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PREM 19/2359

PART 14

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SHIPBUILDING POLICY

SHIPBUILDING PAY

NATIONALISED INDUSTRIES

Part 1 May 79

Part 14 April 88

PREM 19/2359

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.4.88		6.9.88					
14.4.88		8.9.88					
20.4.88.		15.9.88					
21.4.88		20.9.88					
29.4.88		23.9.88					
9.5.88		26.9.88.					
13.5.88		30.9.88					
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PART 14 ends:-

PG to PM 30.9.88

PART 15 begins:-

SS/EMP to COL 4.10.88

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(88)35	7/7/88
E(A)(88)34	7/7/88

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

Signed R Wayland Date 19 July 2016

PREM Records Team

JD3BON

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PRIME MINISTER

MEETING OF E(A): 6 OCTOBER

You may like over the weekend to have a first look at the papers for next Thursday's meeting of E(A).

There are three items on the agenda:

1. Nitrates

Last February E(A) commissioned the Cabinet Office to coordinate substantial further work. The paper at Flag A fulfils that remit. Briefs by the Cabinet Office - Flag B - and the Policy Unit - Flag C - provide a steer through the issues.

2. Powers to deal with MMC Reports

You were unhappy with the proposals circulated recently by Francis Maude, and asked the Department of Trade and Industry to submit a paper to E(A). That has now been done, and the paper is at Flag D. Briefing will follow next week.

3. Update on Northern Ireland Economic Issues.

Tom King's paper - Flag E - gives an update on the position at James Mackie, Harland and Wolff, and Shorts. Frankly, it doesn't take us much further on any of these issues. Your main aim will be to ensure that effective action is in hand. I doubt if you will want to use E(A) as the right forum to resolve the issues raised on precise levels of external financing limits for Harland and Wolff and Shorts - I suggest you remit that to Northern Ireland Office/Treasury discussions. Further briefing on this paper will follow next week.

PG

PRG.

30 September, 1988.

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MR PAS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 September 1988

Dear Peter

BRITISH SHIPBUILDERS AND THE NORTH EAST

The Prime Minister was grateful for the report from the Chancellor of the Duchy about Sunderland, which she read with interest.

I am copying this letter to the Private Secretaries to members of E(UP), Roy Griffins (Department of Transport) and Trevor Woolley (Cabinet Office).

Yours sincerely

Dominic

DOMINIC MORRIS

Peter Smith, Esq.
Chancellor of the Duchy of Lancaster's Office

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the department for Enterprise

CONFIDENTIAL cc PM

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

NS Rm

Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET
Switchboard
01-215 7877
Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 23 September 1988

Dear Chief Secretary,

BRITISH SHIPBUILDERS: CLARK KINCAID

file with DM

Thank you for your letter of 22 September.

Although the assurances you ask for may give rise to difficulties in the negotiations for the disposal of Clark Kincaid and other facilities, I am prepared to give them since we have no further opportunity for debate before the engine order has to be placed.

I have today approved John Lister's nomination of the Management Buy Out team as preferred bidder for Clark Kincaid.

You asked for disposal or closure costs for the various BS facilities to fall this year rather than next. I hope to be able to make recommendations about the future of North East Shipbuilders later next month. BS plan to invite bids for Ferguson by 14 October but, if no satisfactory bidder is found, some closure costs are bound to fall in 1989/90 since the present workload will not be completed until then.

I am sending copies of this letter to the Prime Minister, and Malcolm Rifkind and to Sir Robin Butler.

Yours sincerely,
Linda Joyce

pp TONY NEWTON
(Approved by the Chancellor and signed in his absence).

SE2ADC

NAT IND: Shipbuilding
PT 14

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cc PUS

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To:

PRIME MINISTER

Prime Minister 2

This is only a "situation report" action needs to await the outcome of the DTI/Treasury PES bilaterals.

DNN
23/9.

From:

TONY NEWTON

22 September 1988

BRITISH SHIPBUILDERS AND THE NORTH EAST

1. Since taking up my new responsibilities I have visited a number of inner cities to get a feel for myself of their problems and the progress that has been made in overcoming them. Yesterday, as part of this process, I visited Sunderland, including North East Shipbuilders Limited (NESL), and Newcastle. This minute reports what I saw there, brings you up to date on developments at NESL, and seeks your support and that of colleagues in preparing a number of measures for announcement in the event that I have to decide, probably before the end of October, that NESL must close.

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Inner Cities

2. I visited three inner cities projects in Sunderland and Newcastle. They had all received support from our City Action Team. The projects were very impressive and included setting up a new training course at Wearside College to help provide multi-skilled technicians, the Microelectronic Applications Research Institute facility in Sunderland which brings together the polytechnic, the university, industry and the local authority in what is now a profitable organisation for high technology research and training, and a managed workspace project in the centre of Newcastle which was set up by the local Enterprise Agency using Community Programme employees and now offers accommodation for up to 17 start-up companies.

3. The private sector is playing an important part in all these projects. The CBI, through its Newcastle Initiative, is taking a key role in promoting new enterprise in the city. We have already succeeded in attracting many new industries to the area - not just big companies like Nissan but also many start-ups and service companies. I was impressed by the commitment of the private sector to regenerating the community. I am sure this owes much to our resolve to help create a new environment in which people can work and prosper. I am convinced we can build on this but there are still major problems to be tackled, one of the main ones being the future of NESL at Sunderland.

TN3AAB

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the department for Enterprise

NESL

4. I spent yesterday morning touring the yard with the British Shipbuilders Chairman, John Lister, and meeting the unions and management. I also made a point of seeing the Sunderland Chamber of Commerce and other leading businessmen in the community since, in the event of the yard having to close, we will want to look to them to play a major part in helping Sunderland build on the new industrial base that is developing there.

5. Morale is evidently very low. The last two Danish ferries are nearing completion and there is no further work. 450 of the workforce of about 2,500 have been laid off and a number of the younger and better trained employees have left to seek work elsewhere. I was urged to do all that I could to save the yard, including letting BS take the order for 10 cargo ships for Cuba. I made clear, however, that there could be no question of going back on the policy we announced in July and in particular that NESL must be sold before we will provide Intervention Fund support for further orders.

6. BS have announced that 30 September is the deadline for bids for NESL. There are four potential bidders. John Lister has told me, however, that while he expects to receive two or possibly three formal bids by the deadline, he is not hopeful that any of them will be credible. I

therefore anticipate that I may have to announce, probably towards the end of October, that the yards will have to close.

7. This will have a significant impact on the local community. BS is still one of Sunderland's main employers. Unemployment has fallen by 2.3% in the past year but still stands at 16.6%, with pockets reaching as high as 50%. The shipyards dominate the community, both physically and because of the long history of shipbuilding there. It will take a major effort to overcome this but I believe it can be done.

Package of Measures for Sunderland

8. At a meeting you chaired with the colleagues most concerned on 31 March, it was agreed that we should be ready to announce a package of measures in the event of NESL closing. My predecessor told the House on 21 July that we would introduce such a package. David Young and I are discussing with John Major in the current PES round the precise level of funding. I hope very much that, as previously agreed by colleagues, the package will include measures for counselling, retraining, advance factory facilities and other enterprise measures to stimulate alternative employment opportunities.

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the department for Enterprise

9. I know that Nick Ridley has in mind to announce a new Enterprise Zone for the area. I think this will have a major beneficial effect and is an essential complement to the other measures I have in mind. During my visit yesterday, I was most impressed by the work which the UDC has already carried out. I understand that a major business park project which the UDC is currently considering may depend for its success on a marginal adjustment of the proposed EZ boundary. I hope this can be overcome.

10. I am sure there are other initiatives, some of which may already have been announced, that could be either extended to include, or specifically targeted on, the area that would be affected by the NESL closure. I should like all colleagues to whom I am copying this minute to consider what they could do that would enable further positive announcements to be made towards the end of next month. If we are to help develop Sunderland's new industrial base successfully then I think it is essential that we try to co-ordinate and bring forward as many of our activities as possible at this crucial time.

11. I am copying this minute to members of E(UP) and Paul Channon and to Sir Robin Butler.

Peter Smith

pp TN

(Approved by the Chancellor and signed in his absence)

TN3AAB

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CCPO

NBPM - as this year

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

22 September 1988

Dear Chancellor of the Duchy of Lancaster,

BRITISH SHIPBUILDERS: CLARK KINCAID

Thank you for your letter of 20 September replying to mine of 8 September. I am sorry that we do not have more time to discuss the points which you make, before Friday when Kvaerner will require a firm bid from British Shipbuilders for the engines if they are not to be sourced elsewhere.

I understand the importance of securing a sale of this yard if we can do so within the policy framework we have agreed, and without damaging repercussions for our policy on other yards. You say that you are able to give assurances on all the points I raised. However, what you are proposing seems to fall rather short of what I asked for.

I am still concerned that if we allow Clark Kincaid to take a new order under BS ownership to improve its disposal prospects, there will be pressure to extend the same treatment to other BS facilities. Indeed I gather that your officials are already considering a proposal for BS to take a new order for Appledore. The way to be sure that there are no such repercussions is to take a clear decision that in no other case will BS be allowed to take new orders. But the limited assurance you offer would allow similar cases to come forward.

I am also concerned that the disposal of CK may not actually go through, not least because the preferred bidder is not yet committed, and that the new order would substantially add to the closure costs we would then face. It may now be too late to make the new order conditional on disposal but John Lister is surely

wrong in advising you that detailed negotiations could only commence once the engine order was settled. I do not see why, present pressures timing apart, it should not have been possible to negotiate on the basis that acceptance of the order was contingent on a firm commitment to disposal.

There is also the point that nothing will prevent the bidders from increasing their already substantial demands once the order has been accepted. As I said, if our aim is to contain disposal costs within the limit of estimated closure costs, it is a strange policy to be increasing those potential closure costs, visibly. Whilst negotiations are still underway.

I therefore still have serious reservations about your proposal. On principle, I believe that the right course is for you to refuse to be put under pressure to agree to this new order. On presentation, I regard the absence of any commitment as to disposal as more than a mere technicality. The fact is that you are proposing that BS should now enter into new contractual commitments in the hope that this will facilitate an acceptable disposals package.

But I recognise the difficulties of your position and I would be prepared to agree to BS confirming its bid for the engine order on Friday on the terms proposed on the following conditions: First, that no other orders will be taken by BS for any facility except as part of the conditions of a sale of the facility (that is, there would need to be an enforceable disposal commitment, contingent on the new order, before any other new order were taken for Appledore); second that in no circumstances should the costs of disposal of CK be allowed to exceed £5.5 million, including the value of the tax losses to be inherited and the loss on the new engine order; and third that BS should not be allowed to make on unsecured loan to the MBO team. Fourthly before final approval to the CK disposal is given there would need to be close scrutiny by both DTI and Treasury officials of all aspects of the deal, and it would be helpful to have assurances from Price Waterhouse and your own independent advisers that the estimates of closure costs being produced by BS for CK and other facilities are actually the lowest that we could expect if the businesses were in the hands of a competent liquidator.

What I have in mind on the final point is that as, rightly we have no confidence in BS' management of its ongoing business, it is difficult to have confidence that it will be as affective and efficient as best practice when it comes to managing closures. This is particularly worrying when we look to the prospects for NESL.

I would be content for BS, exceptionally, to take the engine order for CK without a commitment to disposal from the bidders. But I would do so with considerable reservations, and I could not contemplate these arrangements for CK setting a precedent for other disposals and I could do so only if you were able to agree to the points above.

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On a general point about BS facilities, I am anxious that any disposal or closure costs which we may face should if at all possible be suffered in this financial year rather than next. This points to urgent decisions on Ferguson and NESL. I shall be writing separately about Appledore.

I am sending copies of this letter to the Prime Minister, and Malcolm Rifkind and to Sir Robin Butler.

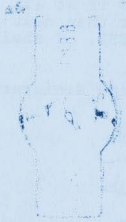
Yours sincerely,

P. Wardell

pp JOHN MAJOR

[Approved by the Chief Secretary and signed on his behalf.]

NAT IND: Shipbuilding PT14.



BF 21/9 for DM

cc PUS

dti

the department for Enterprise

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The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
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Department of Trade and Industry

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Direct line 215 5147
Our ref
Your ref
Date 20 September 1988

Dear John,

BRITISH SHIPBUILDERS: CLARK KINCAID

Thank you for your letter of 8 September. You sought a number of assurances. I think I can respond positively on all of them.

On the question of BS taking other orders prior to disposal of a facility, I have repeatedly made clear that North East Shipbuilders would have to be in private hands before support were confirmed for the Cuban cargo ships. More generally, I would certainly not contemplate seeking the agreement of colleagues to BS taking a further order unless we had received a firm bid from at least one credible party to acquire the facility, that we could be confident the purchaser was committed and that the final details would be acceptable to ourselves and the Commission. As an essential condition I would also expect, as in the present case, that taking the order would result in an improvement to the overall position of the Exchequer.

BS have made further progress towards a sale. They have recommended the Management Buy-Out team as preferred bidder. Your officials have details, including information covering the points on costings raised in your letter which supports what I

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said in my previous letter. It will not, however, be possible for BS to reach Letter of Intent stage by the deadline for the present order which is now 23 September. My officials have pressed John Lister on this but he has pointed out that detailed negotiations cannot effectively commence prior to a decision on these engines. Nevertheless, it should certainly prove possible for the Buy-out Team to be agreed as preferred bidder before the engine contract is signed.

My officials have also pressed BS on the possibility of their being able to purchase at least one engine from overseas at a later stage in the unlikely event that it should prove impossible to dispose of Clark Kincaid. I am pleased to confirm that BS have made clear they would have the flexibility to do this.

You said you would see merit, if BS were to be allowed to take this order, of linking it to a decision to close Ferguson if a bidder had not been identified by then. I cannot agree with this. There is no reason in logic why the two should be linked. Moreover, bids for Ferguson have yet to be invited by BS whereas the final date for decision on the present engine order is 23 September. I have to repeat, however, that the prospects for Ferguson do not look encouraging and I see little prospect of a disposal that would meet the terms we are applying to other BS facilities. That said, having completed a successful sale of Govan and with the firm prospect of a satisfactory sale of Clark Kincaid, we will have succeeded in retaining the bulk of the Scottish yards and the vast majority of their employees which, as I pointed out in my last letter, would greatly ease the presentation of a decision to wind down Ferguson should no satisfactory bidder emerge.

Finally, I must urge you to bear in mind the political point that it would be extremely difficult to present a decision to allow Clark Kincaid to close essentially because of a timing point regarding a further order. This would be seen as a mere technicality. I would not wish to defend it on this basis I am sure Malcolm would not either. I therefore hope you will be able to give your urgent agreement in time for BS to take the present order by the 23 September deadline.

I am copying this to the Prime Minister and Malcolm Rifkind and to Sir Robin Butler.

Yours ever,
Tony

TONY NEWTON

SE2ABI

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1E 3AG

15 September 1988

Dear John,

BRITISH SHIPBUILDERS: CLARK KINCAID

You sent me a copy of your letter of 8 September to Tony Newton about Clark Kincaid.

I see no justification for linking our decision on the engine orders which British Shipbuilders is attempting to secure for Clark Kincaid from Govan, with a decision on the future of the Ferguson yard. The additional costs mentioned by Tony would only arise if Clark Kincaid is not sold but at this stage I understand we have no reason to doubt the soundness of the two bids received, and I know through the Scottish Development Agency, which had contact with the management buyout team at an earlier stage in the preparation of their proposals, that the team, if selected as the preferred bidder, have every intention of seeing their bid through to a satisfactory conclusion.

If, as Tony has told us, the bids both mean that disposal will be cheaper than closure, then I fail to see how we reach any decision other than disposal. This would be so even if the difference were narrower than the considerable gap which currently seems to be the case.

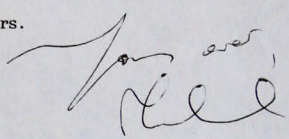
As for your remarks about Ferguson's future, I could not support linking that decision with the decision on the engines. I see no reason not to take each issue on its merits. Linking would be a totally artificial arrangement, and presentationally, the favourable decision we might take on Clark Kincaid would be invalidated by the outcome you are suggesting for Ferguson, and would bring us no credit at all.

I had understood that a decision on the engines was needed quickly, whereas the bidders interested in Ferguson are entitled to reasonable notice to submit their bids for the yard. It does not seem practicable to keep one decision awaiting the other. In any case I believe we should await the outcome of the bidding before we decide what our next steps should be, and in this respect I have reservations about the assurance you seek from Tony that no more loss-making orders will be proposed for any of the BS yards. I think this is an option we should not close off

for ourselves if the taking of such an order would facilitate a yard's disposal, while keeping the total costs less than the costs of closure.

I would therefore urge you to agree as soon as possible that Clark Kincaid may be allowed to take these orders.

I am copying this to the recipients of yours.



MALCOLM RIFKIND

NAT IND. Shipbuilding
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SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Prime Minister
Looks increasingly as if nothing will come of Ravi Tikkoo.

Rt Hon John Major MP
Chief Secretary
HM Treasury
Great George Street
LONDON
SW1

14 September 1988

Dear John,

HARLAND AND WOLFF PLC

Ministers agreed in E(A)(88)10th of 13 July that I could negotiate with potential purchasers of H&W within the parameters I had previously proposed subject to my officials checking with Treasury and DTI that the parameters were consistent with the basis of the Govan deal; and to my officials agreeing with yours the estimated cost of closing H&W. I reported at the meeting that the front-runner for purchase of the yard appeared to be Tikkoo Cruise Lines (TCL), a company run by Ravi Tikkoo.

Since that discussion, TCL have come forward with an offer to acquire the shipyard, based on an order for a cruise liner (P3000). I have considered the terms of this offer but they are simply not acceptable. But if we cannot proceed on this basis, I

cannot simply reject TCL's terms outright. The importance of the yard within Northern Ireland, not least in political terms, and our understanding that TCL is considering instead placing the order with a French yard (which our embassy in Paris has confirmed is in a position to execute it) make it essential that we can show that we were prepared to deal very fairly with the yard in an effort to save the industry and jobs involved for Northern Ireland. I therefore propose to make counter-proposals to TCL, the terms of which have been discussed with your officials and are summarised in the attached Annex. I regard these proposals as very fair, but it is probable that TCL will reject these counter-proposals as a basis for further negotiations. Even if this assessment is proved wrong, however, it seems very unlikely from our discussions with TCL so far that the company would be able to raise sufficient finance to proceed with purchase. It also looks increasingly unlikely that ECGD will be able to offer terms on the P3000 alone which would enable TCL to proceed with the order - without which of course the wider proposition is impossible. I am meeting Tony Newton later today in order to discuss the position more fully with him, but whether anything further can be done by ECGD is a matter for them.

If, despite all these serious doubts, TCL should be able to raise sufficient finance for both the ship and the wider deal and decide to accept my suggested counter-proposals as a basis for further negotiation, I believe that those proposals are well within the parameters set by colleagues in E(A) - chiefly that any sale should be on the lines of the Govan/Kvaerner deal and fall within the costs of closing the yard.

I am not in this letter seeking approval to the counter-proposals since I believe that they are within my negotiating remit from colleagues, but I am anxious to keep you in touch with major

developments. If, however, you have any comment on my counter-proposals, I should be grateful if you could let me have your observations by lunchtime on Thursday, 15 September, so that I might go back to TCL without undue delay.

I am copying this letter and enclosure to the Prime Minister, to Tony Newton and to Sir Robin Butler.

TK

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ANNEX

H&W/TIKKOO CRUSE LINE LTD: TERMS OF COUNTER PROPOSAL

Provision of intervention aid for P3000 at the rate of 28% on standard terms (approximately £100m). TCL to arrange finance for the vessel. Future intervention aid, if any, to be available on the terms applicable at the time of receipt of an order.

TCL to acquire the fixed assets and stocks of H&W at book value (£9.76 million at 31 March 1988).

TCL to provide evidence of ability to fund the new company at least to completion of P3000.

DED to provide grant assistance at the rate of 30% on expenditure in the two years to 31 March 1991 covering normal capital replacement, some rationalisation costs and deferred maintenance and replacement; and at the rate of 100% on those aspects of rationalisation costs which include physical concentration and on under-utilisation costs. Expenditure on marketing/product development and retraining to be grant-aided under standard IDB/DED schemes. Government assistance estimated at £30/£40m.

DED to retain ownership of the existing company and pay its residual liabilities as they come due.

DED to sub-contract completion of SWOPS and AOT to TCL on the basis of budgeted completion costs with bonuses (and penalties) for achievement (or failure to achieve) agreed targets.

DED to fund redundancies down to an agreed level but no further.

csec.ps/docs/jm3.8.9ck

CONFIDENTIAL

cc PJ.

NBPM
Minister steps.
RRCB
9/9

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Tony Newton OBE MP
Chancellor of the Duchy of Lancaster
1 - 19 Victoria Street
London
SW1H OET

8 **September 1988**

Dear Chancellor of the Duchy of Lancaster

flop

BRITISH SHIPBUILDERS; CLARK KINCAID

I am very uneasy about the proposal in your letter of 2 September for a number of reasons.

First, there is at this stage no commitment from anyone to take Clark Kincaid off our hands. The two tentative bids could just evaporate. Or the bidders could increase their demands in the knowledge that the new order would make the avoidable closure costs much greater. I am surprised that both of the bids should be conditional on BS taking the engine order from Kvaerner when as I understand it the order is going to be placed in Poland unless BS are prepared to suffer heavy contract losses by bidding for it at the last moment. I do not know why the bidders should have presumed that will be the case.

Given that we shall have to weigh the costs of disposal of CK against the costs of closing it, it seems a very strange policy to take a new order now which in the event of closure would significantly increase closure costs and possibly prolong the agony of closure for up to a year. I am not sure how the estimate of £5 million to dispose of CK and £10 million to close it has been devised. My officials believe that the disposal costs will be much closer to closure costs and that it would be a finely balanced judgement whether to accept either of the bids. Taking the new order would expose us to much higher closure costs. It might also, of course, frustrate future disposals if the European Commission took too bad a view of it. It certainly would not help our standing in Brussels, in matters such as the Finsider complaint.

It would also be visibly at odds with our policy towards NESL, where the same logic which would lead us to take a risk on loss-making orders for CK to improve disposal prospects, might seem to point to BS taking the Cuban order for NESL. This is a very slippery slope. I do not share your view that failure to make a special case for CK will damage the presentation of our policy towards Govan. On the contrary, the indisputable fact that we are paying a lot of money to save Govan should make it easier to present a prudent approach to the problems of CK. I cannot accept that the Govan disposal, about which I had serious

reservations, should now be allowed to lead us into increasingly generous treatment for each other BS facility as it comes along.

I do not wish to be unhelpful to you, but the risks in your proposal are very great. I certainly could not agree to it without a firm undertaking that it will not have repercussions for other BS facilities. This would mean an assurance that in no circumstances would any other loss-making orders be taken by BS. In this context I would regard an order which required a facility to remain open with unrecovered overheads for longer than it otherwise would as excluded. I should also welcome an assurance that BS will actually have progressed to a Letter of Intent before the new orders are taken. There would be further comfort if in extremis BS were able to satisfy the order by buying in an engine from the Far East instead of building it: this possibility was mentioned by your officials. I should be grateful also if my officials could be given the detailed costings supporting your estimate of disposal and closure costs, with particular attention in the former case to the valuation of tax losses and the unsecured loan required by the MBO bid; and in the latter case to how much of the costs of closure represents the cost of support until present work is finished and how much of this is now avoidable by disposal. I shall be replying separately to your proposals for Appledore but for Ferguson where, as you say, the prospects of an acceptable bid are receding, I think we must take a decision very soon now. Certainly if CK were to be allowed to take this new order I would see merit in linking that with a decision to close Ferguson if by that time a basis for disposal had not been established.

If you were able to offer me assurances on these points I should be happy to look urgently at them. I hope that we can find a satisfactory way through this.

I am copying this letter to the Prime Minister and Malcolm Rifkind and to Sir Robin Butler.

Yours sincerely,

P Wardlaw

pp JOHN MAJOR

[signed by the Chief Secretary and signed in his absence]

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The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

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Our ref
Your ref
Date 6 September 1988

Dear Chief Secretary

APPLEDORE FERGUSON SHIPBUILDERS: DEVON YARD

Following Kenneth Clarkes's announcement to the House on 21 July that British Shipbuilders were expecting bids for Appledore from at least two parties, two proposals for taking the yard into private ownership have been received by BS. You will want to know that John Lister has recommended Langham Industries to me as the preferred bidder, and I have agreed that he should commence negotiations with Langhams, subject to our receiving some further information about the financial strength of the company.

The other bidder was Highland Participants, of which Peter de Savary is the Chairman. Langhams' bid would have an associated cost to BS of £2.1m, in contrast to £4m if Highland Participants were to take the yard. Closure costs to BS, in comparison, would amount to some £8m. My officials are in contact with yours on the details of the bids.

Both bidders would pay a small consideration for the assets, and both would want BS to pay for initial redundancies and an ex gratia payment to buy out the BS redundancy scheme. Beyond this, Langhams are asking for no financial concessions, but Highlands are also requesting a management fee for completion of existing work and help with capital investment. I regard their terms as excessively demanding. Langhams, through their

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the department for Enterprise

subsidiary Stone Manganese, have a good standing in the marine sector and are familiar with market conditions. They have a credible business plan, based on around two new orders per year, and show more evidence of commitment to the Appledore yard than do Highland Participants, whose own business plan for some four new vessels per year BS see highly optimistic. We agree with this view. While there is no significant difference in financial viability between the bidders, as advised by Lazards, I have told John Lister that I would like to see some more information on Langhams,eg how they would sustain the yard through a lean order period.

On possible Intervention Fund needed by any new owner of the yard, it is not possible to go beyond conjecture. Unlike Govan, there are no specific orders directly related to the proposals, so Intervention Fund spend will depend on the orders won.To the extent that Langhams' plan envisages a lower order intake than does that of Highland Participants, then IF payments to Langhams may be expected to be less than any such payments to Highland Participants. At current prices for the sorts of vessel which Langhams might build, mainly dredgers, I should not expect the amounts of IF to be paid to bring the costs of disposal out of line with the costs of closure, particularly when discounted. A closure, besides costing BS the £8m I have mentioned, would bring in its wake wider Exchequer costs and perhaps costs of a remedial package, if we decided to introduce such a package of measures in the Appledore area.

I am copying this letter to the Prime Minister and to Sir Robin Butler.

Yours sincerely

R.A.Gr

pp TONY NEWTON

approved by the Chancellor and signed in his absence.

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the department for Enterprise

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
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Department of
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Our ref
Your ref
Date 2 September 1988

NBPM ctd
Treasury consent.
PRCC
7/9

Dear John.

BRITISH SHIPBUILDERS: CLARK KINCAID

My officials have presented to yours a case for Clark Kincaid to be allowed to take orders for two new engines so as to facilitate BS's disposal of the business on an advantageous basis. The engines are for the first two gas ships to be built at Govan under its new owners Kvaerner Industrier. BS are well advanced in their plans for privatising Clark Kincaid although it will not be possible to complete this before a decision is required on where the new engine orders are to be placed.

