

FLEET SUPPORT KING 20/20

Thank you for your letter of 7 May, to which was attached a draft reply for the Prime Minister to send to Mr. Phillip Hares about the FSK 20/20.

The Prime Minister remains sceptical about the proposition that the Navy should be supplied from a small number of large, armed and very expensive ships. She would be grateful to know more about the basis on which this decision was taken and in particular to know what other options were considered, and why they were rejected.

The Prime Minister is unwilling to sign the reply to Mr. Hares until these points have been answered, and I should be grateful for an early reply.

DAVID NORGROVE

Richard Hatfield, Esq.,
Ministry of Defence

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GR

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-930 7022

MO 26/3/1

7th May 1986

Prime Minister
I yield to none in scepticism about
MOD's procurement policies, but I
don't see much point in tackling them
about this now. They don't have the
money, we don't have the knowledge to tackle
them on the question of the need to stretch the
Type 23s, and there are bigger fish to fry.

Dear David

Your letter of 1st May sought advice and a draft reply to the letter which the Prime Minister had received from Mr Philip Hares of British Shipbuilders concerning the FSK 20/20. In view of tomorrow's E(A) discussion of British Shipbuilders I have, as requested, brought forward our reply.

As Mr Hares' letter recognises, the prospects for a naval order for the FSK are bound up with the AOR requirement which will provide essential support for the Type 23 frigate and replace the mixture of ageing specialist Royal Fleet Auxiliary ships. It will carry stores, ammunition and fuel, and be capable of simultaneous replenishment at sea of both liquids and solids, providing considerable operational advantages.

The FSK 20/20 design initially submitted by British Shipbuilders was for an unarmed fleet replenishment and support ship. It is a private venture, prepared by their merchant shipbuilding division and said to be aimed at the export market. Although it was not entered formally in the competition for the AOR, the MOD carried out a detailed technical assessment of the proposal. While the FSK offered about the same cargo capacity as the AOR at a price some 40% lower, the design fell short in a number of very important areas.

The FSK has no self-defence capability which is essential as the AOR will in essence be a front line ship operating alone in hostile waters and carrying supplies and embarked helicopters with a value of up to £150M. A second area in which the original FSK design fell short was that it could only replenish the Type 23 with fuel, as the positioning of its Replenishment At Sea rigs precludes replenishment of solids from alongside. In addition, the FSK lacked the essential EH101 helicopter support facilities which will be provided by the AOR.

D Norgrove Esq
10 Downing Street

*Letter for
your
signature
is below
DRS
8/5.*



British Shipbuilders were informed of these design shortfalls and the revised design referred to by Mr Hares has now been received by the MOD and responds to these points - although the price of £65-75M quoted by Mr Hares is viewed with some scepticism when compared with a quote of £65M for the original design.

It is intended that the first batch of AORs will consist of 6 ships, but the possibility of a mixed fleet of armed and unarmed vessels cannot be ruled out and we are studying the potential for such a fleet. This would, however, necessitate stretching the batch 2 Type 23 to give them their own helicopter support facilities and greater ammunition storage. This would, of course, increase the cost of the frigates and this would need to be assessed against any savings from the procurement of a cheaper support vessel. The meeting to be held with British Shipbuilders in June will be an opportunity for the MOD to discuss their design further, without commitment. If there was to be a requirement in the future for an unarmed support vessel to complement the armed AOR, it would, of course, still be necessary to put the order out to competitive tender.

I attach a draft reply which the Prime Minister may care to send to Mr Hares.

I am sending copies of this letter and the draft reply to John Mogg at the Department of Trade and Industry.

(RICHARD HATFIELD)

MO 26/3/1

do
Spent much advice the effort and
skill which have gone into preparing
designing this alternative to ~~the present~~ ^{the present} ~~the~~ ~~AOR~~ ~~design~~

DRAFT REPLY FROM THE PRIME MINISTER TO MR PHILIP HARES, BRITISH
SHIPBUILDERS

Thank you for your letter dated 30th April ^{about} ~~concerning~~ the
Fleet Support King 20/20. *RJ*

It ^{know} As you have ~~said~~, the Navy at present ^{has no} does not have an
approved requirement for a supply vessel of the FSK 20/20 type, ~~But~~ *But*
~~however~~ ^{however} but the possibility of a mixed fleet of armed and unarmed
replenishment vessels ^{has not been} ~~cannot be~~ ^{however been} ruled out for the future, ~~and~~ ^{and}
meeting to be held between BS and MOD officials in June ^{is a} ~~must~~ ^{course}
~~nevertheless~~, ^{without commitment} ~~but it~~ will allow ^a ~~discussion~~ ^(full)
provide you with a valuable official assessment of your modified
design, ~~and the Defence Sales Organisation is available to help~~ ^{and I am sure I will be very ready}
~~market your design overseas.~~ ^{though I do recognise that your}
~~sales efforts will be inhibited by the lack of an order from the~~
~~Royal Navy.~~ ^{Royal Navy,}

If, in the future, a requirement for a vessel similar to
the FSK 20/20 ^{arises} should arise, I am sure you will understand ~~that~~
~~that we~~ ~~it would be the intention to follow a competitive procurement~~
~~route and offer the opportunity to tender to other shipbuilders~~ ^{in which other shipbuilders might also have an}
~~such a requirement is not, however,~~ ^{opportunity to tender.} ~~likely to emerge until the~~
1990s at the earliest.

But I am afraid ~~that~~ ~~we~~ ~~can~~ ~~do~~ ~~more~~ ~~than~~ ~~say~~ ~~that~~ ~~we~~ ~~are~~ ~~sorry~~ ~~that~~ ~~we~~ ~~cannot~~ ~~be~~ ~~more~~ ~~helpful~~.

I am sorry I cannot be more helpful.

I really am very sorry that I cannot send a
more encouraging reply. *RJ*

HM

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





CCBF
Blup

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P 02048

PRIME MINISTER

BRITISH SHIPBUILDERS
[E(A)(86) 15th Meeting]

[Letter of 2 May from the Secretary of State for Trade and Industry to the Lord President; letter of 7 May from the Secretary of State for the Environment to the Secretary of State for Employment; letter of 7 May from the Secretary of State for Employment to the Prime Minister]

MAIN ISSUE AND DECISIONS

1. The main issue is whether there is any case for seeking to delay or influence the substance of the proposed announcement by British Shipbuilders (BS) on 14 May (next Wednesday) of their intention to close three yards; whether the Government should announce an employment initiative to ameliorate the effects on the North East; and if so, how it should be financed. Subject to the discussion, you may wish to reach decisions to:

(i) accept that BS must proceed as they have suggested;

(ii) invite the Trade and Industry Secretary to discuss the EFL and CSL with the Chief Secretary;

(iii) subject to settling how it should be financed, invite the Employment and Environment Secretaries, in conjunction with the Trade and Industry Secretary and the Chief Secretary, Treasury to formulate a proposal for an employment initiative to be announced also on 14 May.



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BACKGROUND

2. On the last two occasions E(A) has discussed the BS Corporate Plan (ie July 1984 and 1985) it has recognised that there is no prospect of BS becoming commercially viable, and the company has been set on a downward glide path from an annual order intake equivalent to 230,000 compensated gross tonnes (CGT) in 1984/85 to 115,000 CGT in 1987/88. EFLs and Contract Support Limits (CFL) have been set accordingly. Under this regime, the size of the industry depends on its performance in the market place, and in particular on its ability to win new orders.

3. Merchant shipbuilding capacity has already fallen from over 600,000 CGT a year at the time of nationalisation in 1977 to about 250,000 CGT a year now, while employment has fallen from nearly 40,000 to 9,000. BS's planned order intake for 1985/86 was 200,000 CGT. In fact they won only 23,000 CGT. This reflects the slump in the world market for ships. World wide orders last year amounted to only 8 million CGT, compared with 21 million in 1974. Even the Japanese have had to cut capacity, perhaps by up to 30 per cent. Against this background the BS board have concluded that they should aim to make substantial reductions in capacity in the least costly manner.

4. On the basis of their preferred (optimistic) scenario, they will have to close three yards over the next few months, cutting 3,500 from their labour force of 9,000. The closures would be:

Wallsend Engine Works	400 jobs	-Whites
Smith's Dock	1,500 jobs	-end of year.
Ferguson - Ailsa Yard as Troon	400 jobs	-Sept.

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3 1/2 thousand

Reduction at other yards 1,200 jobs

On a less optimistic scenario further closures would be required at:

Austin and Pickersgill 1250 jobs
Ferguson Yard as Port Glasgow 400 jobs

The Board's proposal is to close the first three yards as current work is completed at the end of the year. But they feel very strongly that they should brief the unions clearly at a negotiating meeting on pay to be held on Wednesday 14 May.