BS have received two sealed bids for Clark Kincaid, one from the management and one from a third party. A sale to either would cost approximately £5m. This compares to the cost of outright closure of approximately £10m, net of asset sale for alternative use although not including the cost of any remedial measures or continuing unemployment benefits for the 500 employees who would be made redundant.

BS are facing heavily subsidised Polish competition for the engine orders and would expect to have to take a contract loss of £1.45m. The total public sector cost of the sale of Clark Kincaid with the new orders would therefore be approximately

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the department for Enterprise

£6.5m. However, at least one and almost certainly both of the bids for the yard are conditional on the order being placed there, and even if in the one case it were not conditional then the bid would be reduced by more than the additional cost.

If this were the only choice facing us then I would have no hesitation in recommending that we allow Clark Kincaid to take the order and proceed with the sale to one of the bidders. At this stage, however, it is not possible to guarantee that the sale will be completed. All of the indications are that it will but final negotiations still need to take place. We would also need to secure agreement from Brussels. Officials are examining how the proposed terms for the order would meet our obligations under EC competition rules. They are also considering the timing of a notification to the Commission of the sale terms and, if necessary, of support for the order. I believe that given the difficulties of Inverclyde and the Commission's failure to protect enginebuilding in the EC from dumping from the Far East and Poland we would secure their agreement. If, however, the sale did not take place then there would be extra closure costs of £3.2m arising from the £1.45m contract loss on the engines and £1.7m of extra under-recoveries involved in keeping the facility open to complete them.

In my view we should still be prepared to accept this risk and allow Clark Kincaid to take the order. In reaching this conclusion, I have been influenced by the views of Lazards, who are advising BS. They have not yet completed their valuation of the bids for Clark Kincaid but their initial view is that either of them should provide a satisfactory basis for a sale. It is also important to see the future of Clark Kincaid in the context of our wider policy towards BS. In selling Govan to Kvaerner, we placed emphasis on the advantages of attracting inward investment to the UK and the expectation that Kvaerner would place more of their future orders here. I would agree that these orders should not be taken at any cost but our critics would no doubt maintain that a decision to close Clark Kincaid was evidence of our not having been committed to the policy for the disposal of Govan.

I know you are also aware of the difficult decisions that face us with respect to some of the other remaining BS yards. North East Shipbuilders is clearly going to be extremely difficult. In the present context, however, we must also consider the position of Ferguson at Port Glasgow where there is a strong likelihood that no satisfactory bid will be found for the yard which would then need to close with the loss of some 300 jobs. I think this could be presented against a satisfactory sale of Govan and Clark Kincaid but otherwise it would be much more difficult.

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the department for Enterprise

I have of course carefully considered the other risks involved in allowing Clark Kincaid to take these orders before it is sold. In particular, some may argue that NESL and Ferguson should also be allowed to take orders prior to their disposal. We would have a strong case against this. The key point is that we have received sealed bids from two parties, both of which BS's merchant bank advisers have said look acceptable and would provide a suitable basis for final negotiation. This is not the case with any of the potential bidders for NESL who have publicly identified themselves so far. I would propose to ask BS to do everything possible to have reached preferred bidder stage and to have a Letter of Intent from the preferred bidder before the engine order was signed. Also, we could point out that over the past three years Clark Kincaid has actually made a small profit on enginebuilding contracts in contrast to the considerable contract losses on shipbuilding at both NESL and Ferguson. This of course also makes it more difficult for us not to allow Clark Kincaid to take the present orders.

I am copying this letter to the Prime Minister and Malcolm Rifkind and to Sir Robin Butler.

Yours ever, Tony.

TONY NEWTON

LS5AIP

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the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Malcolm Rifkind QC MP
Secretary of State
Scottish Office
Dover House
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Your ref
Date 31 August 1988

NBPM

ARCG
2/9

Dear Malcolm.

BRITISH SHIPBUILDERS

Thank you for your letter of 28 July. I am also grateful to Peter Brooke for his letter of 19 August which comments on yours.

While completion of the deal with Kvaerner has to be excellent news for you in particular, I quite understand your concern about the future of British Shipbuilders' remaining facilities in Scotland.

On Clark Kincaid you express particular concern about the timetable for bids. Two serious bids have now been received, one from the Management Team you mention. I hope it will prove possible for BS to reach satisfactory terms, preferably including the opportunity for Clark Kincaid to supply the first two engines required by Kvaerner. Whether this will be possible will depend on careful consideration of the bids.

On Ferguson, the prospects are less clear. You wrote of further orders. Our decision in E(A) on 10 May and the earlier decision to which Peter refers clearly restricts the scope. I share the reservations Peter enters and have already told John Lister that

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the department for Enterprise

I would by far prefer any further order to be secured by a new owner. He understands the significance of this given the stand we have taken on the Cuban order at NESL.

BS have received enquiries about a further dredger order that Appledore could not deliver on time but which a new owner for Ferguson might secure during October. This points to a bid date for the yard during September. But the Mauritius Ferry Programme has slipped yet again with bids now invited by 4 November possibly resulting in an order early next year. Although Ferguson is still on the shortlist, Meyerwerft of Germany represents strong competition among the field of five. Both the timing and the winning of the order have to be regarded as uncertain.

There are now, I understand, three parties interested in Ferguson: Ailsa Troon is so far talking of terms that are quite unacceptable to BS and I suspect to our colleagues. The other parties have yet to show their hands, though the Norwegians would probably build fishing boats they presently deliver to Scottish owners from Norway.

I will of course bear your concerns about Ferguson in mind, but on Intervention Fund I go further than Peter's reminder about not countenancing the extension of IF to achieve a disposal. Any question of Intervention Fund for Troon raises a spectre of similar treatment for all previous BS yards from whom this support was normally excluded as a term of disposal. Quite apart from difficulties in Brussels, I would not regard renewed support for these yards as a realistic or affordable proposition. My officials have therefore advised Ailsa Perth that they should plan and bid on the basis that support would be available only towards new building at the Ferguson yard, and they have 'gone back to the drawing board'.

Copies of this letter go to the Prime Minister, David Young, Tom King and Peter Brooke, and to Sir Robin Butler.

Yours ever,
Tony

TONY NEWTON

AU3ACU

SECRET

31 (A-B) 2 of 7.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBM at this stage.

The Rt Hon Tony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

31 August 1988

Dear Tony,

BRITISH SHIPBUILDERS

FILE WITH PG.

Peter Brooke sent me a copy of his letter of 19 August commenting on my letter to you of 28 July, which I understand you are still considering.

There are 2 respects in which I must comment on Peter's letter. First, my earlier letter has clearly misled him on the point of Intervention Fund for the Ferguson yard at Port Glasgow. It is not my wish to see eligibility for Intervention Fund extended now to the Ailsa yard at Troon, should it take over Ferguson's. It is my understanding, however, that Ailsa's owners envisage operations at both Troon and Port Glasgow, and when I suggest that we keep an open mind on the availability of Intervention Fund, I mean this only in relation to the Port Glasgow yard.

Secondly, Peter says that my request to allow the yard to continue actively seeking orders, including the ferry for Mauritius, implies a disparity of treatment between the yard and BS's other yards, NESL in particular. I suggest that in practice it is only NESL, rather than NESL in particular, to which this observation could apply. If we do not allow Ferguson to continue looking for orders, then a disparity would exist between Ferguson and Appledore from the decision to allow the latter to take dredger orders in recent months. I am not, however, seeking to argue this point on the basis either of principle or of precedent, but on the individual merit of the case as it now stands, much in line with the way we have approached the future of BS's operations over recent months. While I note what Peter says about the yard's record, it nevertheless builds the type of vessel for which there is a continuing demand, and we should be open to serious criticism if we take unfavourable decisions about the yard's future while it is still very much in the running for a major order, and one which, I believe, Peter concedes does not involve Intervention Fund.

I note Peter's reference to the decision at the Prime Minister's meeting on 31 March, but I am sure he will also be aware that in the subsequent correspondence about that meeting the Prime Minister's Private Secretary,

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in his letter of 21 April, suggested that I raise the points of concern to me, including the matter of future orders, in the context of the future discussions for which DTI colleagues were at the time making preparations, and that is exactly what I am now seeking to do.

Copies of this letter go to the same recipients as before.

Yours ever,

MALCOLM RIFKIND

dti
the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

nbpm

Rt Hon Peter Brooke MP
Paymaster General
HM Treasury
Treasury Chambers
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Department of
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Date 25 August 1988

Dear Peter,

BRITISH SHIPBUILDERS

Thank you for your letter of 22 August. In the event John Lister raised a new point about additional payments to those he proposed to make redundant which I found difficult to accept, and have accordingly agreed with him that his announcement would be confined to lay-offs. The object of his proposals was to retain the most suitable workforce for the completion of the present workload and for disposal. The lay-off route secures that objective at lower cost given the timetable for bids for the yard to be invited no later than the end of September. I hope to be in a position to make proposals for the future of the yard shortly thereafter.

I am sending copies of this to the Prime Minister, Norman Fowler, Tom King, Nicholas Ridley, Malcolm Rifkind and David Young; and to Sir Robin Butler.

Yours ever,
Tony.

TONY NEWTON

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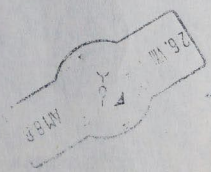
NAT IND: Shipbuilding
Pt 14



CONFIDENTIAL

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 August 1988

BRITISH SHIPBUILDERS

The Prime Minister has seen, and noted, the Chancellor of the Duchy of Lancaster's letter of 19 August to the Paymaster General about British Shipbuilders.

I am copying this letter to Nicholas Wilson (Department of Employment), Roger Bright (Department of the Environment), David Crawley (Scottish Office), Mike Maxwell (Northern Ireland Office), Neil Thornton (Department of Trade and Industry), Simon Judge (Paymaster General's Office) and Trevor Woolley (Cabinet Office).

P. A. BEARPARK

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster

CONFIDENTIAL

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ccpo

10pm

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Antony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H OET

22 August 1988

Dear Chancellor of the Duchy

at flap

BRITISH SHIPBUILDERS

Thank you for your letter of 19 August.

2. I note British Shipbuilders' proposal to announce next Tuesday 1,000 redundancies at the Sunderland yards, and the cancellation of all the remaining Danish ferry contracts. I agree with your conclusion that it is right that these redundancies should be announced now, since employment at the yards would have to be greatly reduced even if a private sector purchaser came forward. I agree with you, however, that closure must be the most likely option, and I note that a considerable expectation of this now exists in the North East.

3. I am content with the terms of the draft press notice enclosed with your letter, subject to deleting the last two sentences of the penultimate paragraph, and replacing them as follows:

> "I should make clear that these arrangements are in response to the difficult decisions the Corporation has announced today, and do not constitute the whole package of measures promised in the House on 21 July by my predecessor if none of the bidders for NESL were successful and the yard had to close".

4. I am sending copies of this to the Prime Minister, Norman Fowler, Tom King, Nicholas Ridley, Malcolm Rifkind and David Young, and to Sir Robin Butler.

Yours sincerely

Kim Ellerman

for **PETER BROOKE**

[approved by the Minister, & signed in his absence]

dti
the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Prime Minister

Rt Hon Peter Brooke MP
Paymaster General
HM Treasury
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Date 19 August 1988

Dear Paymaster General

BRITISH SHIPBUILDERS

John Lister and Members of his Board came to see me yesterday to discuss the conclusion they had reached that 1000 redundancies should be declared at the Sunderland yards as soon as the Unions had been informed. They have a meeting arranged with the Shipbuilding Negotiating Committee, the national body of their Unions, for Tuesday 23 August. BS propose to announce the redundancies and confirm the cancellation of all the remaining Danish Ferry contracts that day to avoid any risk of leak.

Although it is well known in Sunderland that the Cuban order is still a possibility, and that there are several parties interested in the yards, John Lister reports that there is widespread expectation that the yards will close, or at the very least that substantial redundancies are inevitable. I am bound to say his report and that of my officials confirms that this judgement is well based though they are still doing all they can to encourage a satisfactory bid on terms we and the EC should be able to accept.

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the department for Enterprise

Our colleagues have agreed that there should be a full package of measures at Sunderland including a new enterprise company, factory building and an Enterprise Zone should the yards close.

I am also aware that John Major agreed with Kenneth Clarke that £4m of DTI provision could be spent on such a package in 1988/89. In all the political circumstances of the North East, and given that the likely outcome at Sunderland is closure, I propose to announce on Tuesday the provision of a sum of up to £1m this year to establish the enterprise company, linking this with the 1000 redundancies BS expect to announce. A draft announcement is overleaf.

Even if terms were agreed that would allow one of the bidders to continue shipbuilding, the likelihood is that 1200 employees at the most will be required in the yards and in the linked pipe work and electrical business Sunderland Forge Services out of a present total of 2,800.

I have been careful in the terms of this draft announcement not to anticipate expenditure beyond this financial year since I know John Major prefers the whole question of remedial measures at Sunderland beyond 1988/89 to be discussed in the PES round. Conveniently the timetable for this should precede any closure announcement at the yard. I also prefer to hold back any more specific announcement on our plans to meet the far more difficult decisions that may follow.

On the other hand those to be made redundant will recognise that we have put back in place measures based on those they would have enjoyed had they volunteered for redundancy during 1986 and the early part of 1987 when a previous substantial tranche of redundancies took place at the Sunderland yards.

It is for this reason in particular that I regard Tuesday's announcement as important and very much hope you will find it possible to agree it should be made in the terms I propose.

I am sending copies of this to the Prime Minister, the Secretaries of State for Employment, the Environment, Scotland, Northern Ireland and Trade and Industry and to Sir Robin Butler.

Yours sincerely
Rosalind Cook

ppTONY NEWTON

AU3ABB (approved by the Chancellor and signed in his absence)

DRAFT PRESS NOTICE FOR RELEASE ON TUESDAY 23 AUGUST

TONY NEWTON ANNOUNCES SPECIAL HELP FOR REDUNDANT SHIPYARD WORKERS IN SUNDERLAND

"British Shipbuilders have today announced that due to a lack of orders and the problems they face over the Danish Ferry contract they are to declare 1,000 redundancies at North East Shipbuilders in Sunderland. It is clear that this difficult decision would have had to have been taken even if BS were to remain in public ownership, and reflects the worldwide difficulties facing the shipbuilding industry. It was also clear that none of the potential bidders for NESL have orders or potential orders that could employ the full present workforce.

Recently, the economy of Sunderland has been reviving strongly - unemployment has fallen by X over the last Y months, faster than in the North East as a whole. The New Nissan factory is making an important contribution to the local economy, creating X new jobs.

Nevertheless, we recognise our responsibilty to the people of Sunderland, and want to help build a more modern and diverse economy that will not in future be dependent on the fate of one industry alone.

We are therefore setting up a new British Shipbuilders Enterprise Company to arrange counselling and retraining for redundant NESL employees and to help stimulate local enterprise in Sunderland. John Lister will become chairman of the new company, and I shall be making up to £1m available over the next six months to help get it up and running.

The Employment Service, the Training Commission and existing enterprise organisations in the North East will make every effort to help those who have been made redundant. I should make clear that these arrangements are not in place of the package of measures promised in the House on 21 July by my predecessor if none of the bidders for NESL were successful and the yard had to close. They are a separate response to the difficult announcement the Corporation has made today.

Meanwhile, BS continue to seek buyers for NESL and there are a number of potential purchasers."

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reply.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Anthony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade & Industry
1-19 Victoria Street
LONDON SW1H OET

19 August 1988

Dear Tony,

BRITISH SHIPBUILDERS

Malcolm Rifkind copied to John Major his letter of 28 July. In John's absence on leave, there are two points in Malcolm's letter on which I should comment.

First, there is the question of new orders that might be taken by the Ferguson yard in Port Glasgow. Malcolm asks that the yard be allowed to continue actively seeking new orders, including the possible ferry for the Mauritian Government, which would be supported through the overseas aid programme if the order is placed in the UK.

I am concerned that Malcolm's request implies a disparity between our treatment of Ferguson and of BS's other yards, NESL in particular. In the case of NESL we have made it plain publicly that we could not make any further offers of support for orders at the yard while it is in public ownership without being fully satisfied that no additional contract losses would be incurred, beyond Intervention Fund support, and that Sixth directive limits would be complied with. In practice, the yard's history of contract losses and cost overruns is so poor that we could never be sure that orders would be completed without additional contract losses so long as it remains part of BS. As BS management are aware, support for new orders at the yard is thus clearly dependent on its privatisation.

I can see no case for treating Ferguson differently. The yard's history of contract losses over and above IF support has not been good, and there are serious deficiencies in its management and cost control. Without a firm prospect of privatisation, it would be folly to allow the yard to continue taking orders. Invidious

comparisons would be made with NESL. And there would still be no guarantee that the yard would be sold: indeed, if the orders are incorrectly costed, as has happened so often in the past, the prospects for privatisation may even be damaged. I hope that you can, therefore, agree that, as with BS's other yards, further support for new orders at Ferguson should be conditional on the successful disposal of the yard.

I am sure that this condition should also apply to the possible order for a ferry for Mauritius. I am aware that this order would not be supported through the Intervention Fund but through the overseas aid programme. However, the danger of BS incurring additional contract losses will remain; and it was agreed at the Prime Minister's meeting on 31 March that no new orders should be taken by this yard, the Mauritian ferry included.

Secondly, Malcom asks that we keep an open mind on the availability of Intervention Fund to Ailsa-Perth, the one company that has expressed an interest in acquiring Ferguson. While it is obviously necessary to establish the company's exact intentions, I am sure that we have to rule out from the start any question of IF being made available for orders that would be built at yards other than BS's current subsidiaries. I agree strongly with the view expressed in Kenneth Clarke's minute to the Prime Minister of 18 July, that we should not be prepared to countenance the extension of IF to another yard in order to achieve a disposal.

Copies of this letter go to the Prime Minister, David Young, Tom King, Norman Fowler, Malcolm Rifkind and Nicholas Ridley and to Sir Robin Butler.

Yours ever

Peter

PETER BROOKE

NAT IND: Shipbuilding Policy RT&P.

19 MAR 1945

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Treasury Chambers, Parliament Street, SW1P 3AG

Robert Atkins Esq
Parliamentary Under Secretary of State
for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

29th July 1988

Dear Robert

SHIPBUILDING INTERVENTION FUND

I am writing on behalf of John Major in his absence.

Your officials asked Treasury Officials yesterday for approval of Intervention Fund payments to support the new orders to be placed at Govan once it has been privatised. The disposal needs to be completed very soon now, and approval of the IF is an integral part of the deal.

You will have seen the correspondence John Major had about this with Kenneth Clarke, in which he expressed concern that the terms of IF on these orders should be no more generous than normally available. In particular he was concerned that there should be no guarantee of the rate at which support would be given on future orders up to 1993; and he was concerned that Kvaerner should not be able to make a profit out of our support payments, which are intended only to allow them to break even.

He was particularly concerned about a profit arising because he did not believe that the new owner of Govan and the customer for the ships would be at arm's length. Govan will be acquired by a subsidiary of the Kvaerner group. The customer will be a consortium in which the major interest is another subsidiary of the Kvaerner group. He was concerned that this was unlikely to produce arm's length prices, which were agreed as essential at a meeting held by the Prime Minister on 31 March.

Kenneth Clarke gave John Major assurances on these points. In the annex to his letter of 21 June he explained that the builder and the customer were sufficiently independent of each other. And in his letter of 23 June he assured him that there would be no generosity in the terms of IF for the first four ships.

As you will see from John's letter of 27 June he was able to agree to the proposed terms of disposal of Govan on this basis only with serious misgivings. I am surprised, therefore, to find that the detailed IF terms which have now been put forward for approval do indeed seem to be unusualy generous and do allow Kvaerner to make a profit from the support we will be paying.

Specifically, it is proposed that approval in principle should be given for IF at the prevailing EC maximum on options rather than orders for ships. This allows Kvaerner protection against the consequences of any decisions we might take to reduce support below the EC maximum before those options are converted. Your department's case paper remarks that this is unusual. It is in fact what I am sure John Major would regard as unusually generous, contrary to what he had been led to expect.

It is also proposed that Kvaerner should receive support at levels which will allow them to make a profit, on the basis that this profit will arise only from interest earned on stage payments made by the customer in advance of the builder's needs. This payment pattern was apparently decided by the Kvaerner group and dicated to the customer consortium, in the group's overall interests. If, instead of making advanced stage payments to give the builder interest, the customer and simply paid a higher nominal price, the levels of IF support would have been lower. The interest of the Kvaerner group in this is therefore clear: they have instructed the builder subsidiary and the customer subsidiary to make a deal on terms which allow enough IF to be claimed as to make a profit.

This is precisely the kind of non-arm's length manouevre which he was led to believe we would not be entertaining. This confirms my fears about the terms of this disposals. Recognising the importance, to you and to Malcolm Rifkind in particular, of the Govan disposal now going ahead, I am prepared to approve the IF terms proposed. But I do so only because it is now too late to change them, and I am deeply disappointed at the way they have come out given the reassurance John Major and colleagues received earlier.

I must reiterate that the terms of the Govan disposal cannot be taken as a precedent for any further roles of BS yards.

I am sending copies of this to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King, and to Sir Robin Butler.

Yours

NORMAN LAMONT

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SECRET

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBPM at this stage.

RPCC
29/7

The Rt Hon Antony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1

Rec. 29/7

July 1988

Dear Tony,

Kenneth Clarke recently reported the position on the disposal of British Shipbuilders' subsidiaries, in his minute of ~~18~~ flap July to the Prime Minister. I have a number of points concerning my Scottish interests which I would be grateful if you would take into account in taking matters forward.

On the Ferguson yard at Port Glasgow, where Kenneth says the prospects for sale are not encouraging, I understand that there is work at the yard until at least next spring. I do not therefore expect closure, as Kenneth suggested, as early as September, although it may be possible that the yard has to start to shed labour in the autumn. Job losses, however, should not be as large as 500, as the yard employs only around 300.

The position will of course be different if the yard can secure new work. One imminent prospect is the ferry for Mauritius which the yard has been pursuing for some time, and on which a decision is now expected towards the end of the summer from the Mauritian Government. I understand that overseas aid has been offered to Mauritius if the order is placed in the UK, and I would ask that nothing be done regarding the yard that might prejudice the chances of securing this order; and that the yard be allowed actively to seek other orders. I am sure that more interest might be generated, and the prospects for a satisfactory disposal correspondingly improved, if the yard had an order book that went beyond next spring and had shown recent ability to win new orders.

Kenneth had reservations about the only interest remaining in the yard, from the Ailsa-Perth yard in Troon. There is some evidence that the company's intention would be to maintain operations at both Port Glasgow and Troon. I would therefore like to keep an open mind on the availability of Intervention Fund until the company's intentions have been fully established.

This will not be an easy yard to sell. I believe some interest may emerge from a new source shortly, but I would not want any early deadline for submission of bids, and I hope you can agree that the yard can effectively remain on the market at least until all current work is completed.

B

Other Scottish points are less pressing at present, but I am aware through the Scottish Development Agency, which has been advising the management buyout team at Clark Kincaid, that there may be some concern emerging among Clark Kincaid's customers about placing business with the company because of the continued uncertainty over its future, and I hope that, if at all possible, consideration of its disposal will not be prolonged to such an extent that prospects for the business's longer term future are damaged as a result.

I should also mention that I hope the management buyout team for the Scottish operation of Marine Design Consultants (in Dundee, not Aberdeen) be a given a fair chance to present their proposals for a buyout separate from the rest of MDC. I know Kenneth received representations on this from the local Members, and I am concerned that the Dundee operation, despite having been an independent unit until 1986, might be vulnerable if any rationalisation were to follow acquisition of the company as a single entity.

Copies of this letter go to the Prime Minister, Nigel Lawson, David Young, Tom King, Norman Fowler, Nicholas Ridley and John Major and to Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

NAT IND:

Shipbuilding PT14

28. VII PM 8 8

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CONFIDENTIAL

cc PC

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

25th July 1988

Dear George,

CDP
26/7.

THE TYPE 23 PROGRAMME

Thank you for your letter of ~~18~~ Aor July.

It was helpful to have your thinking set out on the Type 23s. I am quite content with the draft reply to the HCDC Report.

Looking to the future, we are moving forward on the basis set out in my letter of 11 July. Our officials have discussed the scope of the work to be done. I am grateful for your agreement that my officials can be exposed to relevant operational analysis.

I am copying this letter to the Prime Minister, the other members of OD, David Waddington and Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

NAT IND: Shipbuilding
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COPY NO 2 OF 23 COPIES

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

21 July 1988

Dear Chancellor of the Duchy

BRITISH SHIPBUILDERS

Thank you for copying to me your minute of 18 July to the Prime Minister.

With NESL, as with the other BS facilities, it will be important for bidders to appreciate that if a disposal deal cannot be done on a basis with acceptable costs, then there will be closures. There should be no expectation that we are going to privatise at any price. This may indeed make the prospects for NESL less than encouraging, but I agree that it will be helpful to expedite matters thereby announcing a deadline in September for bids.

I am sure that you are right to refuse to countenance support for BS to take the Cuban order.

On remedial measures, we have as your minute notes agreed on funding for the current year only in Sunderland. I can agree to your proposed statement only on the understanding that nothing will be said which would prejudge the outcome of discussions on future years in the current Public Expenditue Survey.

I am sending copies of this letter to the Prime Minister, Malcolm Rifkind, Tom King, Norman Fowler and Nicholas Ridley and to Sir Robin Butler.

Yours sincerely
C Evans

JOHN MAJOR
(approved by the Chief Secretary and signed in his absence)

NAT. IND. Shipbuilding Pt. 14

SECRET

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27A

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 July 1988

Dear Peter,

BRITISH SHIPBUILDERS

The Prime Minister was grateful for the Chancellor of the Duchy's minute of 18 July. She has noted the position reached in relation to the smaller yards and agrees that it would be appropriate for the Chancellor of the Duchy to take the opportunity of the debate on 21 July to announce a final date for all further bids to be submitted for NESL.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Scotland, Northern Ireland, Employment, Environment, the Chief Secretary and to Sir Robin Butler.

Yours ever,
Paul

(PAUL GRAY)

Peter Smith, Esq.,
Office of the Chancellor of the Duchy of Lancaster.

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the department for Enterprise

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SECRET

Prime Minister

George Guise and I have no major comments on this.

Content:

① To note the state of play on the smaller yards? Yes

② To agree the announcement on 21 July of a date by which all bids for NESL (Sunderland) have to be submitted, probably in September?

③ To note the position on a package of measures for Sunderland?

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

18 July 1988

BRITISH SHIPBUILDERS

RRC6 18/7

1 We last discussed the position on BS at E(A) on 10 May. Since then I have announced the successful completion of the sale of the Govan yard to the Norwegian company Kvaerner Industrier. You will wish to know the position on the remaining BS yards.

Yes pse. Agreed pse

Smaller Yards

2 Peter de Savary's Highland Participants are close to seeking main board clearance for a bid for Appledore. They are, however, looking for continued Intervention Fund support and in view of this the terms they have so far proposed are much more generous than I would be prepared to let BS settle for. The only other serious interest in Appledore is likely to

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be Stone Manganese, who manufacture propellers. BS could be in a position to enter final negotiations for a sale with one or other of these companies by about the middle of August.