Scope for Government Action in Relation to BS


E(A) will need to consider 3 issues:

1. Are the Board's proposals realistic given BS's market outlook?

2. Are there any wider national or strategic reasons for retaining surplus BS capacity?

3. Are there any steps the Government can take to provide work for BS?

6. There seems no reason to doubt the Board's commercial judgement. They secured last year less than an eighth of the volume of new work for which they had planned, and many of their yards will have nothing to do beyond the summer. In the short term, they clearly have substantial surplus capacity. But at some stage there is likely to be some upturn in demand - perhaps in the early 1990s. Cabinet Office was commissioned on 17 April



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to set in hand an inter-departmental study of the future of the UK shipbuilding industry. This is in train under my Chairmanship, and will cover these issues, but the work will not be complete for several weeks. You may therefore first wish to explore whether there is any case for postponing an announcement of intended closures until the government has had an opportunity to consider the longer term prospects. I suspect, however, that the Board are right in saying that on any realistically foreseeable scenario BS have too much capacity, and that therefore they are also right to make an early announcement about closures.

7. Even if there is no commercial case for retaining the capacity, it might be argued that there are wider strategic on defence factors for doing so. Again, the Cabinet Office review will consider this question. But as BS yards are not involved in warship building, where there is also likely to become spare capacity, even closing all the yards remaining in BS ownership seems unlikely to produce a situation in which the UK would be unable in the future to build civil or military vessels which could not be purchased elsewhere. Maintaining a labour force with no work to do would be costly and demoralising, and any physical facilities which seemed likely to be needed in the future could presumably be mothballed.

8. An alternative would be for Government to help BS find additional work. The first possibility is naval procurement. BS have been lobbying hard to sell MOD their fleet support vessel, but at present MOD have no operational requirement for it, and no money in their budget. And even if there were a requirement, there would normally need to be a competition, in which the privatised warship yards would wish to compete. So while the Defence Secretary might be asked about the possibility there seems little prospect that an MOD order can be forthcoming in the

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near future; and if there were any such orders they would be likely to be at the expence of MOD warship orders, so transferring the problem to other yards (of which the most vulnerable, Swan Hunter, is also in the North East).

9. The second possibility is to provide additional Government support. Payments to BS to meet losses have to be kept within limits agreed within the European Commission, since they constitute "state aid". Subsidies to overseas purchasers under the Aid and Trade Provisions might escape this restriction, and the Trade and Industry Secretary might be asked to report on the scope for this. But Japanese and other European competition for such orders could be severe and we could find ourselves in a very costly matching exercise, which would also be quite contrary to the thrust of our trade policy.


External Financing Requirements

10. It is clear that BS's EFL and CSL will need revision given the poor state of their order book, and the need to cover redundancy costs. This might be remitted to the Trade and Industry Secretary and the Chief Secretary, Treasury to resolve bilaterally.

Action to Mitigate Unemployment in the North East

11. The bulk of the redundancies will be in the North East, where unemployment is already significantly above the national average. When discussing the AOR order, E(A) expressed great concern about the situation, and there will be strong pressure for a Government job creation initiative. The Environment Secretary had proposed an expansion of the urban programme and derelict land grants, focused on economic rather than social schemes. The Employment

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Secretary had proposed the creation of an Enterprise Corporation on the same lines as those used by British Steel and British Coal, or an Urban Development Corporation for Teeside (formally matters for the Trade and Industry Secretary and Environment Secretary respectively) or an expansion of the English Industrial Estates Programme, as well as focussing MSC programmes in the North East. E(A) will not have sufficient information to reach firm decision on any of these proposals. But the key issue is whether, unless offsetting reductions can be found, additional resources can be made available for an initiative. I suggest that you ask the relevant Secretaries of State together with the Chief Secretary to prepare urgently a suitable package from the various suggestions.

12. The Treasury can be expected to argue that the Government has not launched any special initiative to mitigate the effects of previous BS restructuring (which was on a far larger scale than that now proposed), that any additional resources for the North East should be found from within existing programmes, and that any decisions should be deferred for proper consideration within PESC. These are powerful considerations. But the case for an initiative is essentially political. The scale of the redundancies is not enormous in relation to the population of the areas affected. But the recent decline of traditional heavy industrie in these areas (including coal and steel as well as shipbuilding) has left their industrial structure and urban environment in a very poor condition, and there are few signs of hopeful developments. In the light of this it appears that the Chief Secretary may accept that there is now a political imperative for the Government to be seen to demonstrate its concern for unemployment in the North East. You may therefore wish to consider the possibility of an initiative costing, say, up to £20 million over 3 years, being formulated and announced in parallel with BS's



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announcement of redundancies, and invite the relevant Ministers to agree on the components over the weekend.