3 The prospects for Ferguson at Port Glasgow are not as encouraging. The only interest is from Ailsa Perth who operate a yard at Troon. Ailsa's main interest seems to be in securing access to IF, with the bulk of any future business being carried out at Troon. I think this would be extremely difficult to get through the European Commission and in any event I doubt that we should be prepared to countenance the implicit extension of IF to another yard as a sufficient justification for disposal. There is only one order remaining to be completed at Ferguson. If no other interested parties identify themselves, it is possible the yard will need to close by the beginning of September, with the loss of some 500 jobs. I have alerted Malcolm Rifkind to this and suggested he may wish to consider whether there is a case for any remedial measures.

4 Several parties have expressed serious interest in the engine manufacturer Clark Kincaid on the Clyde. The future workload of the yard depends partly on where Kvaerner place their engine orders for the ships they will be building at Govan and, more importantly, on whether the Cuban order proceeds at a privatised North East Shipbuilders. The terms of sale for

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the department for Enterprise

C.

Clark Kincaid may need to reflect the risk that any new owner would be taking on with respect to the Kaverner and Cuban orders.

5 The only other small remaining BS facility, Marine Design Consultants at NESL and Aberdeen, will probably be the last to be privatised. Again the prospects for disposal, almost certainly to a UK concern, look reasonably good.

North East Shipbuilders Limited

6 The position here remains extremely difficult. Although a large number of parties have expressed an interest, the only real prospect in the short term appears to be a consortium involving Lloyds Bank and a design engineer named Peter Zacchi. It is possible that Sumitomo might be interested. This would be attractive but could take several months to bring to a head. In the meantime, the only work NESL currently has is the Danish ferries contract. The legal position is still complicated although the BS Chairman, John Lister, has announced to the workforce that they will only lay keels for 16 out of the original order of 24. As we agreed at E(A), I have not allowed BS to take any new orders. The main prospect for a further order is from Cuba. No deadline has been set by the Cubans but I believe they will not want a final answer before the end of the year provided we confirm in the meantime that satisfactory

credit terms would be available. This will need to be looked at carefully.

7 My main concern at present is how we deal with the position at NESL. Doing nothing and letting matters drift does not seem to me to be a credible option. Costs are continuing to be incurred while work proceeds on the Danish ferries contract. This in itself is unsatisfactory. The position will become more acute, however, after the end of August. John Lister has advised me that he will then almost certainly need to transfer all of the remaining work to just one of the two main NESL yards with the loss of up to 1,500 jobs. It would be very difficult to defend this in the face of a possible order from Cuba and with no prior announcement. I have made clear that I would be prepared to offer future IF support provided NESL were privatised. Letting one of the main yards be mothballed without any announcement on privatisation would be seen as a de facto decision simply to close the yards down. Moreover, once one of the yards had been mothballed we would have seriously weakened our position prior to what I expect will be a difficult negotiation with the Commission on terms for any disposal of the remainder of NESL.

8 I have therefore decided to announce a date by which all bids for NESL have to be submitted. This would put a limit on the continuing losses at the yard. It would make clear that we

E

were maintaining the initiative. It would also ensure that any other potential bidders identified themselves so that we could secure the best possible deal. It carries the risk that Sumitomo will not be able to meet the deadline but I am not prepared to let the present uncertainty drag on indefinitely, particularly when this would leave us with even less negotiating flexibility and Sumitomo's interest is so uncertain. I will need to consider further the precise date to be announced. My present view is that this should fall in September, possibly in the first half.

Package of Measures at NESL

9 It remains probable, in my opinion, that whatever date is chosen no serious bidder will have come forward. We must also be prepared to face up to the likelihood of some 1,500 redundancies after the end of August and the possibility, if we are not to be put in an impossible negotiating position, of complete closure of NESL. Should either the mothballing of one of the two main yards or complete closure occur I would want to have in place a package of measures for NESL along the lines previously agreed by colleagues. I have agreed with John Major that I will find the cost of this for the current financial year from within my existing Departmental budget. My officials will be working up further details to put to the Treasury during the summer.

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the department for Enterprise

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Presentation

10 On present forecasts, BS expect to exceed their current borrowing limit during the summer recess. I have therefore had to lay a new Borrowing Powers Order to increase the limit. This is due to be debated on Thursday 21 July. It will provide an excellent opportunity to announce the final date for all further bids to be submitted for NESL, since I will be able to point to the need to try to bring to an end the continuing losses, and also to outline the package of measures in the event that no successful bid is forthcoming. Members will obviously use the debate to ask about the position on the other yards. I will indicate generally the prospects for each of the yards but I will not go into detail, partly because of the need to preserve commercial confidentiality but also, for those yards where prospects are encouraging, so as not to disclose this until I am in a position to make an announcement on NESL where I expect the news to be far less than encouraging.

11 I am copying this minute to Nigel Lawson, Malcolm Rifkind, Tom King, Norman Fowler, Nicholas Ridley and John Major and to Sir Robin Butler.

KC

JY1ABR

18 MAY 1988

CF?
NT C/F

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

MO 26/3/1V

19th July 1988

C. Powell
I am taking no action
Agree
Mr Hogan
CDJ 19/7

Dear Charles

TYPE 23 FRIGATES

Thank you for your letter of 12th July about the open letter to the Prime Minister in the Newcastle Evening Chronicle on the recent Type 23 frigate order.

We agree that it would not be appropriate for the Prime Minister to reply. Furthermore, my Secretary of State believes that the question posed in the letter should be treated as entirely rhetorical and not as one which requires a response, which would set a most unwelcome precedent.

Yours ever
Steve McCarthy

(B R HAWTIN) AOS
Private Secretary

Charles Powell Esq
10 Downing Street

19 VII PM 3 8

CONFIDENTIAL

CCFC

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 26/3/1L

18 July 1988

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

CDP
19/7.

Dear John,

THE TYPE 23 PROGRAMME

With regret I agree

Thank you for your further letter of 11th July about the Type 23 frigate programme.

I note your concern that there does not appear to be any substantive analysis of the relative cost-effectiveness of expenditure on frigates, although I must say I was somewhat surprised by it since our officials have, I understand, discussed the issues in some detail. I can assure you that there is no basis for your concern.

The relative cost-effectiveness of expenditure can be addressed at a number of different levels, for example:

a. between each of our main defence roles - nuclear, defence of the UK, maritime, contribution in Europe (plus out-of-area);

b. within each of these roles, between different ways of performing a task - for example, the contribution of submarines, aircraft and surface ships to Anti-Submarine Warfare;

The Rt Hon John Major MP

c. within a defined set of tasks appropriate to surface ships, between the contribution of ships with different characteristics and optimised to provide particular capabilities (anti-submarine warfare, anti-air warfare and so on);

d. between maintaining older ships in service and bringing in new ones.

Within my Department, issues at each of these levels are always under consideration and the work of the staffs concerned is informed by a substantial body of operational analysis (conducted by the Defence Operational Analysis Establishment and individual research establishments according to the nature of the study concerned) together with comprehensive financial information, including - wherever appropriate - an investment appraisal.

None of this work can, however, by its very nature avoid the need for difficult judgements, particularly where force levels are concerned. This is because, amongst other things:

a. in our wartime tasks, we intend to fight as part of an Alliance and our own contribution has to be set in that context. In the case of the maritime campaign, it is, of course, relevant that the main responsibility for providing ready forces in the Eastern Atlantic and Channel at the outset of hostilities is likely to fall on the Royal Navy.

b. The analyses we conduct have to make assumptions about Soviet force dispositions which may, in the event, prove over-optimistic. The HCDC have, for example, been somewhat sceptical about the approach taken by my representatives which played down the initial Soviet

submarine threat in the central Atlantic in war and therefore the need for direct defence provided by destroyers/frigates. The judgements reached are inevitably scenario-dependent.

c. We have to allow for the unexpected and to make assessments in conditions of considerable uncertainty. To take relevant examples, the rate of Soviet progress in quietening its submarine force, or, in the Persian Gulf, the diversity of the Iranian threat, have both perhaps exceeded our earlier expectations.

While we need to bear these points in mind, I should be happy to make available to your officials a summary of relevant operational analysis in the maritime area and for there to be discussions with the experts concerned. The visit already arranged by one of your officials to DOAE should also help generally to clarify the important contribution which operational analysis can make, as well as the need for care in interpreting its results.

Against this background, the distribution of resources between our main defence roles must ultimately be a political decision informed of course by expert advice. Within the maritime campaign, the Major NATO Commanders have identified a requirement for a RN destroyer/frigate force considerably in excess of 50 but we have persuaded NATO to limit the highlighted force goal to the exact figure of 50. As I explained in my earlier letter, developments since 1981 have, if anything, strengthened the case for frigates particularly in the towed array role. While there would be a good case for increasing our contribution in this area and this is not something we should rule out for all time, I myself believe that the Government's defence interests as a whole are best served by retaining the "about 50" approach.

Turning to the contribution of different types of surface ship within the "about 50" total, there are clearly important force mix issues which can be informed by operational analysis. We need, for instance, to consider the long term mix between ASW and AAW optimised ships and their characteristics. But the place of a Batch 1 Type 23 programme of 14-15 ships is not in doubt.

As to "productivity", there are a number of potential misconceptions. In looking at the balance of the Fleet between older and newer ships, account must be taken of capability as well as of running costs. There is no doubt in these terms that the Leander and Type 21 frigate classes are reaching the end of their useful lives, and need replacement or a major ship life extension/capability updating programme which would provide only a small further increment of life. I assume that the Treasury are not challenging the decision made in the 1981 Defence Review and followed through in our reductions in dockyard capacity that a short life/minimal capability updating policy is more cost-effective.

Thus I see no case for moving away from the judgement reached collectively in 1981 that a destroyer/frigate force of "about 50 ships" is needed, and I believe we must plan our warshipbuilding programme accordingly. Given the number of older ships reaching the end of their lives, any move to a new force level within realistic limits, whether higher or lower, would take time to accomplish and would not affect the need to go out to tender early next year for a further substantial batch order.

Finally, there is the question of "productivity" in meeting peacetime commitments. The qualities of the surface ship, compared with those of a submarine or other forces, give it a particular utility in support of diplomacy and in operations short of war. Moreover, my own perception and that of outside commentators, including the HCDC, is that the Fleet is being run harder than any

other equivalent force for which we possess information. There has been a considerable shift in the ratio of sea to shore service from 40/60 in 1981 to 53/47 now as part of our drive to improve productivity. I am not prepared to consider reducing "base-port" time since the implications for retention and therefore training costs are clearly adverse. Since, however, I am not seeking to provide additional ships to meet peacetime tasks, I can see no reason why you should wish to press the productivity point. We could do more with double-crewing but again I assume you would not wish to make available additional funds. In short, no useful purpose would be served by a study in this area.

I turn finally to the political dimension. I was grateful to you for your agreement to the order for three Type 23s announced by Tim Sainsbury which has clearly helped to defuse the surface fleet issue. But there remains considerable scepticism about our intentions. As my Private Secretary explained in his letter to Charles Powell of 8 July, I believe that the best way to handle the pressure in Parliament and the press is for the Government to respond quickly to the HCDC report by means of a Command Paper before the House rises, so that the issue does not continue to fester - including amongst our own supporters - into the Autumn. I suggest we should respond positively and firmly but without adding to the Government's existing commitments on the future of the surface fleet, in advance of our discussions in PES. I attach a draft couched accordingly. I should be grateful to have any comments from you, and copy addressees, as soon as possible.

I am sending a copy of this letter and the attachment to the Prime Minister, the other members of OD, the Chief Whip, and to Sir Robin Butler.

Yours ever, George.

George Younger

SIXTH REPORT FROM THE DEFENCE COMMITTEE 1987-88, HC 309

The Future Size and Role of the Royal Navy's Surface Fleet

1. In this memorandum, the Government responds to the sixth report from the Defence Committee, Session 1987-88. The report covers the principal elements of the Royal Navy's surface fleet - aircraft carriers, escorts and support ships. It does not deal with the Royal Navy's small ships flotilla, consisting mainly of MCMVs, patrol vessels and hydrographic ships, nor with its amphibious and miscellaneous ships. The Royal Navy's surface fleet consists of 143 commissioned vessels, supported by 25 front-line RFAs. It is the second most powerful surface force within NATO. The Government welcomes this opportunity once again to make known its intentions for the Royal Navy's surface fleet. It presents the following observations on the report.

The Role of the Royal Navy in Peacetime (Part II)

2. The Government notes the Committee's concern that the pressure of peacetime tasks, notably the Armilla patrol, is leading to overstretch, with implications for morale and retention of personnel. The Government is acutely conscious of the need to avoid peacetime overstretch. As was explained to the Committee, there is a policy of limiting the amount of time each ship spends away from its base port, even though the effects of this policy are substantially to reduce peacetime availability and to require a roulement of ships to Armilla and other Directed Tasks. These limits on peacetime operating patterns have not

been relaxed, notwithstanding increased commitments, such as Armilla.

3. The Government notes the Committee's concern about the level of Royal Navy participation in NATO exercises. The Government's view is that the first priority of the Royal Navy after carrying out its Directed Tasks is to train for war. Fundamental elements of this training have to be undertaken nationally. The amount of time available for NATO and other exercises is currently reduced because of our commitments to Armilla and because of the need to ensure that ships continue to spend a substantial proportion of their time in base port. The Royal Navy will continue to participate in NATO exercises, however, and will work with the NATO military authorities and our Allies to ensure that exercises are directly relevant to our training needs.

Role of the Royal Navy in Wartime (Part III)

4. The Government notes the Committee's comments on NATO's forward maritime strategy and on the resources which the Royal Navy has to meet its tasks. In assessing priorities, it is important not to confuse the policy aim of ensuring that shipping arrives safely with one particular means of achieving it, through the direct defence of ships in convoys. Nor can the effectiveness of NATO's maritime strategy be assessed by looking at the role of surface ships in isolation from the contribution of submarines or maritime aircraft, or at Royal Navy and Royal Air Force capabilities in isolation from those of our Allies. The Government attaches high priority to countering the Soviet

submarine threat and to ensuring the security of the Northern Flank. We believe that this will best be achieved by a forward maritime strategy, while possessing flexibility to respond as necessary to opposing force dispositions in the event of war.

The Size of the Destroyer/Frigate Fleet (Part IV)

5. The Government notes the Committee's concerns about the numbers and availability of destroyers and frigates. The Government points out, however, that the reduction in the size of the destroyer/frigate force from 59 in 1981 (not 50 as stated in the report) to 47 on 10 June 1988 has been in line with its stated policy.

6. The Government rejects the Committee's analysis of the availability of destroyers and frigates, which misleadingly measures availability by the number of individual ships which remained available throughout 1987-88. On the Committee's definition, maximum availability is achieved by eliminating turnover in the fleet, for example by avoiding replacing old ships with new ones or putting ships into refit when others are taken out. Such an indicator of availability is meaningless. The important measure is how many ships are at any one time either available for operational deployment immediately or within a short period if required: on this basis 40-43 destroyers and frigates have been available in recent months. Moreover, it is important to appreciate the impact of changes in refit policy on availability within the total destroyer/frigate force. In February 1979, 19 out of 65 destroyers/frigates were in refit,

leaving 46 available; in June 1988 the comparable figures were 7, 47 and 40. Thus, although hull numbers have reduced, changes in refit patterns have meant that the reduction in available ships has been much smaller. There are a number of errors in paragraph 44 concerning the availability of HMS SOUTHAMPTON, HMS BRISTOL and HMS ROTHESAY.

7. The Government notes the Committee's concern about the absence of a reserve of frigates and destroyers to be brought in to supplement the operational fleet. It points out, however, that the operational escort fleet is now significantly larger than was envisaged in 1981, following the decision after the Falklands campaign to retain in active service those ships originally intended to be placed in standby.

The Age and Capability of the Destroyer/Frigate Fleet (Part V)

8. The Government rejects the Committee's conclusion that the escort fleet will be maintained at about 50 by retaining in service "older vessels which had been approaching the end of their useful lives." The Government currently has a very large naval shipbuilding programme including 10 new frigates on order. The Government accepts that the destroyer/frigate fleet has to be evaluated against the submarine and air threats it has to encounter. Nevertheless, this is also true for our Allies and the Government was surprised that the Committee took no interest in our performance relative to them: in fact the average age of the Royal Navy's frigate fleet is just over 12 years, which compares very favourably with equivalent fleet ages, as recorded

in published sources, for the US (15.6 years), France (16.6 years), the Federal Republic of Germany (15.1 years), and Italy (12.4 years).

9. The Government welcomes the Committee's acknowledgement of the important capability enhancements which have been made to the Royal Navy's escort fleet and agrees that these must be seen in relation to the threat. The Government does not accept, however, that the overall level of capability in the surface fleet will be less than was envisaged in Cmnd 8288. As the Committee itself acknowledges in another part of its report (paragraph 9), substantial additions to plans for the surface fleet were made following the Falklands campaign, including the retention of the third aircraft carrier, the retention of HMS FEARLESS and HMS INTREPID, and the retention of more destroyers and frigates in the active fleet. Moreover, our fleet plans now include an additional Type 22 frigate not envisaged in Cmnd 8288 and four Type 22 frigates as replacements for Falklands losses which are more capable than the ships they replaced. The Government also rejects the Committee's conclusion that more and longer refits are planned now than when Cmnd 8288 was published. Thanks to revised upkeep cycles associated in large part with the arrival of more modern ships into the fleet, today's refit programme is substantially less than was planned in 1981.

Future Orders (Part VI)

10. The Government notes the Committee's comments about the level of frigate orders since 1982. These do not appear to take

account, however, of the Government's stated intention to reduce the size of the escort fleet from 59 ships in 1981 to about 50 today. Since the report was published, the Government has announced its decision to order 3 new Type 23 frigates.

11. The Government notes the Committee's comments on future orders, which confuse the degree to which Ministers are committed to maintain a fleet of a certain size with the policy of not disclosing planning assumptions in long term costings or offering commitments on order patterns in advance of orders actually being made. The Government observes that it has been the practice of successive Governments to make no such commitments.

12. The Government notes the Committee's conclusions on the number of ships required to be ordered over the next six and a half years in order to retain an escort fleet of about 50. It points out that its recent order for 3 new Type 23 frigates more than meets the Committee's assessed requirement to order 2.6 ships a year.

13. The Government notes the Committee's concern about the uncertainty over programmes and projects in the warshipbuilding industry. The Government points out, however, that its policy towards the surface fleet is clear and provides a reasonable basis upon which individual shipbuilders can judge future prospects in a competitive market.

14. The Government notes the Committee's views about the place for corvettes in the Royal Navy's surface fleet. The Government has no plans to introduce such ships.

Aircraft Carriers

15. The Government notes the Committee's conclusion that, besides the contribution which might be made by our INVINCIBLE class carriers to amphibious operations, adequate dedicated amphibious capability must also be provided. The Government has been considering the case for an Aviation Support Ship for some time and has recently announced that invitations to tender for such a ship will be issued in the Autumn.

Support Ships (Part VIII)

16. The Government notes the Committee's view that the option of using cheaper vessels as supplements to the RFA fleet, instead of fully-armed AORs, deserves further examination.

Manpower (Part IV)

17. The Government notes the Committee's views on the pressure which peacetime commitments are imposing on the surface fleet and the need to retain officers and ratings, particularly in key specialisations. As indicated above (paragraph 2), the Government has given and will continue to give these matters close attention.

18. The Government notes the Committee's views on the priority of procuring simulators. A large number of training simulators are already in service or on order.

Conclusions (Part X)

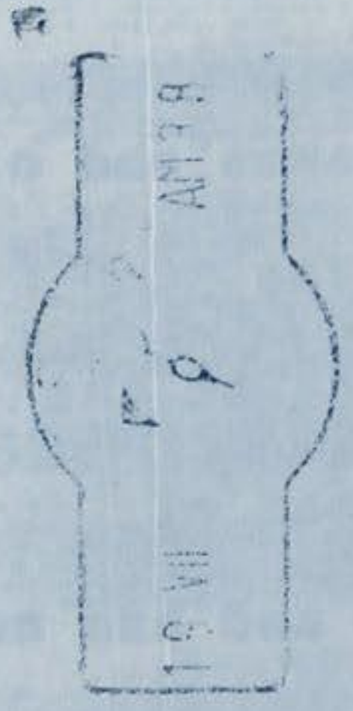
19. The Government welcomes the Committee's recognition that it has enhanced RN capability in comparison with the Cmnd 8288 plan, while achieving very substantial cuts in manpower, thus improving efficiency. It rejects the Committee's conclusion that the philosophy underlying Cmnd 8288 has been discarded without being replaced by a Ministerially approved long-term plan for the Navy. The Government's policy towards the size and shape of the fleet reflects the approach set out in Cmnd 8288 as modified by Cmnd 8758, which set out the lessons learned from the Falklands campaign. The size of the surface fleet, including about 50 destroyers and frigates, is consistent with that policy and with the currently assessed requirement. The Government agrees with the Committee that there are compelling reasons for continuing to invest in and upgrade the capability of our surface maritime force, but that there can be no universally acceptable measure of the appropriate size of the surface fleet. The Government will in future years continue to consider carefully the maritime capability needed to meet our war tasks, and the place of the escort force within that capability, taking account of available resources.

20. The Government welcomes the Committee's acknowledgement that arguments for increasing spending on surface ships must be set in

the context of the other elements of the defence programme and of the pressures in recent years on the defence budget. The Government also welcomes the Committee's acknowledgement of the substantial investment which has been made in other areas of maritime capability. The Government has not neglected and has no intention of neglecting the Royal Navy's surface fleet.

21. The Government notes the Committee's concern that the size of the destroyer/frigate fleet will fall significantly below "about 50" and about the level of future escort orders. The announcement of its decision to order 3 new Type 23 frigates will presumably help to allay these concerns.

22. The Government notes the Committee's conclusion that a defence review should be conducted if sufficient money is not available for all the UK's defence commitments. The Government has provided substantial additional resources for defence, including additions in the last Public Expenditure Survey round, so that commitments can be sustained. There is thus no need for or question of a defence review, whether "by stealth" or otherwise.



Defense
PROCUREMENT
PT 6

NEWCASTLE EVENING
Chronicle

19/7

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 July 1988

I attach a copy of an open letter to the Prime Minister from the Newcastle Evening Chronicle about the order for the three Frigates. Bernard Ingham is inclined to think that it would not be appropriate for the Prime Minister to reply but it might be in order for the Defence Secretary to do so. I should be grateful if you could consider this and let me know your reaction.

(C. D. POWELL)

Brian Hawtin, Esq.,
Ministry of Defence.

To: Bernard Ingham
From: Ged Henderson, Newcastle Evening Chronicle - 091 2327500 Ex 2446

Could we please have a reply - as requested by telephone call.

An Open Letter to the Prime Minister

Are you for us or against us?

Dear Prime Minister,
THE people of the North-East are shocked by the Defence Ministry decision to "bulk-buy" three frigates from Clyde-based Yarrow Shipbuilders.

They want an assurance that you will stick to your policy of speaking up for the region in Cabinet — and help Swan Hunter to get busy soon on another warship order.

The discount available on the triple order for Yarrow was obviously worth having. But how does putting all the orders in one yard square with your faith in competition?

Why has it taken six months to sort the tenders? Why does the Navy get just three of the four frigates needed? And why is the MoD still so poor at forward planning? How does it expect companies to cope with these successive — and avoidable — crises?

When the MoD left social considerations out of its ordering policy, the outlook for Swan Hunter looked better. Work would not be diverted to Belfast.

Now, see what has happened! Although Swans have won agreement on full-scale flexible working, and although they won great praise for delivering the top-class Sheffield and Coventry at top speed, the Tyne builders are snubbed.

The rule-changes are bewildering.

In the face of threatened heavy job losses, the people of the North-East ask a question: Are you for us or against us?

Yours sincerely,
The EVENING CHRONICLE

CONFIDENTIAL

P01378

PRIME MINISTER

JAMES MACKIE AND SONS LIMITED

E(A)(88)34

DECISIONS

E(A) has already agreed that there is a case for preventing closure in the near future of Mackies, the engineering firm in Belfast. But they wanted to avoid a solution involving a Government shareholding. There are now two possibilities in the running: convertible loan stock, and a "reverse auction", which was suggested by the Chancellor to Mr King. Mr King will report further on prospects at the meeting. The Sub-Committee will want to decide whether to accept either or both of these options. One course would be to decide first to try a reverse auction with the convertible loan stock route as a fallback.

BACKGROUND

2.When E(A) considered Mackies on 29 March and 25 April, it recognised the case for preventing the closure of the company in the near future (E(A)(88)5th and 6th meetings). It also felt that decisions on Mackies needed to be seen against the background of the position at Shorts and Harlands. It was agreed that public support for Mackies should not involve the Government taking a direct shareholding in the company. The preferred approach of E(A) on 25 April of offering a secured loan of up to £20m in three tranches has not proved practicable because there would be insufficient unsecured assets in the business to cover such a loan. Mr King therefore developed the alternative of a package of grants and convertible loan stock. The Chancellor, in further discussions with Mr King, also proposed a reverse auction (or dowry) approach. This is still being explored, with a number of companies being approached to see if they might be interested. Mr King has said that the cost of any support for Mackies would be found from within his existing Northern Ireland block vote.

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ISSUES

Mackies' future prospects

3. In the Spring Mr King reported the advice he had received from Coopers and Lybrand, Rothschilds and Lazards to the effect that Mackies had good prospects for long-term viability once its production facilities had been modernised. The company was starved of cash when the Mackie family sold out in 1977, and insufficient investment has been put into the business since then. The modernisation programme planned would require an injection of £20m over the next four years, and safeguard employment for 800 of the 1000 staff currently with the company. The reasons Mr King gave for being confident about Mackies' future were that:

i. Mackies had a good reputation and prospects for the textile machinery market appeared favourable;

ii. Mackies had a substantial order book for the next five years; and

iii. Mackies' sales forecasts were consistent with its past record and did not assume significant growth.

4. You may wish to ask Mr King to confirm that Mackies' prospects have not deteriorated significantly since the Spring.

Reverse auction/dowry approach

5. You could ask Mr King:

i. what efforts have been made to find potential bidders in a reverse auction? Which firm has informally expressed interest, and how far have talks with that firm progressed?

ii. what are the prospects of saving Mackies through the offer of a dowry? How long will it take Mr King to complete his examination of the scope for a solution by this approach? How much might it cost? Does he have an understanding with the Chancellor on the terms of the dowry which could be offered?

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Reverse option of a grant and loan package

6. Mr King's proposal involves releasing the grants and loans in stages over 4 years, subject to review at each stage. This package would be made available on condition that the senior management changes thought necessary were implemented, and would not involve the Government taking responsibility for more of Mackies' past liabilities. The Government would not hold any direct shareholding in Mackies, but the loans would be convertible into shares at the point when the business could be sold on to another private buyer. This device is necessary to allow the Exchequer rather than Mackies' existing trustee owners to benefit from any capital gain arising through the successful development of the business after the modernisation programme. Mr King says that support should be approved on the basis that continuing efforts would be made to involve other private sector interests at the earliest possible stage.

Choice between the options

7. The Sub-Committee will need to decide whether it could accept either the dowry approach or the convertible loan stock approach or both. If both, it will need to consider which would be preferable. Sale by a dowry would have two advantages:

i. it would be broadly consistent with what the Government has done elsewhere, for example with shipbuilding and Rover; and

ii. it would ensure privatisation, whereas the convertible loan stock route could lead eventually to a Government shareholding.

One solution would be to decide that the dowry approach is the preferred option, and that Mr King should now try to arrange a reverse auction but that if that does not succeed the convertible loan stock approach could be adopted.

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Interaction with Shorts and Harland and Wolff

8. In reaching a decision on the form of possible support, E(A) has considered in the past the interaction with Shorts and Harlands. Substantial redundancies appear inevitable. The aircraft construction part of Short's business, employing half its 7,000 workforce, appears doomed. In fact, only the missiles business with 1,200 staff may be viable in the long-term. The future of the 4,000 workforce at Harlands remains highly uncertain, as it is by no means clear that Mr Tikkoo or anyone else will wish to take the commercial risk of taking over the yard and building the large cruise liner there.

9. Mr King will also point to the importance of Mackie's to the Catholic community of West Belfast. Shorts and Harlands overwhelmingly employ Protestants, whereas a quarter of Mackie's workforce is Catholic. Mackie's is situated on the border between Protestant and Catholic areas of West Belfast, and unemployment in the area is already up to 40%.

Possible need for EC clearance

10. Officials in Mr King's department are still exploring with DTI and the Foreign Office whether either option of support for Mackie's would need to be notified to the European Commission. The position needs to be resolved before any offer of support is made.

HANDLING

11. You may wish to ask the Secretary of State for Northern Ireland to introduce his paper. The Chancellor of the Exchequer will wish to respond. Other Ministers may wish to comment on the political implications of the decisions.

RTJW.

R T J WILSON

Cabinet Office
12 July 1988

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(A-D)

SECRET

P 03179

PRIME MINISTER

HARLAND AND WOLFF PLC

E(A)(88)35

DECISIONS

Mr King seeks agreement to the negotiating brief for discussions with potential buyers of Harland and Wolff (H&W). He proposes that the ceiling in these negotiations should be the estimated cost of closing the yard, around £240m.

2. You will wish to consider:

i. whether you are content for negotiations to start with Mr Tikkoo, and any other bidders, on broadly this basis. You will in particular wish to check that Mr King's proposals are broadly consistent with the terms for other disposals in Great Britain. If you are content, you may wish officials to work up the negotiating position ('the parameters') in more detail, as the Chief Secretary is expected to propose. You may want to press Mr King to commit himself to a timetable for final decision;

ii. whether a privatised H&W should be allowed to tender for the forthcoming Aviation Support Ship and other MOD work, as Mr King requests.

BACKGROUND

3. E(A) last considered H&W in May, as part of a wider discussion on shipbuilding (E(A)(88)7th meeting). It was agreed then that the Government's first priority was to transfer all its remaining shipyards to the private sector. Mr Tikkoo was therefore told that the only way the Government could support his proposal for a large cruise liner was if H&W was transferred to private ownership.

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Following completion of the sale of Govan to Kvaerner, Mr King wrote to the Chief Secretary on 29 June seeking permission to negotiate with Mr Tikkoo along broadly the same lines as DTI and British Shipbuilders had followed with Kvaerner. You commented that it would be appropriate to discuss the proposed negotiating parameters at E(A), in view of the large sums involved. Mr King subsequently announced to Parliament on 30 June that he would be prepared to consider proposals from Mr Tikkoo and anyone else prepared to take over H&W.

ISSUES

Negotiating Parameters

4. Mr King sets out in the second page of his letter of 29 June (attached to his paper) five parameters for the forthcoming negotiations. He offers to meet the cost of any support from his Block, and he does not anticipate guaranteeing the availability of Intervention Fund support indefinitely into the future; both are helpful points. The Chief Secretary may ask that officials set out the proposed parameters in greater detail, and that further work should be done to revise the estimated cost of closing H&W (by expanding the note sent from Mr King's office to the Chief Secretary's on 11 July). Subject to resolution of these points, you will wish to consider whether you are content for negotiations to proceed as Mr King proposes.

£240- plus £100

5. Mr King says that the Government commitment would be £240m, including Intervention Fund (IF) support of up to £100m for the cruise ship. There could be further IF support for future orders in addition. This looks consistent with the terms on which Govan was sold and which would apply to other disposals in Great Britain but you will wish to check that this is so, in particular by inviting the views of the Chancellor of the Duchy.

6. You may wish to ask Mr King whether in his view Mr Tikkoo is prepared to take over the yard at a cost within the negotiating parameters? This may well become the crucial question. You could also ask whether any other credible purchasers have expressed an interest since his announcement on 30 June. It might be

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interesting to explore the implications of Mr Tikkoo's reported statement that he would only build the cruise liner at H&W if the yard is owned by the Government or himself.

7. The policy of disposal implicitly assumes that if after privatisation the yard runs into difficulties the Government will be able to resist pressures for intervention, at least beyond IF support. You may wish to discuss how far, in the special circumstances of Northern Ireland it would be practical to resist pressure to rescue a privatised H&W if it ran into trouble. Presentation of an agreement to sell the yard might need to make it clear that its future was thereafter a matter for its purchaser.

8. Finally, you may wish to check that there would be no European complications in sale on the terms described.

Timetable

9. Mr King said in his paper to E(A) in May that July was the likely time for real decisions. H&W applied to Mr King for intervention support for Mr Tikkoo's ship on 17 June, and Mr King's officials are now examing preliminary costings. An application for support from ECGD is on the point of being submitted. You may wish to press Mr King to propose a timetable for future decisions.

Announcement

10. Mr King's paper explains that he has not yet publicly announced that Mr Tikkoo's order will only receive support if H&W is privatised. Mr Clarke pressed Mr King to make this clear in his letter of 30 June. It would appear helpful to make the position clear before long, to avoid unrealistic expectations being built up in Northern Ireland. You may therefore wish to press Mr King to make a further announcement about the privatisation of H&W before the recess. This could for example say that the cruise ship would be built only if the yard were transferred to private hands. Mr King says in his paper that he has already told Mr Tikkoo this, but has not yet made it public.

D

Aviation Support Ship

11. Mr King wants H&W to be able to tender for the forthcoming Aviation Support Ship (ASS) and for other MOD work, so that it is a more attractive privatisation prospect. At E(A) in May you supported Mr Younger's proposal that H&W should not be invited to tender for the Aviation Support Ship whilst in the public sector. We understand that Mr Younger and the Chief Secretary may be prepared to allow a privatised H&W to tender for MOD work, as any contract losses would not be a cost to the Exchequer. MOD would of course need to be satisfied that H&W could supply to time and specification before awarding any contracts. As the contract for work on the Aviation Support Ship is already under consideration, it may not be possible for H&W to be privatised in time for it to compete. It may be wise to wait until it is clear that H&W will be sold before allowing it to tender for further MOD work. You will wish to consider whether, once privatised, H&W could be allowed to tender for MOD contracts.

HANDLING

12. You may wish the Secretary of State for Northern Ireland to introduce his paper. The Chief Secretary, Treasury may wish to comment first. The Chancellor of the Duchy of Lancaster will be especially interested in the comparison between what Mr King proposes for H&W and what is in mind for shipyards in Great Britain. The Minister of State for Defence Procurement (Lord Trefgarne) has been invited for this item. Other Ministers may wish to contribute to the discussion.

RJW

R T J WILSON
Cabinet Office
12 July 1988

24A
(A-B)

SECRET

NORTHERN IRELAND OFFICE
STORMONT CASTLE
BELFAST BT4 3ST

Tel Belfast (0232) 63011

Jill Rutter
PS/Chief Secretary
HM Treasury
Great George Street
LONDON SW1

11 July 1988

Dear Jill

E(A)(88)35
HARLAND AND WOLFF

I attach a note showing the breakdown of estimated closure costs mentioned in my Secretary of State's paper to be discussed on 13 July.

I am sending a copy of this letter to the Private Secretaries to the Members of E(A).

Yours

M E DONNELLY

SECRET JB 13721

HARLAND AND WOLFF
BREAKDOWN OF ESTIMATE OF CLOSURE COSTS OF £240m

	1988/89 £m	1989/90 £m	1990/91 £m	1991/92 £m	TOTAL £m
Trading Support (including contract losses)	32	15	15	20	82
Ship financing costs	5	10	7	10	32
Special Closure Costs					
Terminal Bonuses	-	-	20	-	20
Others - demolition etc	-	-	8	10	18
Redundancies	13	15	32	28	88
TOTALS	50	40	82	68	240

NOTES

1. The above is an estimate of the total cost of supporting the company until closure is complete.

2. The estimate has been prepared by officials without consultation with the company. Following the submission of the P3000 costs, H&W are to produce revised cash flow forecasts for the next four years, and the above figures may need to be amended in the light of these forecasts.

3. H&W is currently negotiating an extension to the contract date for AOR, and bearing in mind that the ship is a first of class, it is assumed that the final delivery will not take place until the end of 1990. As H&W will be required to provide additional support on the AOR after delivery (until commissioning is complete), and as there will be a run-down period, costs will continue to be incurred in the 1991/92 year. In addition under the terms of the redundancy scheme the final payment is made 12 months after termination of employment, so that some of these costs also will have to be met in 1991/92.

001/4211

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

GRR 12/7.

11th July 1988

Dear Secretary of State

TYPE 23 FRIGATE ORDER

Thank you for your letter of 7 July.

I am concerned that there does not appear to be any substantive analysis of the relative cost effectiveness of expenditure on frigates. These are very large sums of money and I do not see how such expenditure can be regarded as justified without an analysis of this sort. As regards the productivity of the fleet, I think we need an analysis of the costs and benefits of substituting current expenditure for capital expenditure.

This leaves me in a difficult position. In the absence of these analyses, placing the orders would represent spending a considerable amount of money in pursuit of a force goal whose value has not, at least to me, been clearly demonstrated. Some may argue that we need these new frigates to replace old ones. This would miss the point that the timing of such replacement investment depends on the size of fleet we want to achieve.

At the same time I recognise entirely that you are under political pressure. In view of this I feel I must agree that the order of the 3 frigates should go ahead on 11 July. However, if it is to do so, I believe we need now to undertake an analysis on relative cost-effectiveness and on improving the productivity of the fleet. Our officials can settle the scope of this work. Ideally it should be completed before the end of our PES discussions but, failing that, before any new tender for frigages is announced.

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I am sure you will agree that until we have had time to consider the outcome of this work, no reference should be made in public to the timing of the next tender, or to the possible number of vessels involved. Your draft announcement will need amending accordingly.

I am copying this letter to the Prime Minister, other members of OD and to Sir Robin Butler.

Yours sincerely

"Joe" Ewell

for JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence)

NAT IND : Shipbuilding PT14

[redacted]ONFIDENCE

PLEASE FILE

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(A)(88)35
7 July 1988

CABINET

COPY NO 70

Ministerial Steering Committee on Economic Strategy
Sub Committee on Economic Affairs

MEMORANDUM BY THE SECRETARY OF STATE FOR NORTHERN IRELAND

30% of Ind. funds for N.I.

HARLAND AND WOLFF PLC

£1.1 billion
Subsidy in 1987 prices.

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 26/3/1V

7th July 1988

CDP 7/7

Dear John

TYPE 23 FRIGATE ORDERS

Thank you for your letter of ~~6th~~ Mar July.

I recognise that an order for three new Type 23 frigates represents a significant large additional capital investment, even though the ship's design provides remarkable value for money and the terms currently on offer from Yarrow Shipbuilders Limited are extremely good. The running costs would be of the order you suggest but these will not be a net addition to the defence budget since the Type 23s will replace older ships paying off from the Fleet. Moreover, the manpower-related costs will be substantially lower since the Type 23s have a much smaller complement (around 170 men) than the Leander-class frigates which they will replace (around 220 men).

Although our policy of maintaining an escort fleet of about 50 destroyers and frigates dates originally from 1981, it has been regularly reassessed since then, including most importantly after the Falklands war (Cmnd 8758 refers). Our current view is that developments in towed array sonar technology, with which your

The Rt Hon John Major MP

officials are familiar, have strengthened the wartime case for frigates in relation to other maritime priorities, while their peacetime utility continues to be demonstrated daily in the Armilla patrol.

So far as the cost-effectiveness of frigates compared with non-maritime priorities is concerned, it is extremely difficult to draw useful comparisons. The starting point for my own consideration is the recently completed reassessment of the whole of the forward defence programme in LTC 88, of which your officials have full details. Although, in the context of this, one of the four planned Type 23 ships currently tendered for (Type 23-09) was considered of lower priority than, for example, the Chieftain tank replacement and unaffordable unless more resources could be provided for defence in PES 88, the other three were judged of very high priority within the programme affordable at the PES 87 level of expenditure.

So far as the productivity of the surface fleet is concerned, the key point of course is that force levels are set in relation to wartime tasks, not peacetime usage. In wartime our frigate force will be fully employed in support of NATO's forward maritime strategy and in direct defence of reinforcement shipping as necessary. NATO has made it clear, by means of a highlighted force goal, that it needs more frigates for these roles than are currently being provided.

In peacetime, very different considerations apply and, as you say, we limit the amount of time ships spend away from their base ports in order to avoid "overstretch" - that is we try to give ships' crews a reasonable opportunity to spend time with families and friends in this country. Our judgement is that, were we not to do this, we would suffer extremely damaging morale and personnel retention consequences which would feed back into both our recruitment and training costs and our operational effectiveness.

The only realistic alternative to providing adequate base-port time for our ships and their crews is to introduce double-crewing of ships as practised in the strategic submarine force. This would, however, be very expensive and beyond the current manning capability of the Royal Navy. You may be interested to know that the equivalent US Navy base-port time target is 50 per cent. As to transit time, there are a number of opportunities for training which, needless to say, we exploit fully.

I hope that this further information will enable you now to give your early approval to the order of three ships as proposed. I shall be in Kuwait for the first three days of next week but, given the current climate of political pressure and expectation following the recent Defence Committee report on the surface fleet, and bearing in mind the House of Lords defence debate on Tuesday, I believe strongly that we need to announce the Government's decision in an oral statement (which I would like Tim Sainsbury to undertake) on Monday.

I am copying this letter to the Prime Minister, and the other recipients of yours, and to Sir Robin Butler.

Yours ever,

George

George Younger

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE CMO UNTIL 21 JULY 1988

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 July 1988

TYPE 23 FRIGATE ORDERS

The Prime Minister has seen the Defence Secretary's letter of 30 June to the Chief Secretary about the orders for further Type 23 Frigates as well as the Chief Secretary's reply. She has commented that we should announce the results of the Frigate tenders before the House rises.

I am copying this letter to the Private Secretaries to the members of OD, to the Private Secretaries to the members of E(A), to Jill Rutter (Chief Secretary's Office) and to Sir Robin Butler.

CHARLES POWELL

Brian Hawtin, Esq.,
Ministry of Defence.

004/4215

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CMO UNTIL 31 JULY 1988

Copy No 2 of 9 copies

Treasury Chambers. Parliament Street. SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

6th July 1988

Dear Secretary of State

TYPE 23 FRIGATE ORDERS

Thank you for your letter of 30 June.

I understand your desire to make an early announcement on this issue and I am more than willing to try and process the decision quickly.

We are, of course, talking about large amounts of money. You put the cost of acquisition of the ships and their equipment at £344 million; taking their running costs into account would probably double this figure. You mention maintaining a fleet of "about 50" frigates and destroyers, but I am sure you would agree that a force level set in 1981 cannot drive policy indefinitely and is not self-evidently relevant to the 1990s. Before reaching your own conclusions on expenditure on this scale you no doubt had information and analysis on:

(i) the cost-effectiveness of frigates relative to other forms of defence expenditure;

(ii) the scope for increasing the producticity of the frigate fleet through changes in the way it is managed. For example, I am aware that the fleet on average spend 40 per cent of its time not at sea and, even at sea, a substantial amount of time can be spent in relatively unproductive transit.

It would obviously help me to reach a decision quickly if you could let me see the material on these points.

I am copying to the Prime Minister, other members of OD and to Sir Robin Butler.

Yours sincerely,

for JOHN MAJOR

(Approved by the Chief Secretary and signed in his absence)

NAT INS: Shipbuilding

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

The Rt Hon George Younger TD DL MP
Secretary of State for Defence
Whitehall
LONDON
SW1 2HB

6 July 1988

Dear George,

TYPE 23 FRIGATES

You kindly copied to me your letter of 30 June to John Major about your proposals for ordering the next batch of type 23 frigates.

I am clearly delighted that Yarrow Shipbuilders Ltd have won the competition convincingly. As well as being good news for Scotland, your analysis of the tenders confirms the financial advantages of ordering in reasonable numbers. While Yarrows would certainly have welcomed an immediate order for 4 frigates, I can understand the reasoning that leads to your proposal to place the order for only 3 now and to confirm a further batch competition early next year. Three frigates should be sufficient to enable Yarrows to continue to operate at a viable level and to maintain the necessary core workforce and expertise and, as you say, a further competition in 1989 offers a fresh opportunity for all interested tenderers to compete for the next round of orders.

I hope that colleagues will feel able to give early agreement to your proposed announcement. I agree that an order of this significance merits an oral statement.

Copies of this letter go, as yours, to the Prime Minister, John Major, other members of E(A) and Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

DHB187F5.B

NAT IND: Shipbuilding

P14

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

01 211 6402

NBPM
RDCG
4/7

Rt Hon Tom King MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
LONDON
SW1A 2AZ

4 July 1988

Dear Tom,

HARLAND AND WOLFF

I have seen your letter of 29 June to John Major, and his and Kenneth Clarke's replies of 30 June.

I fully agree that we should take this opportunity to privatise Harland and Wolff. The only point I would make is that the yard is currently building, for BP, a Single Well Offshore Production Ship (SWOPS). Completion is overdue. The yard estimate that the vessel will be ready by the end of this year but BP themselves are not expecting to be able to receive the ship until mid 1989. I would not expect privatisation of the yard to affect BP's contract or its completion date but BP could certainly protest if the P 3000 project were to push the SWOPS completion date further back. I would hope that would not happen.

This apart I have no objections to the proposals.

I am copying this letter to the Prime Minister, other E(A) colleagues and to Sir Robin Butler.

Yours ever,
Cecil

CECIL PARKINSON

NAT IND: shipbuilding

CMO UNTIL 31ST JULY 1988
CONFIDENTIAL - COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 26/3/1L

30th June 1988

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

Dear John,

TYPE 23 FRIGATES

I have now considered the results of the competition for the order of the next batch of Type 23 frigates. The Type 23 is the Royal Navy's new anti-submarine frigate. The first of class, HMS NORFOLK (23-01), is being built by Yarrow Shipbuilders Limited (YSL); Swan Hunter Shipbuilders Limited (SHS) are building Type 23-02 and two others are under construction at YSL.

Tenders were invited in September 1987 from YSL, SHS, the VSEL subsidiary Cammell Laird (CL) and Vosper Thornycroft (VT) for the order of combinations of up to four more ships. The competition was hard fought, and good prices were achieved. YSL offered the best prices for three or four ships, with CL close behind. SHS were significantly more expensive for all combinations of one to four vessels, while the VT tender covered only a pair of ships and was priced well in excess of the others. There is a considerable cost advantage in placing all ships in a batch with one shipbuilder; to split a four-ship order between two yards, for example, would add at least £11M to our costs, and to divide it between three yards would add £23M.

The Rt Hon John Major MP

On the basis of value for money, there are strong grounds for ordering four ships now from YSL; the prices currently on offer may not be repeated in subsequent competitions and the addition of a fourth ship lowers the unit cost of all four by £1M per ship. Ordering four would also demonstrate in the best possible way our continuing commitment to maintain a frigate and destroyer force of "about 50", a point on which I am coming under increasing pressure in the House and upon which the HCDC has recently commented in its report on the size and role of the surface fleet. The reality is that, even if all these ships are ordered, the frigate force will consist of no more than 47 hulls in the longer term.

But the outcome of PES 87 left me with insufficient funds to order a fourth ship now. Were the fourth ship to be deleted from the programme, the frigate force level would fall to 46. This would have serious effects on the ability of the Royal Navy to carry out its peacetime and wartime tasks and would call into question the continuing validity of our "about 50" policy. As you know, I am therefore seeking additional funds in PES 88 to cover this and other important items.

Against this background, I propose to order only three ships now from YSL. To preserve our flexibility pending the outcome of PES 88, and to avoid political difficulty with our own supporters over the "about 50" policy, I would need to be able to make it clear that the fourth ship will be included in the next batch competition, tenders for which will be invited early next year (without, however, committing us to the ultimate size of the next order). This approach may also be welcomed by the unsuccessful shipyards as giving them a second chance to win the order for one of the current batch. In presenting this position, I will need to emphasise that our plans for the size of the frigate force have not changed and that the decision to order three ships at this stage reflects a balance between the

advantages of batch ordering on the one hand and the need sensibly to limit forward commitment of the defence budget on the other.

The total estimated cost of the three ships which I propose to place with YSL is £344M, including their weapons systems and equipments. The value of the order to YSL would be £157M. The order should enable YSL to maintain its workforce without further redundancies. Taking into account Trident sub-contract work from Barrow, we assess that CL should be able to sustain their present workforce until after the peak of Trident work in 1991, although the company have said that there will be redundancies if they do not win the order. Redundancies are likely at SHS, but we believe the firm will be able to survive until the next round of naval ship orders. There are few implications for VT, whose total workforce is presently engaged on the minehunter programme. It remains the case, as noted in the 1986 study on warshipbuilding capacity (E(A)(86)31 dated 24th June 1986) that the strategic requirement for warshipbuilding can be met by VSEL, YSL and VT. There are no defence reasons for splitting the order. To do so would cost the Defence Budget a premium of at least £11M, which, given the pressures, I cannot contemplate. In any case, we must sustain our competition policy.

I should be grateful for your agreement that I should proceed to place these orders now; subject to any views that colleagues may have, I hope to be able to announce them by means of an oral statement in the House as soon as possible.

I am sending copies of this letter to the Prime Minister and, for information, to other members of E(A) and to Sir Robin Butler.

Yours ever,
George

George Younger

01. VII AM88

dti

the department for Enterprise

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Tom King MP
Secretary of State
Northern Ireland Office
Whitehall
LONDON
SW1A 2AZ

Department of
Trade and Industry

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Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 30 June 1988

NBPM at his store.
FRCG
1/7

Dear Tom,

NEGOTIATIONS FOR SALE OF HARLAND AND WOLFF TO MR RAVI TIKKOO

Thank you for copying to me your letter of 29 June to John Major. → WITH PQ?

I understand that your draft reply to the PQ from Dr Lewis Moonie has since been amended in discussion with Treasury so as to refer only to the sale of the yard and not to the P3000 project as well. I am sure this is right.

I have some comments on the terms you propose for the sale of the yard. I think it is important that, so far as possible, we apply the same policy to shipbuilding in Northern Ireland as to elsewhere in the UK. The position you are currently facing with the P3000 is not dissimilar to that for the potential Cuban order at North East Shipbuilders Limited. I have indicated that I would only be prepared to countenance support for the Cuban order if NESL were to be privatised. I would certainly not want to run the risk of further losses on such an order while NESL remained in public hands. I hope you will be prepared to take a similar position on the P3000 and make clear that you would only be prepared to offer Intervention Fund support if Harland and Wolff were to be privatised.

JE5ABW

dti

the department for Enterprise

You comment in your letter that you would only want to go forward if the initial assessment of the P3000 was favourable. This leaves open what might happen in the event that the assessment is not favourable. In those circumstances I am sure you would wish to consider seriously the option for early closure of the yard.

On the proposed perameters for the sale of the yard, I note these are broadly consistent with the Kvaerner/Govan arrangements. You say that, for orders after the P3000, IF support would be in conformity with then current EC and UK policy and that there would be no guarantee of 28% IF, which is the current limit, for future orders. I think we must leave open the possibility that we may wish to apply a stricter regime than exists elsewhere in the EC. I have therefore been careful, in negotiations with Kvaerner, not to give any commitment that in future they would necessarily receive support at EC levels but that the UK regime at the time would be the determining factor. I hope you will adopt a similar approach.

Finally, I note you would expect to make available appropriate aid for any new capital investment. I think it is important to try to restrict so far as possible any offer we might make here. As I commented with respect to the Govan sale, the remaining terms covering overheads, redundancies and IF support for current orders, are an attractive package in themselves. I also think a distinction can be drawn between meeting what might be called the 'cost of the past' - overheads on current orders, redundancies, etc - and the investment that one would expect a firm to make as part of a future programme. In the end, however, I recognise that some very modest contribution may be necessary to close a deal.

I am copying this letter to the Prime Minister, E(A) colleagues and to Sir Robin Butler.

KENNETH CLARKE

JE5ABW

FILE
DA.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 June 1988

Dear David,

NEGOTIATIONS FOR SALE OF HARLAND & WOLFF TO MR. RAVI TIKKOO

The Prime Minister has seen your Secretary of State's letter of 29 June to the Chief Secretary concerning the Harland & Wolff negotiations. The form of the parliamentary reply has been agreed following further discussions between private offices as recorded in your letter of 30 June to Jill Rutter. The Prime Minister has commented, however, that the parameters for the initial negotiations with Mr. Tikkoo involve a big decision which it would be unusual to take through correspondence. She would therefore be grateful if your Secretary of State could prepare a paper on this subject for consideration by E(A).

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

Yours,
Paul

(PAUL GRAY)

David Watkins, Esq.,
Northern Ireland Office.

DA

CONF
COMMERCIAL IN CONFIDENCE
From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Miss Jill Rutter
Private Secretary
HM Treasury
Great George Street
LONDON
SW1

30 June 1988

Dear Jill.

HARLAND AND WOLFF

Following Mr King's letter of yesterday to the Chief Secretary, he has agreed to a redraft of a Parliamentary reply which will issue this afternoon in written form. I have already discussed the revise with you, Paul Grey and Peter Smith; and I now attach a copy for information.

I am copying this letter and enclosure to the Private Secretaries to the Prime Minister, other E(A) colleagues and to Trevor Woolley.

Yours sincerely,

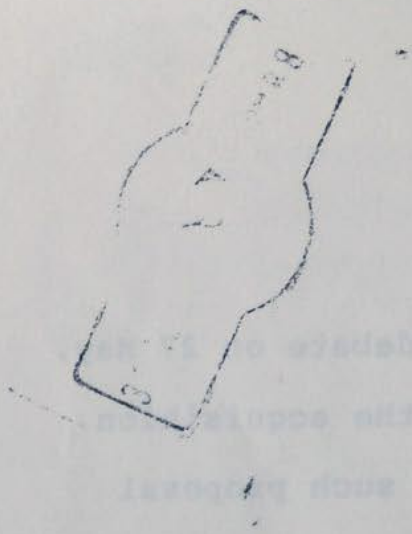
David Watkins

D J WATKINS

Enc

As I indicated in my response to the adjournment debate on 27 May, if there were to be an expression of interest in the acquisition of Harland & Wolff, the Government would take any such proposal very seriously.