HANDLING

13. You will wish to ask the Secretary of State for Trade and Industry to introduce the discussion. The Secretary of State for Defence will wish to speak about the prospects for naval procurement, and also as Member for Ayr in which the Ferguson Ailsa yard is situated. The Secretary of State for Employment and the Minister of State for Urban Affairs (Mr Patten) will wish to speak on the possibility of a job creation initiative, and the Chief Secretary, Treasury will wish to comment on the expenditure implications

J B UNWIN

7 May
Cabinet Office

CONFIDENTIAL



g/36
B/WP
~~B/WP~~
B. unwin

PRIME MINISTER

BRITISH SHIPBUILDERS: THE NEXT STEPS

attached

1 The impending redundancies at British Shipbuilders and the announcement foreshadowed in Paul Channon's letter to Willie Whitelaw of 2 May has brought increased urgency to the need for us to consider the action that we should take to offset the effects on the worst hit areas of the North East.

2 As far as existing MSC programmes are concerned I am in touch with the Chairman to ensure both that the full range of employment services are geared up to meet the need and that employment and training schemes are tilted as far as possible within existing resources towards those areas in the region that are likely to be most affected. However, I believe that the scale of these redundancies calls for a more imaginative and far-reaching response. This might fall into two main categories dealing, first, with providing help directly to those people who are about to lose their jobs in the shipyards and, second, addressing the more fundamental problems of the region.

Enterprise Corporation

3 In the first category, I suggest British Shipbuilders should be given the resources to set up as a matter of urgency an enterprise corporation with initial capital of around £5m along the lines already established successfully in the steel and coal industries. We would need to appoint a Chairman of national standing together with a Board and Chief Executive with vision and energy to stimulate enterprise and training so as to offer opportunities to those made redundant as

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alternatives to unemployment. We could immediately make available training facilities through the Manpower Services Commission and other providers so as to enable people to retrain and convert their skills to new employment. The Small Firms Service and local enterprise agencies will also be ready to help those interested in starting up new enterprises. We need to be careful to get the balance right between jobs and training and I believe we should also put special effort into setting up more managed workshops for small businesses. Money allocated through English Industrial Estates for this purpose would, to my mind, be very well spent and would be welcomed by people generally as a helpful and relevant response to the needs.

Economic Development

4 On the wider question, these closures and redundancies will aggravate the already severe economic and environmental problems of the region. The measures I have suggested above should, therefore, be accompanied by more concerted action to help the region as a whole. I understand that Kenneth Baker is already considering bringing forward proposals to establish two or three new Urban Development Corporations. It seems to me that Teesside must rank high as a potential candidate and I think we should consider urgently whether action of this kind should be taken. In his letter to me today he has also proposed increased expenditure on derelict land grants and for supporting economic projects under the Urban Programme in the region. These too have my full support.

5 For my part, I would propose to supplement these initiatives in two ways: first, through the Community Programme including experimenting with new approaches designed to increase the involvement of the private sector and, second, by providing some additional resources for adult training in

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the region generally.

Co-ordination

6 A package along the lines I have suggested would, it seems to me, amount to a credible response to what will undoubtedly be seen as a disastrous development for the North East. To make it work, however, it will need to be properly coordinated at regional level and I suggest this should be done through the mechanism of the existing City Action Teams whose members are the Regional Directors of my Department and of the Departments of the Environment and Trade and Industry. As it happens, the Team has recently bid for an additional £1m to complement existing programmes and enable them to support new projects on an experimental basis. I believe it would be sensible to agree to this since it would enable the Team to carry out the coordinating task I have suggested more effectively.

7 At this stage, I have described these ideas only in outline. I hope we can discuss them further at the meeting of E(A) tomorrow afternoon and pull them together into a package which Paul Channon would be able to announce at the same time as the redundancies on 14 May.

8 I am sending copies of this minute to members of E(A), the Lord President, George Younger and to Sir Robert Armstrong.

DY
7 May 1986

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Prinie Minister

My ref:

Your ref:

*Mr Baker proposes an
extra £13m of spending in the
NE, to be financed from the
Reserve.*

7 May 1986

Jim Smith,

*DBV
7/5.*

BRITISH SHIPBUILDERS: NEXT STEPS

E(A) is to discuss Paul Channon's letter of 2 May on Thursday. I will not be able to attend because of the Royal Opening of the Stoke Garden Festival and my commitments on local government election day. John Patten will come in my place.