An expression of interest in the acquisition of Harland & Wolff has now come forward from Tikkoo Cruise Line Limited. The Government will consider this and any proposals from any other parties which might lead to the privatisation of the company.



CCBK

Prime Minister

This raises 2 issues:
(i) The line to be taken in negotiations with Tikkoo.
(ii) What should be said in tonight's adjournment and the PQ tomorrow.

I imagine on (i) you will want to wait for colleagues' views. On (ii) I have already passed the comment marked on the last page. Are you content on that basis?

RR C6
29/6

SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Great George Street
LONDON
SW1

29 June 1988

Mus Lawson
Comment from DTI - Treasury -
This is a very irregular way of taking such a big decision

Dear John,

NEGOTIATIONS FOR SALE OF HARLAND & WOLFF TO MR RAVI TIKKOO

At the ad hoc meeting on 31 March colleagues indicated that they were content for negotiations to continue with Tikkoo, in particular about a possible transfer of the Yard to the private sector.

We hope shortly to receive sufficient information about the P3000 Project from H&W and Mr Tikkoo to enable us to make a decision as to whether or not to enter serious negotiations on privatisation. Mr Tikkoo has indicated his willingness to enter such negotiations positively. I for my part would go forward only if the initial assessment of the P3000 was favourable.

I would be anxious that you and colleagues should be aware of the parameters within which I would intend to authorise officials to embark on initial negotiations. In framing these parameters we are seeking to keep in line with the Kvaerner/Govan arrangements.

The parameters would be as follows:

(a) The limit of our total involvement must be within what would otherwise be the cost of closure. This is estimated at £240m.

(b) Phasing of the assistance would be such that public expenditure in any financial year would not exceed £60m. This is the amount included currently in the Northern Ireland baseline for H&W. The cost of support payments up to £60m per annum would be borne by the NI Block.

(c) I would consider offering financial assistance to Mr Tikkoo to cover:

(i) any losses on existing orders;

(ii) unrecovered overheads in the period before reductions in the labour force take effect;

(iii) payments to those made redundant;

(iv) intervention subsidy on P3000, at a scale to be determined; and

(v) appropriate aid in respect of any new capital investment.

(d) For orders after the P3000 Intervention support would be considered on its merits and in conformity with then current EC and UK policy (ie there would be no guarantee of 28% IF for future orders).

(e) In addition, existing loans of £366m would have to be written off, but there was no realistic prospect of their repayment.

Clearly if in the course of negotiations we wished to change any of these parameters I would return to discuss the matter with you.

Finally we face an Appropriation Debate tonight and an oral question on Thursday which is unlikely to be reached and will therefore be a written answer. I attach a copy of our draft reply which would also be the basis of briefing for John Stanley who will be handling the Appropriation Debate.

I am copying this letter to the Prime Minister, other E(A) colleagues and to Sir Robin Butler.

Yours

TK

SMN3239

PARLIAMENTARY QUESTION FOR ORAL ANSWER ON THURSDAY 30 JUNE 1988

NO 2907

BY DR LEWIS MOONIE (L, KIRKCALDY)

To ask the SOS for Northern Ireland, if he has any plans to privatise shipbuilding operation at Harland and Wolff; and if he will make a statement.

DRAFT REPLY

The future of Harland & Wolff is now heavily dependent on whether the company, the Government, and Tikkoo Cruise Line Limited can come to agreement about terms on which the cruise liner P3000 could be economically built in Belfast. The Government has received the preliminary costings for this vessel and is now assessing these, and considering whether, and to what extent, it might provide contract support. [That is the first priority.] But, in addition, as I indicated in my response to the adjournment debate on 27 May, if there were to be an expression of interest in the privatisation of Harland & Wolff the Government would take any such proposal very seriously. Such an expression of interest has now come forward from Tikkoo Cruise Line Limited, and will be considered in the context of the Government's assessment of the P3000 project. We would wish to reach early decisions on this project and on the future arrangements for Harland & Wolff. In connection with the latter, the Government would be prepared to consider proposals from any other parties which might lead to the privatisation of the company.

SMN3239

Cile AM

CCMOD

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 June 1988

I am writing on behalf of the Prime Minister, who is currently attending the meeting of the European Council in Hanover, to thank you for your letter of 24 June which I know the Prime Minister will be interested to see on her return.

PAUL GRAY

Alex Marsh, Esq.

Cile dd

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 June 1988

I enclose a copy of a letter from Mr. Alex Marsh, Chief Executive of Swan Hunter, concerning orders for Type 23 frigates. I also enclose a copy of a brief acknowledgement which I have sent. It calls for no immediate further action.

PAUL GRAY

Ian Andrews, Esq.,
Ministry of Defence

KK

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

27th June 1988

Dear Ken,

BRITISH SHIPBUILDERS

Thank you for your letter of 23 June.

I am not unsympathetic to the problems you have faced in arranging the privatisation of Govan, and I welcome the improvements which your negotiatiors were able to secure in the final session. But I have to say that I do not think that the deal with Kvaerner is very good for our taxpayers in the longer term.

I agree with you that the costs of the Intervention Fund beyond the first four orders are bound to be uncertain, but I think you understand my scepticism about the likelihood of them being nil unless the UK regime were to vary unilaterally. I am also uneasy about the costs of IR on the first four ships, which seem to have jumped significantly in the course of the final negotiations. I hope you will be able to take a firm line limiting support if, later Kvaerner decide that the build-costs will be higher still.

I think that Kvaerner have done very well for themselves but I fear that if we count the costs in a few years time we shall find that the UK taxpayer has not. However, I quite understand the arguments which you and Malcolm advanced for concluding the deal, and on balance I agree with you that given where we had got to it was better to clinch the deal than to overturn it. Although my reservations remain, I am prepared to go along with you.

I feel I have to register two concerns for the future, though. First, we must be robust against any further pressure from Kvaerner. There may be a temptation to regard the costs we have incurred so far in defence of employment in the Clyde as 'sunk', so that any further demands from Kvaerner are measured as a marginal cost against the employment benefits of seeing the yard continue. I think that would be wrong: there is no end to the expenses down that path. My other concern is the position of the other BS yards, where interested parties may see the Govan deal as a signpost.

Govan was exceptional in that there was so much expectation of privatisation (which it seems to me was fuelled at least in part by the way in which BS was negotiating) that to hold out for better terms could have caused a furore out of all proportion to what was really at stake. This gave Kvaerner a strong hand and made your negotiations more difficult.

Emotions will be no less high around the other years, particularly NESL. I fully support the stand which you are taking against supporting further contracts for BS, which I know is not easy given the vigorous lobbying by which the BS Board is trying to undermine your position. But we must be equally wary of private sector interest in taking subsidised contracts there. No doubt you will keep me closely in touch with developments.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Yours Ever,

John

JOHN MAJOR

Prime Minister 4
To see. I have
acknowledged.
PRC6 28/6

GR
27/6
BOX

C. Mr. Powell - to see
2. PA

SWAN HUNTER

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Fax: 091-234 0707
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The Rt Hon Mrs Margaret Thatcher MP PC
The Prime Minister
10 Downing Street
LONDON
SW1

ajm0624.let

24th June 1988

Dear Prime Minister

Swan Hunter have had a notable and successful year. The attached broad sheet highlights some of the changes and achievements which have taken place since privatisation.

In conjunction with all our employees and the local community, we have made a success of warship construction and have grown into export markets. Our economic strength and commercial viability underpins the regeneration of a large sector of the industrial North East. In that context it is essential to us that two of the four frigates, for which orders are currently pending from the Ministry of Defence, are won by Swan Hunter.

The efficiency and strength of this Company comes from the people that it employs and the spirit of cooperation which is now the hallmark of all our activities. Today we have concluded a new two year agreement with all our people, incorporating radical changes in working methods and an end to traditional issues of demarcation and inefficient practices. Through working together Swan Hunter achieved a unique standard of excellence on HMS SHEFFIELD and we are trying to improve, even on that, with HMS COVENTRY when she is handed over on 1st July.

May I ask you to ensure that all these factors are taken into account when making decisions on the pending Type 23 frigate orders. We are grateful for your past support - the benefits of which are now apparent in the community, within the Company and most important of all, to the Ministry of Defence.
Yours sincerely

Alex J Marsh
Chief Executive

E.R.

PRIME MINISTER

BRITISH SHIPBUILDERS - GOVAN

Kenneth Clarke mentioned at Cabinet this morning the possibility of an announcement next week about the agreed terms for the purchase of Govan by Kvaerner.

Kenneth Clarke and the Chief Secretary have been having exchanges over the last couple of days about the detailed terms. The basic package is set out in Kenneth Clarke's letter of 21 June. The Chief Secretary raised some doubts in his letter of 22 June, to which Kenneth Clarke has responded in his further letter of 23 June. I understand the Chief Secretary has now said that he is content.

As Kenneth Clarke says the terms are not ideal. The basis of the deal has been switched, as agreed by E(A), from an initial dowry to one involving continuing Intervention Fund support. But the terms still include a significant initial dowry element, and there is an inevitable uncertainty about the possible scale of Intervention Fund support as we look forward to the mid-1990s. But the deal can still be presented as a lower cost solution than closure; and it satisfactorily achieves the primary objectives of privatisation of Govan and ending the heavy losses channelled through British Shipbuilders.

As the DTI and Treasury have now reached agreement on the terms, I assume you will not want to intervene. Content?

Yes

PAUL GRAY
23 June 1988
EL3CWK

dti

the department for Enterprise

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CJ/BG

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

Department of
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01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 23 June 1988

Dear John.

BRITISH SHIPBUILDERS

Thank you for your letter of 22 June. As a result of the further negotiations which took place between British Shipbuilders, my officials and Kvaerner yesterday, I am able to provide assurances on a number of the points you raise. First, however, you will wish to be aware of developments in the proposed financing package.

The annex to my letter of 21 June explained that the build costs of the first four ships remained to be confirmed but were likely to be £160m, implying Intervention Fund support with a present value of £37m (£45m cash). In the event, Kvaerner presented detailed costings totalling approximately £175m, implying IF with a present value of £43m. The costings were scrutinised by BS and my officials who had to concede that they were fully justified and to have withheld support at 28% would have meant going back on our decision to offer IF at current levels. Against this we were, however, able to negotiate a reduction of £2m in present value in the contribution to the investment programme and did not have to use any of the £1m final concession I thought might have been necessary. The result, in present value terms, is a total package of £68m compared to the original mandate of £80m.

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the department for Enterprise

Turning to the points in your letter, you will wish to note that, as a result of a further concession extracted in the final negotiations, the IF terms we are proposing are entirely conventional, with no generosity for the first four new orders from Kvaerner. You state that the prices will not be determined at arms-length and that there is scope for abuse. As I explained in the annex to my previous letter, there is a significant degree of scrutiny of orders both through the non-executive members of the Kvaerner Shipping Board as well as by Havtor Management, the partner in placing the orders. More importantly, however, we yesterday secured Kvaerner's agreement to an independent scrutiny by a firm to be appointed by my Department of their comparative prices from overseas yards as well as a post-audit check of the costs of building the ships. Any over-estimate identified as a result of these checks will be clawed back and Kvaerner will only be able to keep one half of any productivity gains that will be achieved.

You expressed concern that the costs of IF support of future orders at Govan is not quantified. My letter did of course draw specific attention to this. I can assure you that we have avoided making any commitment to Kvaerner as to the availability of future IF support. All that we have been prepared to agree to is that we would look at any applications they might make in the light of whatever regime exists in the UK at that time. It will therefore be for decision in due course whether we continue to be guided by whatever European Commission limit exists or, as you say, act unilaterally.

I have to say that I do not regard this as a particularly satisfactory deal. As I have made abundantly clear throughout, my preference has been to bring IF support to an early end. In the event, however, we have a proposal which, as Malcolm Rifkind notes in his letter of 22 June, will leave us with a continuing industry employing a substantial workforce in an area of high relative unemployment. As I said in my previous letter, we will also avoid any trade difficulties with China and there is the prospect of further investment in future by a major engineering company.

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Yours ever,

KENNETH CLARKE

JE3ACI

P.S. This deal is not in the form which you and I always agreed upon as our first choice but I think it is in line with the collective decision that our colleagues reached.

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SHIPBUILDING

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CONFIDENTIAL

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

22 June 1988

Dear John,

BRITISH SHIPBUILDERS

I have seen a copy of Kenneth Clarke's letter of 21 June seeking your agreement to the terms for disposal of Govan Shipbuilders to Kvaerner Industries.

I think it is a creditable achievement to have reached a position where disposal is possible, and though the cost is clearly high it remains less than closure cost, and is within the limits we agreed as acceptable in the spring. As a result, we shall continue to have a working shipyard with a substantial workforce in an area of continuing high relative unemployment for the foreseeable future at less cost than any of the alternatives, with the added prospect of new high technology development. I recognise Kenneth's views on Intervention Fund, but we may look forward, as he indicates, to reductions in the European ceiling of support, and I would not regard this concession as one which need cause concern.

I very much support Kenneth's proposals, and I would urge you to agree as quickly as possible.

Copies of this letter go to the Prime Minister, Nigel Lawson, George Younger, Tom King and Kenneth Clarke and to Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

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22 MAR 1968

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cc PBG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

22 June 1988

Dear Chancellor of the Duchy,

BRITISH SHIPBUILDERS

Thank you for your letter of 21 June, with which I have discussed this morning with Nigel Lawson.

I am sorry that we did not have more time to comment on your proposal. You will recall that on 10 June I asked you to let me know urgently how the negotiations were proceeding so that I could comment before the deal was firmed up. I said then that it was essential that the costs of Intervention Fund support at Govan in the longer term should be taken into account in your costings if it was to be offered to Kvaerner. I said that I doubted that a dowry as high as £30 million could be justified if open-ended IF was to be available. I said also that I thought any IF support to Kvaerner should be on generally available terms, and on the basis of arms length prices as agreed at the Prime Minister's meeting on 31 March.

Your letter does not seem to address these concerns. The further annex which you circulated separately today refers to the costs of IF in the 1990s being uncertain. That does not mean we should ignore them, as your costings do. Also although it is not clear from your letter, I understand that you are proposing an unusually generous form of IF for the first four new orders, which would allow Kvaerner to keep any profit they made on the ships. This seems to me particularly difficult to justify given that the customer for this order will be a consortium in which Kvaerner itself has the major stake. The prices will not therefore be determined at arms length, and

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there is scope for abuse. I am not at all reassured by the notes on this in your additional annex. My officials are not aware of any evidence for the independence of the consortium and the competition from Japan beyond assertions from Kvaerner themselves.

However my main concern with your proposal is that you have not quantified the costs of Intervention Fund support on the fifth and successive new orders at Govan. This is a critical omission. E(A) agreed that continuing IF could be conceded. But we have to cost it properly before we can decide whether the dowry you propose is too high, compared with the £90 million estimate of closure costs. Unless contract support for UK yards had been completely eliminated before further orders were placed, the costs could be very large. For instance, if in 1991 or 1992 Kvaerner placed new orders with building costs of £100 million and the support regime was still at 28 per cent, this alone would push the costs of the Kvaerner deal above your estimate of closedown costs.

Unless, therefore, we can be confident that there will be no Intervention Fund costs beyond the £37 million you identify, the numbers in your letter will not give us a true picture of the costs to which your proposal would expose us.

It is only reasonable to exclude the longer term IF costs if you believe that contract support for UK yards will have been eliminated before Kvaerner could seek support for further orders. I am extremely sceptical that the European Commission could achieve this change in policy through EC regulations in that time. They may have a degressive aim under the sixth directive, but they have not achieved any reduction in the support maximum under it so far. Confidence in your costings must therefore rest on the assumption that the UK regime will vary unilaterally within the EC maximum and that regardless of what the EC decides there would be no support for further orders at Govan.

On this basis, I feel I must ask you to reconsider either reducing the size of the dowry, or the possibility of placing a cap on the rate at which Intervention Fund support is payable after 1991 - if the EC has not eliminated it by then.

I should be glad to have a word if necessary in the margins of Cabinet tomorrow.

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Yours sincerely,

pp JOHN MAJOR

(Approved by the Chief Secretary and Signed in his absence).

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

Department of
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Direct line 215 5147
Our ref
Your ref
Date 21 June 1988

Dear John,

BRITISH SHIPBUILDERS

BS and my officials are meeting Kvaerner tomorrow afternoon to discuss final details for their purchase of the Govan yard. This letter seeks your agreement to the terms on which I propose the negotiations should be concluded.

You will recall that earlier this year we agreed to aim for a sale on the basis of no more Intervention Fund support and a dowry of up to £90m. The £90m comprised £15m for under-recoveries and redundancy costs which Kvaerner would expect BS to face over the first 18 months and a dowry of up to £75m to be paid in cash, mainly to cover future support for new orders in place of continuing IF support but also to meet other initial costs. My officials persuaded Kvaerner to negotiate on this basis. Subsequently, however, the European Commission imposed restrictions on the dowry concept and colleagues were not persuaded that we should bring an early end to IF support. Accordingly, E(A) agreed that negotiations with Kvaerner should be pursued on the alternative basis of continuing IF support but with a much reduced dowry.

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dti

the department for Enterprise

Against the original mandate of a total cost of £90m, BS and my officials expect to be able to agree to a total package of approximately £75m. Indeed, even if one were to set aside the £15m for under-recoveries and redundancies originally contained in the £90m, the package still compares favourably with the dowry of up to £75m. This dowry was to be paid in cash up front. The present package, however, will be spread over the period to 1993. On a discounted basis, it has a value of approximately £65m.

The details of the proposed package are set out at Annex A. The negotiations have been conducted on the basis of present value calculations. The main elements of the present value total of £65m are £37m IF support and £27m to meet Kvaerner's initial costs. The principal outstanding issue is a request from Kvaerner for an additional £6m to be paid up front in cash to offset the risk through their failing to secure an order for a fifth ship which they had envisaged at the time they opened negotiations with us. If they had secured this order they would have pressed for additional IF support with a present value in excess of £11m. Without the order they have considerable doubts about their forecasts of cost recovery. It can be argued that the risk is something Kvaerner should face given they will only be bearing a small proportion of the total costs of turning Govan round. I am therefore not prepared to agree to anything like the £6m up front which Kvaerner have requested. There are, however, major risks that Kvaerner will still have to face and for which they had expected to be covered when the negotiations began. I have therefore instructed my officials, if it is absolutely necessary to conclude a deal, to be prepared to offer a final concession provided it does not exceed a present value of £1m. I have also insisted that this should only be offered in a form which is conditional and involves a clear incentive on Kvaerner to perform. This would bring the total package to £65m present value or a little over £75m in cash.

I hope you and colleagues will agree that this is a satisfactory outcome. The terms I am recommending are well within the limits agreed by colleagues. The sale will provide the first tangible justification for our decision to seek to dispose of the BS merchant yards. We will avoid any trade difficulties with China and we will secure inward investment by a major engineering company which brings with it the prospect of further investment and employment. My own strong preference would still have been to have brought IF support to a clear end. The fact that we will not have achieved this needs to be set against the favourable terms we have otherwise negotiated, but even so I believe the package is a reasonable one.

JE3ABA

dti

the department for Enterprise

I understand BS and their financial advisers would regard a settlement on the basis I have outlined as satisfactory and would intend to seek my formal consent for disposal later this week. I also expect my Department's financial advisers to recommend that the terms are fair and reasonable. Subject to your agreement, I therefore propose to instruct my officials to try to agree final terms in the course of negotiations tomorrow. If they succeed then Kvaerner will seek the approval of their main board at a meeting on Monday 26 June. Subject to their confirmation I would then propose to announce the sale later that day.

I am copying this letter to the Prime Minister, Nigel Lawson, George Younger, Malcolm Rifkind and Tom King and to Sir Robin Butler.

KENNETH CLARKE

JE3ABA

dti

the department for Enterprise

ANNEX A

COST OF GOVAN CLOSURE AS COMPARED WITH THE LIKELY DEAL

The estimates on which we based the original negotiating mandate were as follows. The figures set aside costs and income associated with the existing China contract which are common to all cases. They did not include the costs of any remedial measures. They were in cash, but most of the costs would be incurred in 1988 and 1989, giving a present value of closure of just over £80m

	Govan Closes	Kvaerner purchases	Savings from sale
Under-recovered labour/overheads	30	10+	up to 20
Redundancies	20	5+	up to 15
Capital spend	5	-	5
Contingencies*	35	-	35
	90	15+	up to 75

The deal I am prepared to recommend is as follows

Contribution to under-recoveries	10.4 cash
Contribution to redundancies etc	up to 7.1 present value
Contribution to investment	up to 9.4 present value
Contribution to training	0.3
less payment for stock	0.25
	up to 27
IF for 4 ships with no further offers likely before 1992	37
Concession if needed	up to 1
Total	up to 65 present value

dti

the department for Enterprise

KVAERNER NEGOTIATIONS WITH BS

Initial Costs

BS have offered to meet Kvaerner's initial costs up to a present value total of £27m. The details remain to be agreed but could emerge as follows:

(i) £10.4m would be paid up front towards under-recovered labour and overhead costs during the construction of the China ships.

(ii) Kvaerner are planning a major investment programme, the main element of which is civil engineering work to restructure the present three berths into two to allow them to build very large 75,000 cubic metre gas ships during the 1990's. BS have offered to pay up to a present value of £9.4m with payments conditional on stages of the programme proceeding.

(iii) £7m for redundancies. Kvaerner plan to make 500 redundant and it was a pre-condition of their taking over the yard that they obtained agreements from the Trade Unions to this programme and a wide range of changes in yard practice. These have been achieved.

(iv) £300,000 towards the training of the workforce to improved stainless steel welding conditions but BS would charge £250,000 for stock.

Kvaerner would pay only a nominal sum for the yard which would give them some cover in the event of subsequent closure.

Taken together, these figures give the present value total of £27m. Variations may be agreed within the total but the figure is on the table.

Intervention Fund

Moss Rosenberg, Kvaerner's shipbuilding subsidiary which in turn would be Govan's parent, hopes to secure final agreement with the respective Boards of Kvaerner Shipping and their partners to orders for two gas ships of 35,000 and 56,000 cubic metre capacity, together with binding options to be confirmed this year for identical sister ships. This workload would carry the yard until the second half of 1992,

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dti

the department for Enterprise

assuming in the meantime the restructuring of the yard takes place. If Yarrow wins the Ministry of Defence competition for the Aviation Support Ship, and Yarrow cite Govan as sub-contractor for the hull, the programme would be pushed forward to 1993. DTI officials have told Kvaerner that they should not expect offers of support for follow-on work other than the usual period before build commences to allow for design work, etc. In short, Kvaerner recognise that no further offers are likely before 1992.

Kvaerner will confirm the build costs and prices for these ships on Wednesday but the total cost is likely to be £160m, implying Intervention Fund support at 28 per cent of some £45m with a present value of £37m.

It is of course very difficult to anticipate what the costs of any support for new orders at Govan might be during the 1990's. The EC Sixth Directive, which ends in December 1990, looks for degressive support. Whatever follows is likely to take the same approach but there are clearly many uncertainties.

Independence of Clients

Treasury have queried the independence of Govan's clients. The client for the four ships is a partnership 60 per cent owned by Kvaerner Shipping and 40 per cent by Havtor Management, which represents a number of Scandinavian concerns. Two thirds of Kvaerner Shipping is owned by Kvaerner Industrie, one third is quoted on the Norwegian Stock Exchange. There is strong non-Executive representation on the Board to ensure orders are placed competitively on a world-wide basis.

Whatever its structure, in which Kvaerner Industrie might be expected to have the dominant influence through Kvaerner Shipping and its position in the partnership, it is evident the partnership does not simply follow Kvaerner Industrie's line. And while Kvaerner Industrie plainly sees attractions in returning to shipbuilding as a basis for marketing gas ship technology world-wide, in a narrow sense they could avoid all risk of shipbuilding loss by purchasing from Japan rather than from Govan when any losses at Govan will go straight through to their accounts. DTI regards the position as reasonably safeguarded, especially the intensity of competition from Japan which Govan has evidently been facing.

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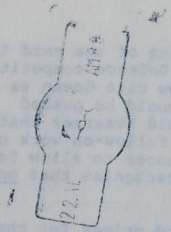
NAT IND Flightdeck
pt 14



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SECRET

24

NBPM
RRC6
13/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

10th June 1988

Dear Chancellor,

BRITISH SHIPBUILDERS: FINANCING REMEDIAL MEASURES

Thank you for your letter of ~~31~~ at flap May. I have also seen Malcolm Rifkind's letter of 2 June.

I agree that it is desirable that there should be a ceiling on expenditure on remedial measures in 1988-89. If £4 million now looks to be the likely level of spend then I would have no objection to this limit being imposed on expenditure in England. But I really cannot agree that the Reserve should carry the risk of any overspend; this would be quite contrary to well established cash management disciplines. As you are aware, the Reserve is under pressure this year and I must therefore continue to look to you to finance any excess you might choose to allow over the £4 million in 1988-89.

As for the Scottish enterprise measures, it is unfortunate that Malcolm and you should not yet have been able to reach agreement on financing. I should be willing to go along with any reasonable agreement that was made on financing these small expenditures in 1988-89 from existing DTI and Scottish Office provision. I therefore welcome the opportunity of looking at the proposals you may make either, as Malcolm suggests, once the expenditure implications are clearer or sooner if you prefer.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King and Nicholas Ridley and to Sir Robin Butler.

Yours sincerely,

Joe Ewbank

for **JOHN MAJOR**

Approved by the Chief Secretary

NAT IND: Shipbuilding policy : pt/4

23 **SECRET**

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

2 June 1988

Dear John,

Thank you for the copy of your letter of 17 May to Kenneth Clarke. I have also seen Kenneth's letter to you of 31 May.

My position on the funding of the remedial measures is unchanged from my letter of 9 May. I am quite prepared to support Kenneth's proposal for an enterprise company to deal with job losses at British Shipbuilders, and it would be indefensible for the company not to operate on a Great Britain basis. But as it is to be a subsidiary of British Shipbuilders, it has absolutely nothing to do with my responsibilities, and I see no reason why I should be involved in its funding. The establishment of an enterprise company is inseparable from the break-up of British Shipbuilders, and I cannot see the point of trying to distinguish the costs of the company from the other costs which might be incurred.

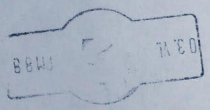
I suggest that, with so many uncertainties about the future of the individual subsidiaries, the impossibility at this time of predicting where, when and how many redundancies might take place and only the most approximate of cost estimates, further consideration of this issue might best be deferred until we can approach it in a more informed way, and when Kenneth can present a fully worked-up proposal for the enterprise company, if indeed it is still needed.

Copies of this letter go to the Prime Minister, David Young, Tom King, Nicholas Ridley and Kenneth Clarke, and to Sir Robin Butler.

Yours ever,

MALCOLM RIFKIND

Nat Ind: Shipbuilding Pr 14.



dti

the department for Enterprise

22

n6pm

SECRET

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 31 May 1988

Dear John.

BRITISH SHIPBUILDERS: FINANCING REMEDIAL MEASURES

Thank you for your letter of 17 May.

I am sorry you are not able to proceed on the basis I had thought we had agreed for 1988-89. In view of the reduced level of expenditure now expected for that year - and the figures may be even lower than those mentioned in your minute - I can reluctantly agree to contribute to some enterprise measures in addition to advance factory provision, so long as Malcolm Rifkind is prepared to do the same for measures for Scotland. However it is essential that I should have a cash ceiling for my Department's contribution, and that any excess should be met from the Reserve. In view of the prospects of reducing the scale of expenditure in 1988-89 from that previously forecast, I propose that the ceiling on my Department's contribution should be set at £4 million.

I am sending copies of this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King and Nicholas Ridley, and to Sir Robin Butler.

Yours ever,

KENNETH CLARKE

MY4ABL

Mat 105

Shipboard

PT 16

FILE

VC

CC DTI (CDL)

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

26 May 1988

Dear Mr. Key,

Thank you for your letter of 3 May. I remember well the visit of the Sunderland delegation and I am glad positive action ensued.

On shipbuilding, British Shipbuilders are surely best placed to establish the quality of their ferries. While their Danish client may have claimed there are deficiencies in the first two of their ferries, British Shipbuilders have strongly contested these claims and have satisfied Lloyds of London and the Danish Certification Society of the quality of later ships in the series. While I recognise the uncertainty created by the dispute, which we are following closely, I do not believe any serious client would be deterred, especially given the opinion of the certification bodies.

On the wider re-generation of Sunderland, I am delighted that you are making positive progress. Of course you will continue to have the full backing and support of the Government for these efforts. You asked about an "Action for Cities" presentation in Sunderland. Sunderland is not included in the present series but your request will certainly be considered if further presentations are planned. I am glad that Sunderland firms were well represented at the recent presentation held in Newcastle.

On continued support for shipbuilding on the Wear, I am sure you would have read with interest what Kenneth Clarke had to say in the House of Commons on 19 May. I understand that he has agreed to meet a delegation led by the Sunderland Council.

Yours sincerely

Margaret Thatcher

G.P. Key, Esq.

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Paul Gray Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
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Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 24 May 1988

Dear Paul.

LETTER OF 3 MAY FROM GEOFFREY KEY ESQ, CHIEF EXECUTIVE OF SUNDERLAND BOROUGH COUNCIL

Thank you for your letter of 4 May.

I attach a self-explanatory draft reply for the Prime Minister to send to Mr Key on his points about an independent evaluation of the quality of the Danish Ferries British Shipbuilders are building on the Wear, and about the "Action for Cities" programme.

As regards continued support for shipbuilding on the Wear, the draft refers to the Chancellor of the Duchy's speech in the Shipbuilding Debate on 19 May. A copy of the appropriate extract from Hansard is overleaf.

Yours ever

Nick Mitchell

pp ROSALIND COLE
PRIVATE SECRETARY

MY4ABV

DRAFT REPLY TO MR GEOFFREY KEY

Thank you for your letter of 3 May. I well remember the visit of the Sunderland delegation and I am glad positive action ensued.

On shipbuilding, British Shipbuilders are surely best placed to establish the quality of their ferries. While their Danish client may have claimed there are deficiences in the first two of their ferries, British Shipbuilders have strongly contested these claims and have satisfied Lloyds of London and the Danish Certification Society of the quality of later ships in the series. Though the uncertainty created by the dispute is worrying, and we are following it closely, I do not believe any serious client would be deterred, especially given the opinion of the certification bodies.

On the wider re-generation of Sunderland, I am delighted that you are making positive progress. Of course you will continue to have the full backing and support of the Government for these efforts. You asked about an "Action for Cities" presentation in Sunderland. Sunderland is not included in the present series but your request will certainly be considered if further presentations are planned. I am glad that Sunderland firms were well represented at the recent presentation held in Newcastle.

MH1ACJ

On continued support for shipbuilding on the Wear, I am sure you would have read with interest what Kenneth Clarke had to say in the House ~~last Thursday~~ at Commons on 19 May. I understand that he has agreed to meet a delegation led by the Sunderland Council.

MH1ACJ

NAT IND: Shipbuilding
Pt 14

dti

the department for Enterprise

21

SECRET

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Treasury Chambers
LONDON
SW1P 3AG

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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01-215 7877
Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 18 May 1988

1. Mr. Allchin - to see
2. NBPM - p.c.

Rec'd
18/5

Dear Minister,

BRITISH SHIPBUILDERS

On Thursday we have a Shipbuilding Debate in the Commons.

We may well be asked during the course of the Debate, or in subsequent correspondence, what assurances can be given on BS liabilities. In particular Trafalgar House, who have already sought assurances in connection with their £186 million writ on British Shipbuilders, may press for a clearer line than my officials have so far given. Barclays have now required assurances through Anthony Grant in respect of a British Shipbuilders Guarantee which they hold as security. I would propose the following answer:

> "Subject to Parliament's approving any necessary provisions, I propose to continue to make adequate funds available to enable the Corporation to meet its financial obligations. I shall lay a Minute before the House as appropriate for an assurance of this kind."

If the issue does not come up in the Debate, I may at a later stage have to give assurances that require a Minute.

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the department for Enterprise

While my officials have cleared this text with yours, you and other E(NI) colleagues will clearly wish to be aware of what I propose because of the relevance of these assurances to nationalised industries in general. I do not think, however, that I am breaking new ground. The form of words in the supplementary is based, for instance, on that used in the British Coal accounts so that they can be signed off on a going concern basis year by year.

I am sending copies to our colleagues in E(NI), and to Sir Robin Butler.

Yours sincerely

Nick Mitchell.

pp KENNETH CLARKE

(Approved by the Chancellor and signed in his absence)

MY3ABJ

R23781

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 May, 1988.

I write on behalf of the Prime Minister to thank you for your further letter to her of 16 May, together with its enclosure.

Paul Gray

Geoffrey Key, Esq.

008/3294

20

SECRET

2 pps

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

17th May 1988

Dear Ken,

BRITISH SHIPBUILDERS: FINANCING REMEDIAL MEASURES

Thank you for your letter of 6 May 1988. I am also replying to Malcolm Rifkind's letter of 19 May and to Nicholas Ridley's of 20 April.

I am pleased that you have felt able to accept my suggestion that the cost of remedial measures in future years should be decided in the Survey. That should enable us to take a well informed view of priorities.

As for 1988-89, I note from your letter that you feel we had agreed to split the 1988-89 costs of remedial measures, with your programme bearing the costs of advanced factory provision and the Reserve meeting the cost of the enterprise package. Clearly there has been some misunderstanding between us. My approach to this issue assumed that the great bulk of the £7½ million advanced factory provision endorsed by colleagues would fall in the current year and that you were offering to meet these sums from your existing provision, leaving only the financing of the 1988-89 costs of the enterprise package to be discussed between us.

As your letter makes clear, the 1988-89 costs of remedial measures are now much smaller than originally agreed with advanced factory provision of only some £2 million and an enterprise package costing £3.75 million (including provision for measures for Scotland and Bideford which have not been discussed or formally agreed). This compares with a potential claim on the Reserve of perhaps

NAT IND: Shipbuilding PT14

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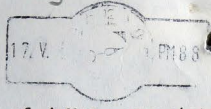

£100 million, to which I agreed in my letter of 4 May, associated with the disposal of Govan and closure or disposal of other BS facilities. I would not necessarily wish to challenge the need for additional enterprise measures covering not only Sunderland but also Scotland and Bideford. But given the major claim on the Reserve I have already conceded and the modest overall size of the spend on remedial measures this year, I consider it entirely reasonable that these costs should be found from within existing programmes. I must therefore continue to look to you and to Malcolm Rifkind to finance the costs of the enterprise package in 1988-89.

On other remedial measures, I am grateful for Malcolm's assurances that any non enterprise company costs will be met from within his existing provision. And Nicholas Ridley has helpfully agreed that the costs of the Sunderland enterprise zone are to be met from within his programme. I am grateful for this and would only wish to note that the scale of the enterprise zone would need to proportionate to the scale of redundancies. Any substantial continuing activity at NESL should lead to a lower call on his programmes. Similarly, the current advance factory provision for Sunderland envisages complete or near complete closure of NESL. We might need to revisit this issue again in the (seemingly unlikely) event of substantial continuing shipbuilding activity at NESL.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King and Nicholas Ridley and to Sir Robin Butler.

Yours ever,

JOHN MAJOR

Borough of Sunderland

Geoffrey Key
Chief Executive

G.P. Key, LL.B
P.O. Box No. 100,
Town Hall and Civic Centre
Sunderland SR2 7DN
Telephone (091) 567 6161
Telex 537037
Facsimile No. (091) 510 9104

Our Ref: GPK/NH
Your Ref:

Extension: 2002
Date 16th May 1988

Dear Prime Minister,

Shipbuilding on Wearside

I have today sent the attached letter, by facsimile transmission, to the Minister for Industry.

Yours sincerely,

G. P. Key

Dictated by G P Key
- signed in his absence

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

Borough of Sunderland

Geoffrey Key
Chief Executive

G.P. Key, LL.B
P.O. Box No. 100,
Town Hall and Civic Centre
Sunderland SR2 7DN
Telephone (091) 567 6161
Telex 537037
Facsimile No. (091) 510 9104

Our Ref: GPK/NH
Your Ref:

Extension: 2002
Date 16th May 1988

Dear Minister,

Shipbuilding on Wearside

Further to my letter of 3rd May to the Prime Minister, copied to you, I am sure you will understand that my Council's anxiety for the future of Sunderland's shipyards is growing as resolution of the "Danish dispute" appears to be no nearer.

Irrespective of the outcome of the specific matters involved, the forthcoming Parliamentary debate provides an opportunity which we urge you to take to defend publicly the reputation of the Borough's workforce, so damaged by the Danish allegations.

Mrs Thatcher herself commended the quality of work on the "Stena" series when visiting Sunderland. Unless you have evidence to the contrary in relation to the Danish Ferries, it would be both timely and greatly supportive to reinforce the Prime Minister's comments.

Could I also ask that before any irrevocable decisions are taken or announcements made, this Council is given the opportunity, together with representatives of the local shipyard workforce, to present to you the case for and the means whereby an appropriate volume of merchant shipbuilding capacity could and should be retained on Wearside.

You did, I believe, offer further discussions on the crisis during your recent visit to Sunderland. I think we have some constructive proposals meriting your consideration. The Council is motivated by a genuine belief that the nation's interests are best served by the continuation of shipbuilding on Wearside. It

Kenneth Clarke MP
Minister for Trade and Industry
Victoria Street
London SW1

obviously also fears the consequences of job losses on the scale implied by closure.

I would be grateful if you could let me know when we may meet you.

Yours sincerely,

G. P. Key

Dictated by G P Key
and signed in his absence

c.c. The Prime Minister
Secretary of State for Trade and Industry

cc Regional Policy : June Letter, PT 13

CEE 6

MRS GAISMAN

MEETINGS IN JUNE

Could you please put in hand arrangements for two meetings in early June.

First, a reconvened meeting on merchant shipping. The cast list is as for the earlier meeting (including Mr Hurd). If possible I should like this in the week beginning 6 June.

Second, a stocktaking meeting on inner cities. Those attending should be Messrs Clarke, Ridley, Hurd, Channon. Baker, Fowler, Major and Lord Young. You might aim for the week beginning 13 June.

In both cases please add Robin Butler (if he wants to come) and Richard Wilson.

Paul Gray

13 May 1988

MJ2CJJ

SECRET 9

SCOTTISH OFFICE
WHITEHALL. LONDON SW1A 2AU

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

9 May 1988

Dear John,

BRITISH SHIPBUILDERS

You sent me a copy of your letter of 4 May to Kenneth Clarke.

I have considered your proposal that I fund the costs this year of any remedial measures in Scotland arising from our decisions on British Shipbuilders. To the extent that additional demands will fall on the SDA and local bodies in receipt of funding through my programmes, there may be remedial costs falling on my programmes which I am prepared to bear without seeking additional provision. So far as Kenneth's proposal for an enterprise company is concerned, this is a body which I consider should be established, funded and operated on a Great Britain basis. When enterprise activities have been promoted through other nationalised industries - steel, coal, rail - the funding responsibility has always, I believe, fallen to the Department dealing with the respective industry.

I see no reason to take a different approach on this occasion. In my opinion, all the funds should be provided as a call on the Reserve, as part of the closure costs of the Corporation which will be the channel through which the funds are paid to the company. I do not dispute that the remedial costs are likely to be relatively modest, but this is an argument which cuts both ways. It does of course assume that the company is funded on an annual basis, rather than established with an adequate endowment. That is perhaps an assumption which bears further examination, and would of course change the level of costs which might fall on Kenneth or me under your proposals.

Copies of this letter go to the recipients of yours.

Yours ever,

MALCOLM RIFKIND

PMMAYB

SECRET

18

PRIME MINISTER

SHIPBUILDING: MEETING OF E(A) 10 MAY

You saw some of the papers over the weekend and concentrated on the Cabinet Office brief. We have also received today Mr. King's paper on Harland and Wolff.

The various papers below are:

Flag A - Cabinet Office brief. I suggest you use this to steer the discussion.

Flag B - Mr. Clarke's paper, advocating an early announcement ending intervention support for public sector yards in Great Britain and at Harland and Wolff.

Flag C - Mr. King's paper, just received, in which as anticipated, he argues that he must carefully examine the Tikko proposition when it is received, which "makes July the likely time for the real decision". But he does not object to an early statement on BS as long as it does not pre-empt decisions on Northern Ireland.

Flag D - correspondence between the Chief Secretary, Mr. Clarke and Mr. Rifkind on the financing of a package for Sunderland and Govan. Positions are moving closely.

Flag E - George Guise's note strongly supporting an early announcement terminating the Government's subsidies at all State-owned yards.

Patricia A. Parker.

PAUL GRAY Duty clerk.

9 May 1988

SECRET

dti

the department for Enterprise

17

CCBS
cc b-up.

S1518 SECRET

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 6 May 1988

Dear Chief Secretary,

BRITISH SHIPBUILDERS

Thank you for your letter of 4 May. with PG.

I welcome your acceptance that the costs of closure of British Shipbuilders, including the costs of disposal of Govan and other disposal and closure costs, should be met by the Reserve.

As I said when we met, in view of pressures on the Reserve this year, I am prepared to take on the costs in 1988-89 of advance factory provision in the context of decisions on closure. Given the reduced scale of advance factory building agreed by colleagues, and the time it will take to get a £7½ million programme under way, I would not expect to be able to spend more than £2-3 million in 1988-89. On the understanding that these costs will be carried through the proposed BS Enterprise Company, the later years' costs will need to be considered as part of BS's overall finances in the Investment and Financing Review.

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dti

the department for Enterprise

Your letter however proposes that I should also pick up the current year costs of the enterprise package in England. This was not part of my proposal. These costs are intimately associated with the closure decision itself, and bear little relation to my Department's main programmes. I should therefore like to go back to the position I thought we had agreed, that the Exchequer and my Department should share the indirect costs in England in 1988-89, with DTI accepting the factory costs and the Reserve the rest.

I am not of course able to speak for Malcolm Rifkind in respect of Scottish closure costs.

I am sending copies of this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King and Nicholas Ridley, and to Sir Robin Butler.

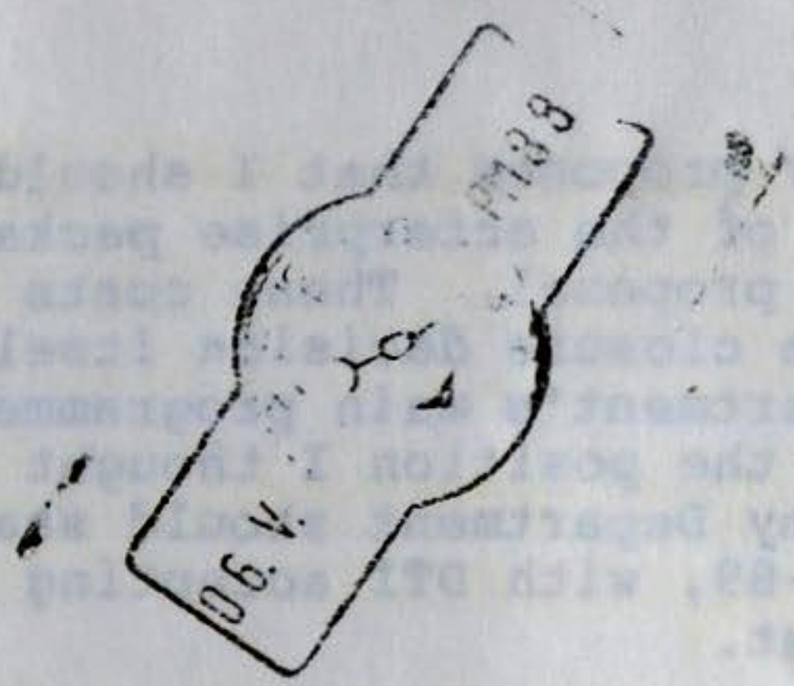
Yours sincerely,

Peter Smith

PP KENNETH CLARKE

(Approved by the Chancellor and signed in his absence)

MY1ACM



M.R.

16A

PA

SECRET

PRIME MINISTER

SHIPBUILDING: MEETING OF E(A): 10 MAY

You will recall Mr Clarke wanted to make another partial statement a week ago. You resisted this and called for all the outstanding issues to be brought to E(A).

This requires papers both from Mr Clarke and, on Harland and Wolff, from Mr King. Irritatingly, Mr King said this afternoon he could not circulate his paper before the weekend. I have made clear to his office that you will be unhappy about this; hopefully, we will have it after the weekend so that you are able to look at it on Monday night.

Meantime, the papers we have are:

Flag A - Cabinet Office briefing;

Flag B - Mr Clarke's paper, in which he advocates an early announcement ending intervention support for public sector yards in Great Britain and at Harland and Wolff;

Flag C - Correspondence between the Chief Secretary and Mr Clarke, indicating they are getting closer to an agreement on the financing of a package for Sunderland;

Flag D - A note by George Guise strongly supporting making an early announcement terminating Government subsidies at all State-owned yards.

It will be difficult to reach agreement at the meeting. As far as British Shipbuilders is concerned, Mr Rifkind is still

likely to have worries about Mr Clarke's approach. And Mr King will resist closure of Harland and Wolff arguing, as a minimum, that the Tikkoo proposal must be carefully looked at. Paragraphs 14-15 of the Cabinet Office note set out a number of options for handling these differences of view.

PAUL GRAY
6 May 1988

DS2AHC

SECRET 16

E

PRIME MINISTER

6 May 1988

SHIPBUILDING

The economics are ineluctable: on commercial grounds there is no case for the major state-owned yards, Govan, Sunderland or Harland's. Even if the market improves, our yards will remain at the top of the world cost curve; a standard size bulk carrier costs approximately double to build in Britain compared with South Korea and its yards are currently making losses! There is no argument for continued intervention funds on the prognosis that market recovery is imminent.

Further procrastination in announcing the ending of Government subsidy on future orders in state yards will compound our problem, not reduce or resolve it. The leak in Norway last month bounced us into a half-baked announcement about Govan which raised more questions than it answered. Continued uncertainty encourages crackpot proposals, from Cuba and elsewhere, and strengthens the bandwagon to 'save the shipyards'. As more external interest is shown, with ill-thought out proposals on the back of public money, the more will our opponents argue that Government is turning away sound business.

Tom King wants to wait for Harland and Wolff to make detailed costings of the Ravi Tikkoo ship. If the Deloitte report, which castigates Harland's management from top to bottom is even half correct, these costings will not be worth the paper they cover. It is doubtful whether Harlands could build a galvanised bath tub within a hundred per cent of their estimate!

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It is important that Mr King should stick to what he has publicly declared. Properly handled, however, the inclusion of Harlands in a general statement about ending IF support for the state yards, could expedite Tikkoo's proposals if there is any substance to them and if he has any financial backing.

Recommendations

1. An early announcement should be made terminating Government subsidies on future orders for state-owned yards.

2. This policy should include Harlands, explicitly if possibly.

3. Any sale of Govan to Kaeverner should be on the basis of a single dowry. Whether this is presented as the present value of a sequence of notional future intervention funds or a direct grant, the total amount should not exceed closure costs currently estimated at £100m.*

4. If, because of the Commission rather than the purchasers's preference, a dowry-based solution cannot be found and continued IF is the only method of privatising, then Mr CLarke should go ahead provided there is a demonstrable financial benefit compared with closure.

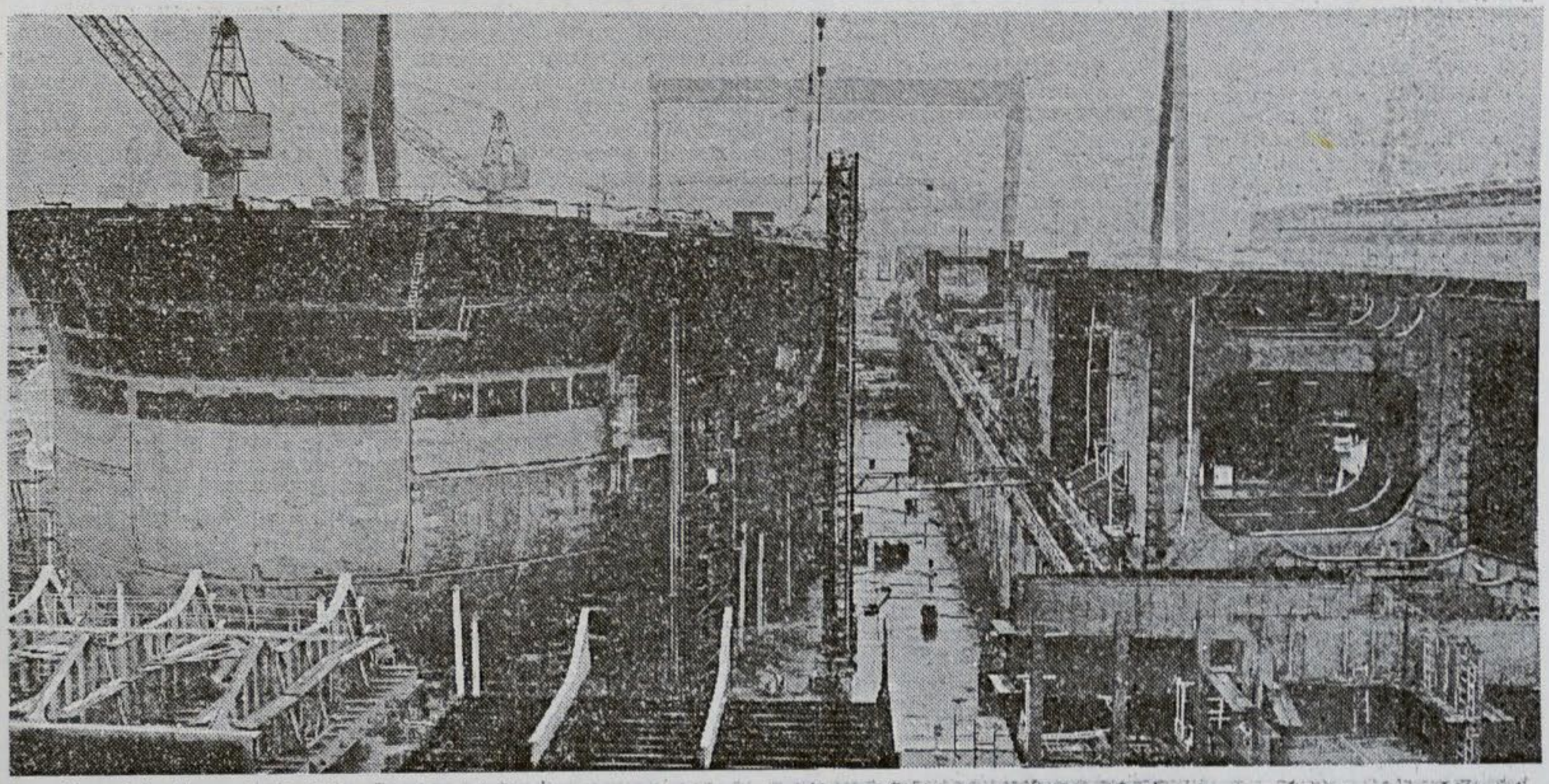
* This compares with £120m at NESL and a characteristically badly documented figure of up to £300m at Harland!

5. Provided that the total costs of any disposal are lower than closure, the DTI or the Northern Ireland budget should not suffer simply because the money goes in one hit rather than spread over time. If the <u>total</u> cost to the taxpayer has been reduced the individual departments should not be penalised.

GEORGE GUISE

Financial Times
9 May 1988

Shipbuilding: now most of the companies are in the red



The Hyundai shipyards at Ulsan

No plans to cut capacity

KOREA'S TROUBLED shipbuilding industry is set for another stormy year with increased labour costs, diminished order books and a more expensive currency to contend with.

However, officials still talk confidently of an upturn by the end of the decade. Although order books are still bulging with backlogs, shipbuilders reported a slump in the first quarter of this year, with only 50 per cent of the orders obtained for the corresponding period last year.

Ships ordered a couple of years ago at lower prices will not help balance the books and prices have already risen this year.

A Korean Shipbuilding Association official said in a recent interview that a very large crude carrier which cost $50m at the end of 1987 is now priced at $61.5m. "And it's quite likely that will rise still further."

Although the workforce has been cut – to 52,000 at the end of 1987 from 73,000 in 1985 – it is a lot more expensive.

The industry was hit by crippling strikes in the autumn and again last month. A 21-day strike at Daewoo Shipbuilding and Heavy Machinery closed the shipyard for 11 days and ended in a 19 per cent rise in basic pay for its workers. Trouble is also brewing at Samsung and Hyundai.

Although most Korean shipbuilders are still deeply in the red (Daewoo lost Won 69.4bn last year, up from Won 44.6bn in 1986), 1987 was a relatively good year. Orders rose 27 per cent to 3.4m gross tonnes while the backlog rose 34 per cent to 5.8m gross tonnes. However most of the profit was eaten up in higher material costs.

The world fleet is about 20 years old and will need soon to be replaced. The question is: can the Korean industry hang on until then?

For the first time since the market began its nosedive 12 years ago, the European Community and Japan are moving towards an agreement to reduce capacity. Once this has been achieved, pressure will be put on Korea and Finland to do the same, according to a Seoul-based shipping analyst.

And on a recent visit to Seoul, Mr Pekka Laine, president of the Finnish shipbuilding giant Wartsila, estimated worldwide shipping tonnage at present at 12m tonnes. Yet worldwide capacity is between 12m and 17m tonnes.

"There will never be a demand for more than 15m tonnes, therefore there is undoubtedly excess capacity," he said.

At present, there is no indication that Korea intends to reduce its capacity. Last month the Government reprieved the ailing Korea Shipbuilding and Engineering Corporation by approving a 20-year moratorium on capital repayments and interest.

The KSA believes that three factors give the EC and Japan an edge over Korea. First, higher labour costs and the dearer won make their prices less competitive. Second, unlike the latter countries, they receive no state subsidy. Third, their financing is more expensive than that of Japan.

In Japan, interest rates are as low as 5 per cent, while in Korea shipbuilders are fortunate to secure a rate of 8 per cent and they have to pay it back within five years. South Korea also relies heavily on Japan for parts. About 80 per cent of imported parts come from Japan and the rising yen makes them very expensive for Korean shipbuilders.