I wholly agree with Paul that it would be helpful if any difficult announcement by British Shipbuilders on 14 May could be offset by positive steps to support job creation in the North East. I have looked carefully at how my Department's programmes could help, given additional resources, and I have concluded that the Derelict Land and Urban Programmes would be the right channels and could provide extremely useful support.

Derelict Land

In 1986/7 we are planning to spend £13.5m on derelict land reclamation in the North East. It would be very useful if we could improve the rate of derelict land reclamation by allocating an additional £6m this year. £1m of that would go on private sector-led reclamation projects; and £5m on local authority projects already in the pipe-line, which are consistent with our objectives to recycle land for development after-use.

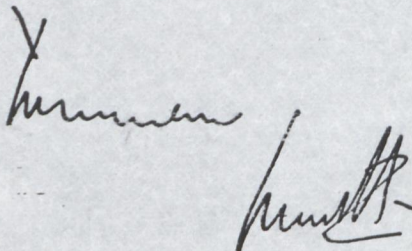
Urban Programme

The North East UP allocation for 1986/7 is ^{£35m} £25m. If I were able to allocate an extra £7m on top of that, I could support a variety of useful projects directly related to economic regeneration in the region. I attach at Annex A a short list of examples of projects to which additional support would be given, under both programmes.

With only £13m additional resources, therefore, I should be able to direct help where it is most needed in the region, in a way which fosters much-needed private sector development. Under both the derelict land and urban programmes, there would of course be no relaxation in the substantially strengthened arrangements which I am making to achieve good targetting and value for money. But I

should stress that this additional support for the North East must be additional, since I cannot realistically propose extra help for the area within my Department's existing expenditure totals.

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

A handwritten signature in black ink, appearing to read 'Kenneth Baker', with a large, stylized initial 'K' at the start.

KENNETH BAKER

EXAMPLES OF URBAN PROGRAMME AND DERELICT LAND RECLAMATION PROJECTS.

1. Urban Programme

- (i) Burton's Design Works (Gateshead) - conversion of redundant Burton's factory into exhibition space, workshops, offices to create a centre of design excellence;
- (ii) Shell UK site (S. Tyneside) - site preparation works for new factory for Stewart Crystal;
- (iii) Boldon Business Park (South Tyneside) - infrastructure for new commercial development area adjacent to Nissan factory;
- (iv) Youth Enterprise Centre (Sunderland) - managed workshops with strong emphasis on 18-25 age groups;
- (v) Southlands School (Middlesbrough) conversion of redundant school into starter workshops, office units and some community facilities;
- (vi) Old Post Office (Langbaugh) - conversion of former post office into small managed workshop.
- (vii) Youth Enterprise Centre (Middlesbrough/Stockton) - managed workshops (2 sites) for start-up businesses (18-25 age groups).

2. Derelict Land

- (i) Hebburn Shipyard (S. Tyneside) - reclamation of 50 acres for private housing and light industry;
- (ii) North Sands Shipyard (Sunderland) - reclamation of 20 acres for industrial use - Nissan are negotiating to use the reclaimed site.
- (iii) Cargo Fleet Wharf (Middlesbrough) - reclamation of 8 acres for port related industry near to Smiths Dock.

(iv) Yarm Road (Stockton) - private sector reclamation
for retail trading estate.

(v) Middle Dock (S. Tyneside) - private sector reclamation
for offshore related industry.

1000

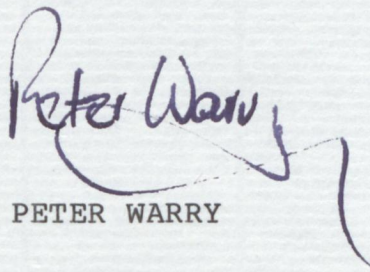


PRIME MINISTER7 May 1986BRITISH SHIPBUILDERS

With privatisation of the warshipyards completed, BS currently employs some 10,000 people in their merchant yards and engine works. The BS preferred scenario is now to slim down to 6,200 people during the course of the year - 2,500 jobs going through yard closures, and the residue by reducing employment at the remaining yards to 'core' levels. This is sure to create both a political and a trade union row. The attachment lists all BS's yards, their manpower and the local unemployment rates.

Even the BS preferred scenario is optimistic because if all of the orders from China, Cuba and Denmark were secured BS would still need to continue with the planned closures. There is little hope of finding (or buying) extra work in the short term. The BS-designed unarmed AOR (the Fleet Support King) would help Govan and Sunderland in the longer term but not other yards.

Keeping yards open in the hope of future orders can only undermine BS's efficiency and therefore their ability to secure such orders. We recommend that the BS proposals be accepted and that David Young comes forward urgently with his measures to help support the North East.


PETER WARRY

BRITISH SHIPBUILDERS MANPOWER

<u>OKAY</u>	<u>Location</u>	<u>Jobs</u>	<u>Unemploy- ment rate</u>
Sunderland Shipbuilders	Sunderland	1855	22%
Sunderland Forge Services	Sunderland	311	22%
Govan	Clyde	2348	18%
Appledore	Devon	650	20%
Clarke Kincaid (engines)	Greenock	536	22%
 <u>UNDER THREAT</u>			
Austin & Pickersgill	Sunderland	1238	22%
Ferguson	Port Glasgow	420	22%
 <u>CLOSING</u>			
Smiths Dock	Middlesbrough	1472	23%
Ferguson Ailsa	Troon	378	15%
Wallsend (engines)	Newcastle	415	19%
	Support Services	200	
	BS Staff	<u>187</u>	
	TOTAL	<u>10010</u>	

Proposals for North East Package

<u>Measure</u>	<u>Extra Cost</u>	£ million (1986-87)
More derelict land reclamation	6.0	
Extra Urban Programme Projects	7.0	
'Gearing up' existing MSC services	-	
New 'Enterprise Corporation' to be established by British Shipbuilders	?	
New Community Programme measures to increase private sector involvement	?	
More resources for adult training	?	

NB Package to be coordinated through present City Action Team mechanism.

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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

2 May 1986

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The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1

To keep for E(A) on
Thursday

Dear Lord President,

BRITISH SHIPBUILDERS: THE NEXT STEPS

I am writing to you in the Prime Minister's absence about developments affecting British Shipbuilders since I minuted the Prime Minister on 14 April.

BS have been looking carefully at various scenarios for the current year. While each scenario has its own financial and employment consequences, BS believe that the chief determinant is the extent to which they succeed in winning new work I warned in my earlier minute that even with a reasonable degree of success in winning new orders they believed that they would have to close their Wallsend engine works (400 jobs), Smith's Dock (1500 jobs) and Ferguson-Ailsa's yard at Troon (400 jobs), bringing total redundancies this year (including the effect of 'core level' labour) to about 3,500 of which some 2,500 will be in the North East. I also said that BS would wish to announce these redundancies together with their plan to go to a core labour force when they meet the unions to discuss their wage claim on 14 May. As I explained in my earlier minute, economic manning means employing only the numbers and skills essential in each yard that cannot be organised on a temporary basis, for instance by transfer or sub-contractor.

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Mr Hares came to see me yesterday and reported two main developments. First, the BS Board, strongly influenced by their non-executive directors, felt that given the present order position even the scenario described above was optimistic and that a less optimistic scenario including the additional closure of Austin and Pickersgill at Sunderland (1250 jobs) and the Ferguson yard at Port Glasgow (400 jobs), was the more likely eventual outcome.

The Board therefore believed that their actions from now on should be aimed at enabling them to move towards this possible outcome in the least costly manner. However, they recognised the practical difficulties of moving immediately onto such a course given the need to complete the workload already in the yards. The Board therefore agreed that BS should adopt their preferred scenario, but that progress should be monitored regularly over the next few months and that BS should be prepared for even further restructuring should the value of new orders be insufficient to utilise the remaining yards' capacity. If such further restructuring were necessary BS would wish to act as quickly as possible to enable them to prevent costs getting out of hand.

Second, the BS Board feels very strongly that they should take immediate steps to implement their preferred scenario (bringing them down from 10,000 to some 6,200 employees by the end of the year) and that they should brief the unions clearly and unambiguously on 14 May, publicly announcing both the closures and the other major changes in employment practices when they open their negotiations on pay. They say that a delay in implementing these changes would result in severe under-utilisation of their facilities and consequent cash costs which would be unacceptable. They also take the view that a failure to make a clear statement of intent at this stage, which would inevitably mean further painful announcements within a very few months, would seriously undermine the BS management's credibility and prejudice the cost effective management of the business.

I endorse that view. The changes they propose seem the minimum necessary to give the industry any chance of survival except at exorbitant cost. They do not prejudge the outcome of the study by officials being undertaken by MISC 127 since no shipyard can be closed until it completes its present workload (in the Autumn at Troon and by the end of the year at Smith's Dock). BS would find it difficult to delay the 14 May meeting without revealing that this was because the Government was still reflecting on their proposals.