As far as shipbuilders are concerned, the good thing about ships is that they are made of steel and steel rusts. The present world fleet is about 20 years old: soon it will need to be replaced. The question is whether the Korean industry, which commands a 19 per cent share of the world market, can hang on until then.

The KSA is convinced it can. "Our research shows that the market will recover and we will get more orders," the official says. "In two or three years, our prospects will improve."

Liz McGregor

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P 03104

PRIME MINISTER

SHIPBUILDING

E(A)(88)26

DECISIONS

The purpose of this meeting is to review the Government's policy on British Shipbuilders (BS) and Harland and Wolff (H&W). This is the first time in the present round of discussions that the general question has come formally before E(A). Recent Ministerial meetings to discuss it have been informal.

2. The two most important and difficult questions are:

i. Should the Government announce the end of Intervention Fund (IF) support for public sector yards in Great Britain? This will be seen as tantamount to the closure of BS. It is the course proposed by Mr Clarke, who will be supported by the Chancellor. It will probably be opposed by Mr Rifkind.

ii. Should any such announcement also cover H&W? Mr King's paper is not yet round but he may argue that no decision can be announced about H&W until the Tikkoo order has been, and been seen to be, properly assessed. If this is accepted, the choice will be between either delaying the BS announcement until H&W can be included or making an early announcement limited to BS, leaving H&W until later.

BACKGROUND

3. At the last informal Ministerial meeting on 31 March it was agreed that:

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a. on Govan, negotiations with Kvaerner should continue with the objective of ending Intervention Fund (IF) support for the yard, through payment of an initial dowry of up to £75m. Continuing IF support was not however ruled out: the meeting agreed that it could be offered as a last resort if needed to reach agreement with Kvaerner.

b. on NESL at Sunderland, the need to close the yard was recognised. The content of the package of remedial measures for the Sunderland area was agreed. After a short meeting on 18 April, Mr Clarke told Parliament that NESL's contract with Mr Johanssen was in serious difficulties. He also mentioned that negotiations were in progress to sell Govan and Appledore.

4. Mr Clarke's paper now argues that an early announcement is needed on all BS yards, to deflect a growing campaign for extra subsidies to prevent the closure of Sunderland and other yards.

ISSUES

Recent developments on BS yards

5. On Govan, Mr Clarke reports that there may be difficulty over the proposed "dowry" with the European Commission, who may insist that there should be a clawback of any excess grant if the levels of support allowed under the Sixth Directive are reduced. Mr Clarke will discuss this with Commissioner Sutherland shortly. It will be disappointing if we have to revert to the IF because of the Commission, not least because providing IF money for Govan will greatly complicate the task of dealing with H&W. You may wish to ask Mr Clarke for his assessment of the prospects of striking a deal with Kvaerners without IF money which will be acceptable to the Commission. We understand informally that DTI are reasonably confident that they can.

6. On Sunderland, you may wish to ask Mr Clarke what are the prospects for an immediate collapse of the Danish ferries contract. Mr Clarke mentions that there are remote possibilities of work from

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Cuba and Japan for NESL. You may wish to ask him whether these possibilities are likely to become of sufficient substance to make it difficult to close Sunderland.

7. Mr Clarke and Mr Rifkind may also wish to report briefly on the prospects for privatising BS's other yards: Clark Kincaid and Fergusons on the Clyde, Marine Design Consultants in Aberdeen and Appledore in Devon. Intervention Fund money for any of these (e.g. Appledore) could again be quoted as a precedent by H&W.

Ending Intervention Fund support for public sector yards

8. Mr Clarke has argued for some time, with the Chancellor's support, that the only way to prevent the nonsense of the Exchequer funding 28 per cent of the cost of ships through Intervention support, plus usually substantial additional losses on contracts at public sector shipyards, is to withdraw Intervention Funding from publicly owned yards. He now proposes to make an announcement that it will cease.

9. Mr Rifkind will be particularly concerned that Mr Clarke's announcement will probably lead to the closure of Govan if negotiations with Kvaerner fail and will also signal the closure of the other Scottish yards. His preferred alternative may be to limit the yards to support within EC limits, with the result that if they failed to get orders on that basis - as they probably would - they would gradually run out of work. Mr Clarke notes in his paper that this policy, which has been followed up to now, has led to ever greater Exchequer subsidies: for example on the Chinese ships for Govan agreed last spring, and on the St Helena ferry order. The current proposal for the Ravi Tikkoo ship, the Ultimate Dream, and the possible Cuban order for NESL, would be highly likely to follow in this tradition if they were pursued. If Mr Rifkind stresses the special political difficulties of Scotland, you could point out that BS employs fewer workers at Govan (1,800) than at Sunderland (3,000).

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Financial Implications

10. Mr Clarke's paper says that he has reached broad agreement with Treasury colleagues on how the costs of the £21m package of remedial measures for Sunderland are to be met. Our understanding from the Treasury is that there are in fact detailed points still to be sorted out but that Mr Major and Mr Clarke hope to reach agreement before the meeting on how the costs of closures, dowries and remedial measures should be financed. Mr Major has proposed that the Contingency Reserve will meet the costs of closures and dowries (including Govan) if Mr Clarke finds the cost of remedial measures in England in the current year out of his own provision. At present Mr Clarke is only willing to pay for advance factories in Sunderland (£7.6m) and wishes the Reserve to pay for counselling, retraining, and enterprise activities (£2.7m this year). The remaining gap appears to be small.

see No enclosures at Flag C.

RRC.

11. There may be more difficulty about financing a package for Govan. The current proposal is for a £13m package if the yard closes, to be reduced to £6m if the Kvaerner deal goes through and a third of the workforce are made redundant. It is not clear how far such a package has been agreed with Mr Rifkind, or whether he will be willing to pay anything towards it. You may wish to ask Mr Rifkind and the Chief Secretary to agree urgently on the content and financing of a package, perhaps following the Sunderland precedent, which would involve the Scottish Office paying most or all of the cost.

12. Mr Walker may seek to link his proposal for an extension to the Enterprise Zone at Delyn to the proposed announcement of the EZ in Sunderland. You may wish to suggest that, in the absence of any link with shipbuilding, you see no reason for departing from the usual criteria in assessing the proposal for Delyn which is in any event a separate issue.

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Harland & Wolff

13. Mr Clarke's paper argues that H&W should be treated in broadly the same way as BS. Mr King has acknowledged this linkage in the past. It makes the task of closing BS much harder - both in gaining management co-operation and in terms of the reaction in communities like Sunderland - if no announcement about H&W is made at the same time. Mr King will argue that he has given a public commitment to consider carefully the costings for the Tikkoo ship, the Ultimate Dream. He will also point to the major political difficulties for the Government of closing H&W, since it employs a predominantly Protestant workforce and has many suppliers in Northern Ireland.

Timing and content of an announcement

14. Although Mr Rifkind may dissent, the majority of the Sub-Committee seem likely to accept the principle of an announcement that IF support for public sector yards in Great Britain should cease. The difficult question will be whether such an announcement should also say that IF support will cease at H&W. Mr King will argue that nothing can be said about the future of H&W until the assessment of the Tikkoo order is complete, perhaps in July.

15. The options are:

- to decide on an early announcement on both BS and H&W, against Mr King's opposition;

- to postpone the announcement about BS until the Tikkoo order can be properly assessed. This has the advantage of taking BS and H&W together, but a long delay would risk undermining the policy on BS, for example if there is strong pressure for loss-making orders;

- to make the announcement about BS quickly, and leave H&W until later. This has the advantage of putting the BS position beyond doubt, but involves difference of treatment between them and H&W, and perhaps makes eventual

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closure of H&W less likely. In the last resort, however, the Chancellor will probably accept this.

If the choice is between the second and third alternatives, the balance of argument may depend on how long the announcement would have to be postponed so as to cover H&W. You might sound out opinion on a short postponement, say for a fortnight, with a preliminary assessment of the Tikkoo order completed within that time.

16. Another compromise possibility is an early announcement about BS which opened the way for, but did not announce, similar treatment for H&W. The risk is that it would simply stimulate a campaign in Northern Ireland to ward off closure. But if the idea looked promising you could ask Mr Clarke and Mr King to consider the possibility and report back to you.

Next Steps

17. If an early announcement is agreed, you may want the question to be referred to Cabinet on Thursday and could ask Mr Clarke to circulate a draft for that purpose. If for any reason the Sub-Committee decide against an early statement, the reference to Cabinet would also be postponed.

HANDLING

18. You will wish to ask the Chancellor of the Duchy of Lancaster to introduce his Memorandum. The Chancellor of the Exchequer and the Secretary of State for Scotland will wish to comment next. The Chief Secretary, Treasury may wish to comment on his discussions about the financing of closures, dowries and remedial measures. At a later stage, you will wish to ask the Secretary of State for Northern Ireland to introduce his Memorandum on Harland & Wolff.

RTJW

R T J WILSON
Cabinet Office
6 May 1988

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PRIME MINISTER

Bob Clay's Question runs the risk of taking you into the kind of territory which you clearly and openly avoided in the last Parliament.

The Question does not deal in a clear-cut way with a meeting which would quite obviously be an entirely private one. Nonetheless, I think it merits a "Mark Carlisle" response because, apart from anything else, you may not be aware of having met Councillor Tim Brown, and touched on shipbuilding, on one of your several visits to the North East. As you will see, Mr. Brown has in fact recently written to you about shipping, and mentioned that you spoke briefly to him at the National Local Government Conference.

I think this is an appropriate opportunity to put down a standard blocking reply which you will be able to refer back to when dealing with similar Questions in the future.

MEA

5 May, 1988.

JD77

CONFIDENTIAL

PM/88/018

THE PRIME MINISTER

St Helena Ship: Hall Russell Ltd

1. My minute of 30 March explained our problems over the contract with Hall Russell of Aberdeen for the new St Helena ship.

2. Contrary to our earlier expectations, Hall Russell have resolved their performance guarantee problems with their bankers. They have achieved this by securing a counter-guarantee from another bank. The threat of the termination of their contract and of the imminent closure of the company has thus receded.

3. This vindicates the firm line we have taken with the company on arranging proper performance guarantees. Despite this, however, Hall Russell's financial position remains precarious. Further problems could well arise before the St Helena ship is completed. Meanwhile, the Scottish Development Agency is looking at ways of strengthening the company.

4. I am copying this minute to Malcolm Rifkind and Lord Young.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
5 May 1988

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SHIPBUILDING POLICY PAPER

006/4206

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cc BUp

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

Dear Ken,

4th May 1988

BRITISH SHIPBUILDERS

file with PC

We spoke last night about your letter to Nigel Lawson of 18 April and I promised to consider afresh the extent to which I could entertain a claim on the Reserve for the various costs arising on British Shipbuilders and the extent to which a contribution should be found from the DTI budget.

I am aware that the settlement on the BS EFL which we reached in the last IFR was provisional, and of course I recognise that the costs of implementing your proposals for BS, which I fully support, will be substantial. I accept that you will need extra provision. But the fact is that you have not previously made a bid for any extra provision and I have not agreed to one.

Whilst I am quite prepared to accept the bulk of the costs of rationalising your policies as a charge to the Reserve, I cannot accept your proposition that all closure and disposal costs, as well as the remedial measures, should automatically be met in full from the Reserve.

You did not attempt to quantify the 1988-89 costs in your letter. But we know that they could easily be well in excess of £100 million if Govan were sold with a dowry of £75 million and all other BS facilities were closed or sold this year with dowries equal to the restimated closure costs.

This comes at a time when the Reserve for this year is already under pressure. Before April was out, claims on the Reserve of over £2½ billion had been made public. Severe restraint will be necessary for the remainder of the year if we are to convince our supporters and critics of our determination to maintain control over public spending.

It was against this background that I asked my officials to explore with yours the scope for offsetting savings to meet in part the increased provision for the BS EFL which will be necessary. I had in mind a package involving equal contributions from DTI, Scottish Office and the Reserve to the agreed costs of disposal of Govan, and equal contributions from DTI and the Reserve to the agreed £7.6 million figure for advance factory building in Sunderland and the previously tabled costs of counselling, retraining and enterprise promotion in England. I am sorry that you were surprised to hear this. It seems to me that such an examination is always necessary, and that it is right similarly to look to Malcolm Rifkind for a contribution.

I am, however, mindful of the urgent need to reach agreement on the distribution of these costs and the problems which the need to reorder priorities to the extent necessary to find a significant contribution might cause you and Malcolm. I have therefore looked hard to see what might be the minimum I could accept. On this basis I would be prepared to accept all the agreed costs of disposal of Govan as a claim on the Reserve, together with costs of disposal or closure of other facilities which may be agreed between us, if you were willing to absorb the relatively modest costs in 1988-89 of remedial measures in England. I would need to look to Malcolm Rifkind similarly to fund the costs this year of any remedial measures in Scotland. The cost of any remedial measures in later years would be for discussion in the forthcoming Survey.

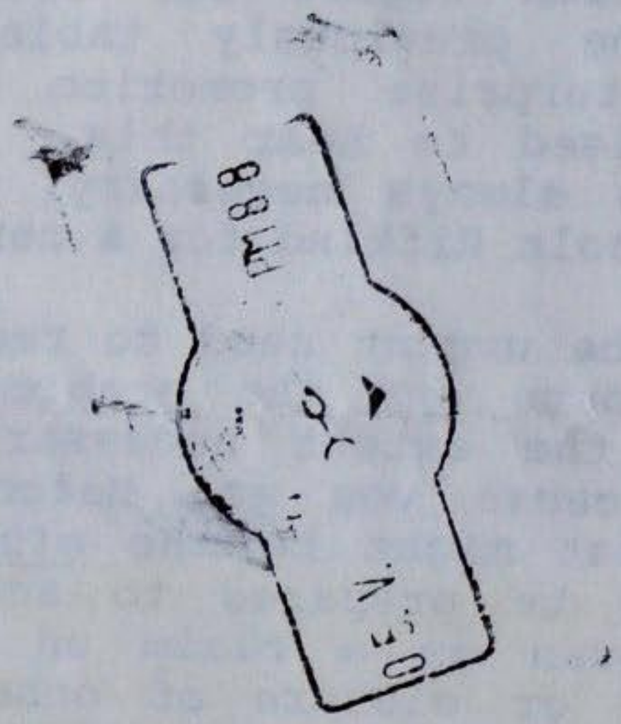
I hope that you will agree that this is a helpful basis for a quick agreement.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King and Nicholas Ridley, and to Sir Robin Butler.

Yours Ever,
John

JOHN MAJOR

NAT IND: Shipbuilding
pt 14



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 May 1988

I enclose a copy of a letter which the Prime Minister has received from Mr. Geoffrey Key, Chief Executive of Sunderland Council.

I should be grateful for advice and a draft reply for the Prime Minister's signature, to reach this office by Wednesday 18 May.

Paul Gray

Peter Smith, Esq.,
Office of the Chancellor of the Duchy of
Lancaster

R4
pps

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

GPK/NH

3rd May 1988

Dear Prime Minister,

It is almost exactly two years since my Council wrote to you expressing grave concern for the future if Sunderland's Shipyards were to close.

See flap Pg. 10

You were kind enough to meet a Sunderland delegation following my letter. We were grateful both for your personal concern and attentiveness and for the positive action which ensued from Government. Sadly, however, none of the shipbuilding jobs then at risk could be saved.

Nevertheless, we hope you will feel that in the intervening period the relevant additional resources that have been directed to the Borough Council have been wisely and responsibly deployed to reinforce the regeneration of Wearside's economy and have given grounds for real optimism about the future. We had begun to change the face of Sunderland.

Regrettably, all that has been, and is being, achieved will be tarnished if the shipyards are closed. Unemployment in the town will return to 1984 levels. The net gains from employment growth predicted for the early 1990's in many sectors of the local economy, particularly the car industry, will be dissipated.

It is against this background that we ask you to consider the following proposals:

- that within the constraints imposed by the law of contract, an independent investigation commissioned by the Department of Trade and Industry be undertaken to establish the veracity of the allegations of poor workmanship emanating from Denmark;

- that subsequently the accusations/implications of bad workmanship be refuted by your Ministers. We are concerned that that their currency has undermined the promotion of Sunderland and indeed the whole of the North East as destinations for inward investment;

- that the appropriate level of financial and marketing support should continue to be provided to ensure that Wearside will retain the shipbuilding infrastructure and skills that it will need to compete for new work during the forthcoming upturn in markets, widely forecast for 1990/91.

I am sure you will understand that the Yards still provide a cornerstone of our economy. That economy could also be greatly assisted by a much sharper forcus on the opportunities available for private investors. Perhaps we could be singled out for a special "Action for Cities" presentation.

A further meeting with you in order to discuss our proposals and to concentrate upon further initiatives would be most welcome and helpful.

Yours sincerely,

G P Key

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

CCPC

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

MO 26/3/1L

29 April 1988

CDP 31/5

Dear Charles

hope etc pt 11

Last September, the Secretary of State for Defence provided the Prime Minister with an analysis of the ship refitting performance of the Royal Dockyards. In your letter of 28th September, you asked for the Prime Minister to be provided with a further report in a year's time.

Since the first review, officials here have been refining the ad hoc system previously used in order to provide a more consistent data base and more accurate performance indicators. As part of this refinement, data will in future be collected on a basis aligned with quarters of the financial year, in order that it ties in with other Departmental reporting systems.

The net effect of this is that the reporting year will in future end in September. We will, therefore, aim to produce the further report towards the end of October.

Yours

Stan McCarthy

(S McCARTHY)
Private Secretary

C D Powell Esq
10 Downing Street

NAT IND: Shipbuilding pt/2

SECRET

E13 CSI 13.

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 April 1988

Dear Peter,

BRITISH SHIPBUILDERS

The Prime Minister has seen the Chancellor of the Duchy's minute of 28 April and the attached draft statement.

The Prime Minister does not see any need to make a statement about the position at North-East Shipbuilders until the position on the Danish ferry contract is clearer. She also thinks it essential that the position on financing of the package is resolved between your Department and the Treasury before a statement is made.

The Prime Minister wishes the position on all the oustanding shipbuilding issues, including the other BS yards, Harland and Wolff and the future of intervention support for private sector yards to be discussed at the meeting of E(A) scheduled for 10 May. She would be grateful if the Chancellor of the Duchy, in conjunction with other colleagues, could arrange for papers to be prepared for this purpose.

BF

I should be grateful if you could ensure that circulation of this letter is restricted to those who have an operational need to see it. I am sending copies of this letter to Alex Allan (H.M. Treasury), David Watkins (Northern Ireland Office), Roger Bright (Department of the Environment), David Crawley (Scottish Office) and Trevor Woolley (Cabinet Office), and I should be grateful if they could treat this document in the same way.

Yours,

Paul

(PAUL GRAY)

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster's Office.

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mjd 2/89Jn

SECRET

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NBPM & Mrs Shepe.
RRCG
29/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

with PG?

I have seen Kenneth Clarke's minute to you of 28 April, and the draft statement he proposes to make next Tuesday.

I agree with Kenneth that we should make public as soon as possible our intention to run-down the Sunderland yards. There is no prospect of maintaining them without continuing - and excessively costly - Government support. Before a further announcement is made, however, I think we should have an early discussion, as agreed at your meeting on 18 April, to agree our policy on the future of British Shipbuilders as a whole. The announcement could then make clear what that policy is. Otherwise we may appear simply to be reacting in a piecemeal fashion to events as they occur.

I continue to endorse the proposals made in Kenneth Clarke's minute to you of 18 April. Our policy in relation to the Corporation must be to encourage private sector purchasers for as many of the facilities as possible; but to agree that there should be no more support for new orders in any yards remaining in BS hands. We have to grasp the nettle sooner or later and make this basic principle of our policy known publicly.

Some specific points will need to be sorted out before an announcement is made.

We need to clarify what should be said about the timing of the withdrawal of support, for those yards where private sector interest has been expressed.

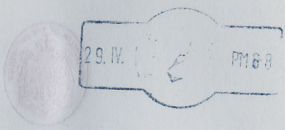
John Major is writing separately about financing to Kenneth Clarke.

A statement on BS obviously raises questions about the position at Harlands. We may need to reserve our position on that until costings for the cruise ship are available. But I certainly see no reason for delaying an announcement on BS until all uncertainties at Harlands (and other yards) are resolved.

I am copying this minute to Kenneth Clarke, David Young, Malcolm Rifkind, Tom King, Nicholas Ridley and to Sir Robin Butler.

pp. **[N.L.]**
29 April 1988

[Approved by the Chancellor and signed in his absence]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PM

M.R.

COBG

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PRIME MINISTER

BRITISH SHIPBUILDERS

The attached minute from Mr Clarke, received this evening, proposes a statement on Sunderland on 3 May.

The timing of this proposal is irritating. We have been pressing DTI in recent days to prepare papers on the whole range of shipbuilding issues for a meeting of E(A) on 10 May. They have been saying they need more time. Now suddenly Mr Clarke has reverted to his tactic of wanting to make a further statement about just one part of the overall picture.

An early partial statement would still leave unresolved:

(i) how the package for Sunderland relates to the other BS yards, Harland and Wolff, and intervention support for private sector yards;

(ii) where the money for the Sunderland assistance package comes from - the Treasury and DTI are deadlocked on whether DTI should make a contribution from their existing provision.

Against that there are circumstances in which an urgent statement on Sunderland could not be avoided. But paragraph 5 of the minute does not persuade me we are there yet.

So I recommend that you respond on the lines:

(i) no statement on 3 May;

(ii) full papers on all the outstanding issues for E(A) on 10 May;

SECRET

(iii) meantime, the DTI and Treasury to sort out their argument about the financing of the Sunderland package.

Content? I don't see any need to make a statement until we are clearer about the context, and we have the money position sorted out. Things are much more difficult now on the money front than they were when we discussed matters a short time ago.

PAUL GRAY
28 April 1988

DS2AGL

dti

the department for Enterprise

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CCBG.

10

TO:

PRIME MINISTER

FROM:

KENNETH CLARKE

28 April 1988

BRITISH SHIPBUILDERS

1 At your meeting on 18 April we agreed that I should proceed with a short statement that afternoon informing the House that Kvaerner was seriously interested in acquiring the Govan yard and that there were severe contractual difficulties with the Danish ferry contract at North East Shipbuilders (NESL) at Sunderland. Since then there has been considerable speculation in the Press and elsewhere on the future of the Govan and NESL yards.

Govan

2 In the case of Govan, negotiations are proceeding satisfactorily between BS and Kvaerner. There is some way to go, however, both on the detailed terms and with respect to the European Commission who wish to consider carefully the idea of a dowry rather than continuing Intervention Fund support. But there is no difficulty in our maintaining the position I announced last week.

CDlAAG

dti
the department for Enterprise

SECRET

North East Shipbuilders

3 The situation is entirely different, however, in the case of NESL. The news of the contractual dispute has been widely interpreted as signalling the end of work for the Sunderland yards. The workforce is extremely apprehensive about the future. This makes the task doubly difficult for the BS Chairman, John Lister, and his managers. The local Labour MPs have also been trying to whip up concern. I have had meetings with them and, as might be expected, they have tried to make what capital they could out of the present uncertainty.

4 I also go back to the position we reached in our discussions last Autumn. We then anticipated the eventual rundown of work at NESL. We identified a possible package of alternative measures and agreed that we should aim for an early announcement so as to get the measures up and running as far in advance as possible of work on existing orders running out. I am convinced this is still the right approach. I therefore would like to make a statement on Tuesday 3 May announcing that NESL will not take any more subsidised orders and that we shall be introducing a package of remedial measures forthwith. I attach a draft.

CD1AAG

5 Ideally I would have liked to have made the statement when the position on the Danish ferry contract was clear. This will, however, take some time. The existing order was for 24 ferries. The keels have so far been laid for 12. I have already told the House that failure of the Danish contractor, Mr Johansen, to pay the necessary instalments has led BS to cancel the build contract for 5 of the ferries. BS will finish these and sell them separately. There is serious doubt that Johansen is able to finance the full programme. He is technically in default on the loan agreements. I understand from ECGD, who are guaranteeing the loans, that this is not unusual for a major contract of this kind although the latest negotiations between BS and his lawyers suggest he is indeed in genuine difficulty. In any event, I go back to the point that the sooner a statement is made the better. We are at present in a position to guarantee work for the immediate future but the longer the delay the more doubtful this becomes and the less time there will be to get our agreed package of measures in place.

Alternative Measures

6 The measures I would propose to announce for Sunderland are precisely those we agreed at your meeting on 31 March. There remains an outstanding issue as to how these will be financed. I have made clear on every occasion that we have

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the department for Enterprise

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discussed the measures that these merited new expenditure as part of the price for withdrawing continued subsidies. I hope we can now proceed on this basis.

Conclusion

7 My strong preference would still have been to make the wider announcement I put to you and colleagues on 18 April, that we were ending Intervention Fund support for public sector yards in Great Britain. This would have marked a clear end to the huge losses which BS have incurred on contracts. It would have strengthened our hand in negotiations with the European Commission and would have helped to achieve our agreed aim of selling Govan to Kvaerner on a dowry basis. I accept that colleagues wish to discuss the wider policy implications further.

8 I cannot remain silent and inactive on the obvious crisis in Sunderland. I think we must now proceed with an announcement on Sunderland alone. I invite you and colleagues to agree that I should make a statement in the terms of the attached draft on 3 May.

9 I am copying this minute to Nigel Lawson, Tom King, Nicholas Ridley and Malcolm Rifkind and to Sir Robin Butler.

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NORTH EAST SHIPBUILDERS

Mr Speaker, on 18 April, I told the House of the serious situation which has developed in regard to the contract for the Danish Ferry programme at North East Shipbuilders in Sunderland. I also explained that there was no firm prospect of any future orders for the yard, and that, viewed against the background of huge overcapacity in the shipbuilding industry worldwide, the outlook for NESL was bleak. I also undertook to keep the House informed and to end as soon as possible the uncertainty facing NESL and the people of Sunderland.

I very much regret to have to report that the negotiations between British Shipbuilders and their Danish customer are still proving to be very difficult. There has to be considerable doubt as to whether the programme will be completed although for the time being work will continue.

I have to say to the House that the problems confronting British Shipbuilders over the Danish contract at North East Shipbuilders are merely the latest in a long line. Since 1979, we have lost over £300 million of taxpayers' money in support of this yard. There can be no doubt as to this Government's commitment to shipbuilding at Sunderland thus far.

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Turning to the broader picture, I am convinced that any general recovery in merchant shipbulding demand is likely to be short-lived. There is, moreover, more than enough capacity worldwide to absorb any such increased demand. In those circumstances it is impossible to see any long-term future for the yards in Sunderland.

It is not just commercial commonsense which says that North East Shipbuilders has to close. I believe that it is in the long-term interests of the people of Sunderland that the Government should now invest in the future of the town rather than make further unavailing efforts to preserve the past. I am satisfied that the Government can now do more for Sunderland by spending taxpayers' money on encouraging modern jobs and a modern economy rather than by merely postponing the day that we all in our hearts know must ultimately come to shipbuilding in the town.