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In my previous minute I reported that I had told Mr Hares that he should take whatever steps he could to bring BS back within or close to their EFL. BS have now done this. They report that against an EFL of £73m set on the basis of what must now be seen as the optimistic market forecasts in their 1985 plan, BS's cash needs in 1986/87 would be £72m at the trading level together with restructuring costs of a further £29m. This calculation assumes that BS is successful in securing an order for 5 Chinese container ships, Cuban ships to follow-on the present order at Austin and Pickersgill and 9 Danish small ferries. This mix of orders would cost some £79m in 1986/87 Contract Support Limit (CSL) terms against a CSL of some £53m after making use of the main flexibility provisions. A good part of the excess derives from the assumption that the 5 ships from China would all require use of the Aid and Trade Provision (we have so far only agreed that this should cover 2 ships) at a cost of £24m which would be charged against the CSL. However, other orders could materialise which would be less expensive in CSL terms than the ships for China. Officials will need to review the figures with BS but I am clear both that they are doing what they can and that any more radical restructuring would be even more expensive in the short term.

... BS also want to put their proposals for "economic manning levels" to their unions on 14 May. This is an integral part of their proposals for pay and productivity. The details of their past productivity and economic manning level proposals are attached and I would be grateful for the Chief Secretary's confirmation that they are acceptable.

Although the announcement by BS on 14 May of impending closures is unwelcome, I do not think it can be avoided. We will need to think separately about what we should say publicly. We will almost certainly face a PNQ. It would be most helpful in answering this if David Young was by then in a position to announce at least some measures resulting from the exercise commissioned by Cabinet on 24 April to consider the scope for targetting Government job creation initiatives on the work-hit areas of the North East.

As far as BS is concerned, my main anxiety is that they may not be able to secure the orders necessary to maintain their main scenario. BS themselves place considerable emphasis on their Fleet Support King 20/20, a fleet Auxiliary Vessel that BS have designed which they see as a cheaper, less sophisticated complement to the AORs. But I am aware of the difficulties for MoD. This should however be explored fully in MISC 127 - as should the possibility and timing of other public sector orders.

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If you and colleagues agree, I propose to tell BS that they go ahead on 14 May as they propose.

BS would like to know by the middle of next week whether we will allow them to make their announcement on 14 May. I think we must. But if you or colleagues have difficulties with this, I would be grateful if you would let me know by 8 May.

I am copying this minuter to the Prime Minister, other members of E(A), Geoffrey Howe, George Younger, and Sir Robert Armstrong.

Yours sincerely,

Michael Cillerton

PAUL CHANNON

*[Approved by the Secretary of State
and signed in his absence]*

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BS - PAY AND PRODUCTIVITY PROPOSALS

BS intend their 'economic manning levels' concept to lead to a reduction in overheads and in the number of the direct employees by 15-20 per cent. Any shortages would be catered for by the introduction of sub-contractors, transferees, and employment on short contract. For reasons of cost, BS would attempt to work with sub-contractors and short contracts rather than transferees, but the measure of advantage will depend on how successful they are in prevailing against their trade unions who are already arguing that supplementary labour should receive all the benefits of regular employment, particularly holiday entitlement. BS are still considering how radically this policy could be implemented. At present they see a programme of some 1500-1800 redundancies beginning in July on a voluntary basis, and to be completed by the end of next March with compulsory redundancies from this October.

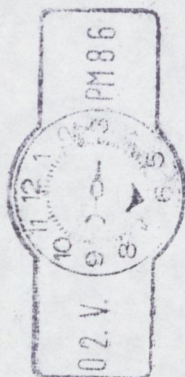
On productivity and pay, the basic message they plan to spell out is that the closures, moves to economic manning levels, and productivity proposals are all essential if the industry is to have any cost of future, but that they are prepared to pay for the results by sharing savings 50-50 from productivity and economic manning levels in pay. Against the union claim for an unspecified "considerable increase" in 1985/86, they propose to make no general increase this year. All items in the programme would be negotiated at the local level before October, with the increased payments coming



through in October, January and April 1987 dependent on the extent of implementation in the interval. The new rates would then apply throughout 1987/88 avoiding a pay round next year.

BS' present figuring suggests rates of £165 for a 39 hour week for all craftsmen at all yards, fully consolidating allowances. This represents an increase of between £7 and about £20 per man depending on the yard. BS strongly believe an incentive of this order will be necessary to achieve the programme and provide an incentive, for instance, for core labour to co-operate with a sub-contractor.

NAT. IND - Shipbuilding Pt. 10



Philip HARLES

1575



10 DOWNING STREET

From the Private Secretary

ack 1 May 1986

I attach a copy of a letter the Prime Minister has received from Mr. Phillip Hares, Deputy Chief Executive of British Shipbuilders.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by Thursday 15 May.

(David Norgrove)

Richard Hatfield, Esq.,
Ministry of Defence.

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CC/BG

P 02038

From: J B UNWIN

1 May 1986

NGBN.

MR NORCROVE - NO 10

cc Sir R Armstrong
Mr Wiggins

BRITISH SHIPBUILDERS AND THE NORTH EAST

You may recall that in his minute of 14 April to the Prime Minister prior to the second E(A) discussion of the AOR order, the Secretary of State for Trade & Industry warned of the serious problems facing British Shipbuilders (BS) and the possibility of a statement on 14 May about future closures and redundancies.

at Harp

2. Although the Cabinet Office were instructed to conduct a strategic review of the merchant and warship building industries, there was no specific discussion of Mr Channon's report and no clearance was sought or given.

3 I now understand both from BS themselves (Professor Griffiths and I talked yesterday afternoon to both Graham Day and his successor, Phillip Hares) and from DTI officials that the statement planned for 14 May is likely to be more specific than Mr Channon's letter indicated. I do not know all the details (Phillip Hares is about to write to Mr Channon setting these out) but the statement is likely to reveal plans for redundancies of nearly 4,000 between now and April 1987 (reducing the work force from the present 9,927 to 6,192), distributed as follows:-

- closure of Smith's docks (Middlesbrough): 1,534 jobs;
- closure of Ferguson-Ailsa's yard at Troon: 311 jobs;
- closure of Wallsend Engine Works: 340 jobs;
- the balance from various reductions elsewhere, mainly in the North East, to achieve a "core level" labour force.

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4. The occasion for this statement is a meeting on 14 May with the unions to begin wage negotiations; BS believe that it will strengthen their negotiating hand.

5. Although these decisions will anticipate the new BS corporate plan due to be brought to E(A) before the summer recess (in practice they will be the corporate plan, at least in the shorter term), there seems little alternative to them if BS are to be kept afloat within the broad financial framework already laid down for them. Mr Hares' estimate is that at the trading level (ie excluding some £30 million of redundancy costs), the proposals will enable BS to live within their 1986-87 EFL of £73 million. However, the statement will obviously be extremely controversial, and I have told the DTI that in my view, the Secretary of State should report the position to the Prime Minister and colleagues on E(A) as quickly as possible (preferably before the weekend), so that comments can be invited and a discussion arranged if necessary after the Prime Minister returns from Tokyo. The Prime Minister and other Ministers concerned must have an opportunity to consider the implications of the proposed announcement before the point of no return is reached.

6. DTI officials accept this and are so advising Mr Channon. I hope, therefore, that you will get a report tomorrow.

7. I send this minute to you so that you are aware of the above developments and can alert the Prime Minister if you think it necessary to do so. No further immediate action is necessary, but I will contact you again if there are problems.

J B UNWIN

Cabinet Office

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PART 9 ends:-

BRITISH SHIPBUILDERS to PM 30/4/86
MEANTON T. BERGMAN 29/4/86

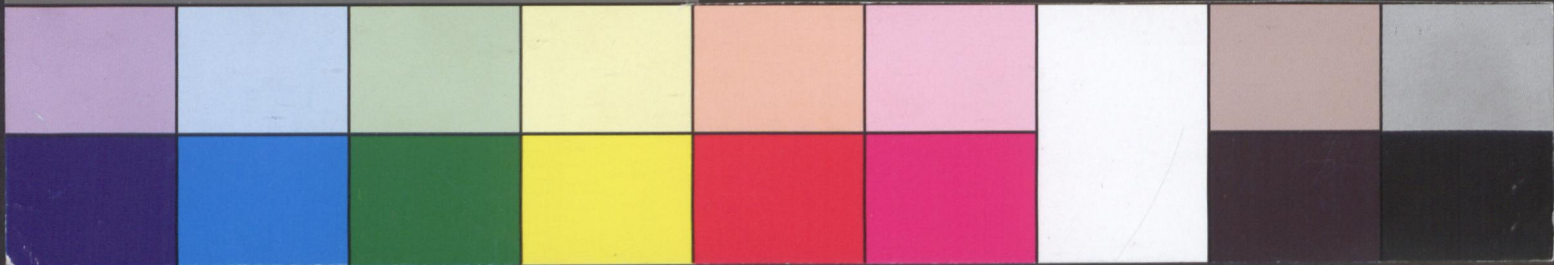
PART 10 begins:-

J. UNWIN to DN 1/5/86.

Inches 1 2 3
Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow



A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19

Grey Scale #13