No one who knows the North East can be in any doubt as to the enormous problems that Sunderland will face as work in the yards finishes over the next few months. But this is not the end of the road for the area or for those who presently work in the yards. The economy of the North East is reviving fast with large new investment from companies like Nissan on the one hand, and a surge in self-employment on the other. We must now accelerate that process of growth

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and change, and I am therefore announcing a £27.5m package of special measures to encourage the local economy and to help generate new jobs.

My Rt Hon Friend the Secretary of State for the Environment intends to establish an Enterprise Zone in Sunderland to promote new job opportunities through attracting new investment and stimulating the expansion of existing businesses. Subject to the approval of the European Commission, he will make an announcement on this shortly. In addition, I propose to ensure that new factories will be built, as soon as possible, on several sites to provide advance factory space for new and expanding businesses in the Sunderland area. We have allocated £7.5m of the new public expenditure in the coming financial year for this programme of factory building in Sunderland.

To manage this activity we shall establish a new Enterprise company under the Chairmanship of John Lister, the Chairman of British Shipbuilders. This will carry out the full range of training, counselling and replacement activities previously undertaken by British Shipbuilders Enterprise Limited. In addition it will place a much stronger emphasis than British Shipbuilders Enterprise Limited was able to do on the promotion of new enterprise and new jobs.

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Mr Speaker, today's announcement means that the Government is facing up to reality and to our responsibilities to help build a more secure future for the area. When Consett was closed, people predicted that the town would never recover. They were wrong. It is never an easy decision to close a site that has such historical and symbolic significance, but I have to say to the House that it is the right one.

CDlAAL

Mr. K. Wilson

Note. As I advised this morning DTI are apparently now contemplating a Sunderland statement on 3 May, to be followed by a meeting on 10 May. Where MR WILSON happens on that I agree we should have a meeting on 10 May. RLCG 28/4

Mr Gray. I too think we should stick to 10 May for shipbuilding in E(A) unless Mr Clarke objects strongly. As of last night, he was undecided. cc Mr Neilson

RJT 26/4.

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Ref No E 0546

Shipbuilding

I had another talk with Mr Coates of DTI about latest developments.

2. He said that on present prospects Sunderland would not become critical before 5 May. That is the date by which Johanssen has to make a payment of £300,000. DTI think he will but if he does not they have in mind a 'low key' written answer on that day with a comprehensive statement about BS in the following week. I wonder if they would be able to wait as long as that once the contract was clearly broken.

3. Negotiations with Kvaerner will not resume until 16/17 May. There are also signs of difficulties with the Commission about the dowry. The disagreement between the Treasury and DTI about funding of the dowry continues. It seems to have caused a good deal of bad feeling.

4. As to Harlands, DTI think that it would be unwise to try to get Mr King in the bag too soon. He will only say that he has not yet been able to examine properly, and be seen to examine properly, the Tikkoo order.

5. Mr Coates' clear preference is to put off the discussion by a couple of weeks. He says that he is not opposed to a meeting on 10 May and accepts that it could be useful for resolving the argument about the funding of the dowry. But he is afraid that a second meeting would be necessary not long afterwards.

6. My instinct is that we should keep to the target of 10 May. This is mainly on the general ground that it is right for Ministers to discuss an uncertain and fast-moving situation

regularly, even though any particular date for a discussion is inevitably arbitrary. The argument for delay in pursuing Mr King has some substance, but there is a contrary argument that the longer expectations at Harlands are allowed to build up the harder it will be to close the yard. The story on Sunderland changes every time we ask, but if the contract might be broken on 5 May and DTI are right in thinking that a full statement could wait till the following week, an E(A) on 10 May and Cabinet on 12 May would fit in well. Finally, the Treeasury would be unhappy about delay beyond 10 May.

7. On the other hand, it is difficult for an outsider to judge how the various negotiations might go and we ought to place some weight on the judgment of the responsible Department. If Mr Clarke presses hard to postpone the meeting it would be hard to resist.

8. My conclusion is that Mr Gray might tell DTI that the Prime Minister would like to discuss shipbuilding on 10 May. We should then see what Mr Clarke has to say but if he is strongly of the view that it would be unwise or a waste of time, we should be prepared to reconsider.

G W MONGER

Economic Secretriat
26 April 1988

CC BLP

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P 03088

PRIME MINISTER

JAMES MACKIE & SONS LTD

E(A)(88)24 and 21

DECISIONS

Mr King is seeking agreement to his revised proposals for rescuing Mackie's. These proposals now avoid the need to take Mackie's formally into public ownership, but retain Government funding of a modernisation programme for the company costing up to £20 million over the next 5 years. If you are satisfied that the issue of public ownership raised at the last meeting has been resolved, the crucial question is whether the political and social effects of the loss of 1000 jobs in West Belfast are sufficiently serious to justify a departure from the Government's normal industrial policies.

2. In discussion you may wish to consider:

i. the revised proposals for ownership of Mackie's;

ii. the financial implications of supporting Mackie's;

iii. the need to strengthen Mackie's management;

iv. the interaction with decisions on Harland and Wolff and Shorts;

v. the political implications of closure; and

vi. the need for an announcement.

Each of these is considered below.

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BACKGROUND

3. When this Sub-Committee considered Mackie's on 29 March (E(A)(88)5th Meeting), it recognised the special difficulties of West Belfast. However, Mr King was told that there were substantial objections of principle to the taking of Mackie's into public ownership, and that some other solution to the company's problems would have to be found. It was suggested that the Bank of England's advice should be sought. It was felt desirable, if possible, to take a final decision on Mackie's at the same time as the futures of Shorts and Harland and Wolff were considered. Subsequently the Bank of England has explored various possibilities with the Treasury and Investors in Industry, but it has concluded that it cannot assist Mackie's at this stage, although the possibility of involvement by Investors in Industry at some time in the future has not been ruled out. Mr King has said that the cost of any support for Mackie's would be found from within the Northern Ireland block vote; he is not asking for new money.

ISSUES

Revised Proposals for Ownership of Mackie's

4. Mr King proposes that the ordinary share capital of Mackie's should be held equally by Northern Bank Ltd (Mackie's bankers, who have an overdraft of £9.5 million outstanding), the trust fund representing the firm's employees (who currently hold all the shares) and the Industrial Development Board (an arm of Mr King's department). Thus two-thirds of Mackie's ordinary shares would continue to be held in the private sector. The IDB would finance the modernisation programme through a combination of subscribing for non-voting preference shares and providing grants and loans. The issue of preference shares allows the IDB to recoup a high proportion of the sale proceeds if it proves possible to transfer Mackie's back fully to the private sector in a few years' time.

5. One main question is whether it is proper for the Government to provide all the extra money Mackie's need (at least for the first tranche, and probably the others) while having only one-third of the voting shares. Mr King says (paragraph 3) that other arrangements will be made to give the Government the degree

of control necessary on accountability grounds. You might ask how effective control will be achieved with only one-third of the voting shares and whether the Financial Secretary Treasury is satisfied that the arrangements made resolve the problems of propriety. You could also check that there are no difficulties from the Companies Act point of view in giving control on important matters to a minority shareholder.

Financial considerations

6. Part of Mr King's justification for supporting Mackie's is the advice he has received from Coopers and Lybrand, Rothschilds and Lazards that there are good prospects for the long-term viability of the company once its production facilities have been modernised. Lazards estimate that Mackie's could be sold for £6-10 million in five years' time, once the investment programme financed by the IDB has been completed. The reasons for Mr King's confidence are that:

- Mackie's has a good reputation and prospects for the textile machinery market appear favourable;

- Mackie's has a substantial order book and has already identified specific purchasers for 56 per cent of its projected sales over the next five years; and

- Mackie's sales forecasts are consistent with its past record and do not assume significant growth.

7. It was agreed on 29 March that Mr King should take action to prevent the collapse of Mackie's whilst its future was considered further. In the light of this, Mr King's department persuaded the Northern Bank to postpone the appointment of a receiver for a month, until the end of April. This meeting of the Sub-Committee was therefore arranged so that a final decision could be reached. Another extension of the overdraft might be negotiable, to facilitate further consideration within Government of a rescue, but this could lead the Courts to judge that the Government had become progressively liable for the company's debts (the technical

term for this is "Beagling", invented after the failure of the Beagle aircraft company following Government intervention). Clearly Mr King will wish to avoid any risk of being "Beagled" in this case. Mr King is expected to explain at the meeting that the IDB would become responsible for Mackie's liabilities if his proposals were implemented. Early repayment of the Northern Bank's overdraft would not however form part of the deal.

8. Mr King's paper refers at the end of paragraph 5 to the position under EC rules. The reference is not entirely clear but the implication is that EC clearance is not required. We understand that DTI do not yet accept this, although discussions between the two Departments are continuing. You might ask the Chancellor of the Duchy of Lancaster for his view of the EC position.

Management

9. Mr King identifies the need for a new Chief Executive for Mackie's, and for a strengthening of its financial management. He proposes to appoint a Coopers and Lybrand partner as Chief Executive as an interim measure, pending a permanent appointment. On the basis of a fairly rapid appraisal of the company, Investors in Industry have suggested that a more comprehensive strengthening of management may be appropriate. The Financial Secretary, Treasury may seek to make the rescue conditional on certain management changes. Mr King and his officials have a more extensive knowledge of the management's capabilities. You may wish to ask about Mr King's intentions towards management, and ask whether the Financial Secretary is content with them.

Harland & Wolff and Shorts

10. On 19 March the desirability of taking decisions on the future of Harland & Wolff, Shorts and Mackie's at the same time was recognised. However, at the subsequent meeting of Ministers on shipbuilding, Mr King explained his political need to be seen to be taking time in considering Mr Tikkoo's proposal to build a large cruise ship at Harland's. We understand Mr King will now seek to defer collective discussion of Shorts for a further three

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months, whilst he awaits proposals for Short's corporate strategy from its new chairman, and that the Chancellor has been advised to accept this (Mr King is expected to minute you in the next few days with a request for handling Shorts in this way).

11. Given the risk of incurring 'Beagle' obligations, it unfortunately seems necessary to take a decision on Mackie's in isolation. Mackie's, with 1000 employees, is considerably smaller than Harland's (3,500) and Shorts (7,000). It is possible that E(A) may soon have to consider the closure of Harland's, given its implications for the future of British Shipbuilders. In this case, you may decide that this strengthens the case for supporting Mackie's on the grounds that its closure would add significantly to the difficulties in announcing no further support for Harland's in a few months' time. On the other hand, there is also the risk that the Government may decide to keep Mackie's open, in the expectation that Harland & Wolff will close; and that the closure of Harlands may then not take place.

Political Implications

12. Mr King argues that there would be extremely adverse and serious political and social consequences in allowing Mackie's to close. He will point to:

- the particular need after the troubles of last month to demonstrate the Government's commitment to the viability of the Northern Ireland economy;

- the nature of the problems faced in Northern Ireland being of such a different nature from those in Great Britain that no precedent applicable elsewhere would be set if Mackie's were supported;

- given the security difficulties, the impossibility in practice of attracting new jobs to Catholic West Belfast. A quarter of Mackie's employees are Catholic, and the proportion has been growing in recent years. The unemployment rate around Mackie's is already up to 40 per

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cent, and the main factory is situated in an area of acute social needs. The closure of Mackie's would be seen as a particular blow to the Catholic community. What about the Protestant Community?

Announcement

13. If you are content to approve Mr King's proposals, subject to any conditions suggested by the Financial Secretary or other Ministers, then he will wish to make an announcement in the next few days. (Ideally the announcement would have been held up until an announcement was made on Harland & Wolff, but presumably it has to be made as soon as the arrangements are put in place). You might ask whether there are any formal requirements as to telling Parliament about the new arrangements (for example, does PAC have to specially be notified?) No doubt Mr King has a Written Answer in mind, and you might ask him to consult the Lord President of the Council about the timing, and to clear the text with interested colleagues. The EC position will have to be clarified before the announcement is made.

HANDLING

14. You will wish to ask the Secretary of State for Northern Ireland to introduce his paper. The Financial Secretary, Treasury will wish to respond. Other Ministers may wish to comment on the political implications of the decision.

R T J WILSON
Cabinet Office
22 April 1988

22. IV.

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CC Blyth

MR GRAY

22 April 1988

MACKIE'S

I am not sending the Prime Minister a brief on this because, having read the papers, I can see no commercial case at all for putting any money in. This is reinforced by the failure of NIO to find any commercial investors, even 3i.

If E(A) wishes to support Tom King by propping up Mackie's then it must be regarded as a purely political investment. Given that, the mechanism proposed has some cosmetic benefit in that Mackie's will not technically be state-controlled. Nevertheless, I would not put high stakes on the second and third tranches of the investment coming from private resources.

GEORGE GUISE

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COMMERCIAL - IN CONFIDENCE

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon George Younger TD DL MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON
SW1A 2HB

21 April 1988

Dear George,

Thank you for your letter of ~~20~~ attached April advising me of the result of the tender competition for the 2 powered mooring lighters and range mooring vessel.

As you anticipate, I am disappointed that no Scottish yard has been successful in this competition. One point of concern for the future is that we should not adopt a tendering policy that inevitably disadvantages the small yards without a major backer and which are therefore less able to compete on the basis of a single payment on completion. In this case however I understand that the differences in tender prices are such that your proposed division of the order between Richards and McTay Marine offers a very significant saving to the taxpayer. I have therefore no objection for my interest to the announcement being made on Monday as you propose.

I am copying this letter to the Prime Minister, Lord Young, John Major, John Wakeham and to Sir Robin Butler.

Yours ever

Malcolm

MALCOLM RIFKIND

HMP11228

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 April 1988

Dear David,

SHIPBUILDING

Thank you for your letter of 14 April concerning the record of the meeting on 31 March.

I have looked carefully at my notes, and consulted the members of the Cabinet Office Economic Secretariat who have done likewise. Our agreed conclusion is that the minutes of the meeting were accurate; we have no record of the point in the first sentence of the second paragraph of your letter, or of any reference to Mauritius.

I suggest the best way forward is for your Secretary of State to raise the points of concern to him when the further paper the Department of Trade and Industry are now preparing is discussed. This paper will need to address the outstanding issues on all the UK shipyards, and we are planning that the paper should be taken at an early meetin gpf E(A).

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Parliamentary Under-Secretary of State for Defence Procurement, MOD, and to Sir Robin Butler, Mr. Richard Wilson and Mr. George Monger (Cabinet Office).

Yours.

Paul

PAUL GRAY

David Crawley, Esq.,
Scottish Office.

SECRET

COMMERCIAL IN CONFIDENCE

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PA

Prime Minister
PRCG 21/4

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 .....

MO 26/3/1E

20th April 1988

Dear Malcolm,

You will recall that, following Scott Lithgow's failure to submit a satisfactory price for the range mooring vessel and two powered mooring lighters (offered to the Company after they failed to win a submarine order in 1986), arrangements were made last August to invite competitive tenders for the three vessels.

We have now completed the evaluation of tenders, including bids from Hall Russell, Ferguson Appledore and Ailsa, as well as Scott Lithgow, and I plan to announce on Monday that the contract for the range mooring vessel is to be placed with Richards Shipbuilders at Lowestoft and Great Yarmouth and that for the two powered mooring lighters with McTay Marine at Bromborough, Wirral.

I know that you will be a disappointed that at least one of these orders has not gone to a Scottish yard. The competition was very keenly fought and, for our part, I am pleased that we have been able to obtain these vessels at a total cost of £8.3M at current prices, compared to the £12.5M submitted by Scott Lithgow last year and well within the total of about £10M originally budgeted for them in 1985/86.

I am sending copies of this letter to the Prime Minister, Lord Young, John Major, John Wakeham and to Sir Robin Butler.

Yours ever,

George

George Younger

The Rt Hon Malcolm Rifkind QC MP

COMMERCIAL IN CONFIDENCE

21 MAR 9

SECRET 8

DoE 94/86

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

20 April 1988

Dear Chancellor,

SHIPBUILDING

PTS 13 of 14 to follow

You copied to me your comments of 30 March on the paper by the Chancellor of the Duchy of Lancaster of 28 March, of which I have also now seen a copy. I understand that at the Ministerial meeting on 31 March my proposal to include an EZ in the package of remedial measures for Sunderland in response to shipbuilding redundancies was given approval. Our officials are working on the detailed case.

I agree with your argument that our responses to such redundancies should be even-handed between the territories. For that reason I felt that there was a strong political argument to supplement the good technical case for a Sunderland EZ. I note your request that we should look to fund the remedial measures from within existing provision. I fully accept this in relation to the foreseen UDC expenditure within the proposed zone, where the costs of my proposal would be drawn from the UDC's provision (however, you would not expect me at this stage of the PESC cycle to commit myself for future years on the overall UDC programme.) The RSA costs will fall to DTI and Kenneth Clarke covered this in his original minute. The main zone benefits of rates and tax relief are not, of course, public expenditure costs.

I am copying this to the Prime Minister, David Young, Malcolm Rifkind, Tom King, Kenneth Clarke and Sir Robin Butler.

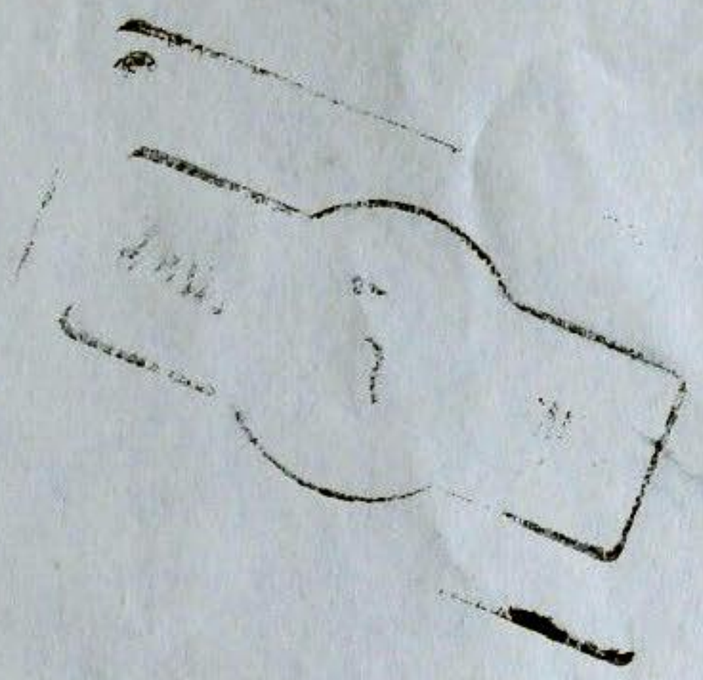
Yours sincerely

NL

pp NICHOLAS RIDLEY

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

NATIONALISED INDUSTRIES : Shipbuilding R 14



Mr. Robert Rhodes James (Cambridge): I was involved in the establishment, maintenance and administration of a UN peacekeeping force. Is my hon. and learned Friend aware that it is difficult enough to establish an effective land force—as we have discovered in Lebanon, Cyprus an elsewhere—and that the UN is totally incapable of having a UN naval force? Although the UN may have a role in the area, a UN naval force is not the answer.

Mr. Mellor: I entirely agree with my hon. Friend. The right hon. Member for Manchester, Gorton (Mr. Kaufman) said that it had taken nearly six months to achieve a follow-up resolution on paper imposing an arms embargo. How long does anyone believe that it would take to establish a UN naval force? We are faced with a problem not next year or in the next decade, but now.

Mr. George Galloway (Glasgow, Hillhead): Opposition Members are not troubled by the fact that there has been a response against Iranian aggression—we are in favour of a tough response against such aggression—but what troubles us, and troubles the Royal Navy personnel with whom I have spoken in the Gulf, is the unilateral nature of such American action. I have heard the Minister say three times in the House that a UN commanded naval force in the Gulf is impractical. I have never heard him explain exactly how and why that is so. Will he give the House the benefit of such an explanation now?

Mr. Mellor: It is interesting that the one country that has been anxious to see a UN naval force, the Soviet Union, avoided giving details for some months about exactly what that force would involve. When the Soviet Union came up with those details, it appeared that it envisaged a force accompanying vessels, not just to the side of the Gulf not involved in the conflict, but into Iranian ports. The idea of a UN naval force interposing itself between two combatants who are determined to attack shipping serving each other's ports is, I believe, a sign of the hopeless impracticability of the scheme. Such sentiment as there was in favour of a UN naval force before the Soviet Union came up with its plan almost totally melted away once the full details of that plan were given.

Mr. Jim Lester (Broxtowe): Did my hon. and learned Friend have time to consult the Gulf Co-operation Council, and if so, what were its views about the incident?

Mr. Mellor: We have not had time to receive any such opinion. We will want to consult our friends in the Gulf about the matter, as it is in protection of their right to trade with us and with other countries freely that we are playing our role.

Several Hon. Members *rose*——

Mr. Speaker: Order. I remind the House that this is a private notice question—an extension of Question Time. We have a heavy day ahead of us.

Shipbuilding

3.49 pm

The Chancellor of the Dutchy of Lancaster and Minister of Trade and Industry (Mr. Kenneth Clarke): British Shipbuilders has been approached about the disposal of a number of its facilities, notably at Govan on the Clyde and Appledore in Devon. Those approaches are being considered in line with our policy of returning as much of the corporation as possible to the private sector.

As regards Govan, BS has today received a letter of intent to purchase the yard from Kvaerner Industries, a Norwegian company at the forefront of international gas ship technology, which operates an important fleet of its own. Kvaerner Industries is a respected company with expertise in gas-carrying ships which it would propose to build in future on the Clyde. I regard this as a very welcome proposal. I hope that the negotiations succeed.

Should it acquire Govan, Kvaerner intends to transfer its gas ship technology to the United Kingdom via the yard by giving project support and assistance for gas ships built at Govan. Thereafter, Kvaerner plans to develop Govan into its centre for gas ship technology in support of worldwide activities in this sphere.

Kvaerner would want to attach certain conditions to an agreement in Govan. The company says that some restructuring would be inevitable to ensure that the yard is fully competitive in the international market place. As an important part of the agreement, Kvaerner would undertake to place an order for two medium-sized LPG carriers to be built at Govan for delivery in 1990 and 1991.

I also have to tell the House that the chairman of British Shipbuilders has told me about contractual difficulties with the ferry programme at North East Shipbuilders at Sunderland. Naturally I hope these difficulties can be overcome and I am keeping closely in touch with developments. I shall keep the House closely informed and make a further statement if necessary in due course.

Mr. Bryan Gould (Dagenham): Is the Minister aware that his statement not only places major question marks over the future of the Govan yard, but poses even more worrying questions about the viability of what will be left of British Shipbuilders? With regard to Govan, is this not a further example of the Government's readiness to sell off to foreign interests an investment in a strategic British industry which the Government themselves are not prepared to sustain? If Govan is an attractive prospect to a Norwegian company, why can it not be supported in the national interest by the British Government?

If the Norwegians have work to place with Govan, which is in itself very welcome, why must that be accompanied by giving away the yard? What assurances can the Minister give the work force at Govan and the House about jobs and pension rights? What write-offs of taxpayers' money will be made? What price will the taxpayer receive for the substantial investment that has been made?

Is this death by one thousand cuts not the inevitable consequence of the policy of dismembering British shipbuilding, upon which the Government embarked four years ago? What is the future of those yards in the north-east and the south-west? Will the Minister now amplify his cryptic remarks about Appledore and North East Shipbuilders? Can he categorically assure the House that

Mr. Mellor: I agree with my right hon. Friend that there has been fault on both sides in this war. It is absolutely clear that the Iraqis would have accepted resolution 598 and that the Iranians have persistently refused to do so. The international community must address that matter.

Sir Russell Johnston (Inverness, Nairn and Lochaber): Is the Minister aware that many people believe that our greatly increased trade with Iran enables it in part to provide the sinews of the war that were behind this incident, and that we should examine our position? The Minister did not make it clear in answer to the right hon. Member for Manchester, Gorton (Mr. Kaufman) whether he fears that escalation will ensue from action in relation to oil platforms. He did not say whether there were any casualties on the York Marine or whether any holders of British pasports were involved. Will he tell us that now?

Mr. Mellor: The best information that I can give to the House is that contained in my original answer: there may have been casualties, but we have no details. As far as we know the crew of the York Marine are Indian, but that does not lessen the seriousness with which we regard the incident.

As for escalation, I repeat the point that I made earlier. The act that led to escalation was the Iranians' cynical and cowardly mining of international waters—a haphazard business that could have resulted in the loss of any ship travelling in the vicinity. Unless action is taken to ensure that the Iranians are aware that such a policy cannot flourish, we shall see more such incidents. We say that the United States was entitled to make a measured and appropriate response, pursuant to the right of self-defence for all sovereign states under article 51 of the United Nations charter, and that is what the United States did.

As for trade, in recent years our exports to Iran have fallen dramatically to about £240 million. There is no trade with Iran in armaments or any equipment and supplies that could extend the war. That has been our position for a long time.

Mr. Peter Temple-Morris (Leominster): Does my hon. and learned Friend agree that Iran must be contained? Does he further agree that, once committed in the Gulf, the United States had to react and that the House should support that reaction? Does he accept that the United Kingdom is involved in matters in which it exercises insufficient overall control? In those circumstances, and accepting the magnificent role of the Royal Navy in the Gulf in recent years, will he do his utmost to de-escalate the position?

Mr. Mellor: The presence of the Armilla patrol is intended as a de-escalatory move. It is intended to protect the free passage of British and British dependency flag shipping, to allow it to carry on what mariners have done for generations and to allow proper trade with countries in the Gulf. We shall continue to do that, and we believe that that is the best contribution that we can make to ensuring that international lawlessness does not prevail in the Gulf.

Mr. Peter Shore (Bethnal Green and Stepney): Is it not entirely contrary to international law, and entirely wrong, for the Iranians to attack neutral shipping in a neutral port in the Gulf? Was that ship conducted through the Straits of Hormuz by the Armilla patrol, and will it enjoy that protection on the way back? What action will he take with Iran to register our strong objection and to protest at what has been done?

Mr. Mellor: I am grateful to the right hon. Gentleman for his question. The York Marine was not known to the Armilla patrol. As far as we know it is a Hong Kong-registered vessel that is leased by the Bute Oil Company, which operates the oilfield that was attacked by the Iranians this morning. The ship was being used as a storage vessel when it was attacked.

I agree with what the right hon. Gentleman said about Iranian attacks on neutral shipping. The attack on Abu Musa island, whose sovereignty is disputed between Iran and the United Arab Emirates, marks an escalation in the conflict because it is a further attack on facilities operated by countries that are not engaged in the hostilities.

As for British action, we wish to take a cool look at the position. We do not have all the facts, and I should not be pressed further on that point now.

Mr. Anthony Nelson (Chichester): Is my hon. and learned Friend aware that there will be widespread support for the clarity and supportive nature of his statement this afternoon? Does he agree that deliberate aggression in international waters invites retaliation? Would it not be unacceptable to have as a response to aggression all international flags of free countries flying under the flag of the United Nations? Countries must be able to exercise their right of self-defence, as the Americans have done, and we should support them fully.

Mr. Mellor: I agree with my hon. Friend. In the past 12 months Western navies have been in the Gulf and their presence has acted to confine the Iranian willingness to get involved in acts of international hooliganism and aggression. It is part of that policy of containment that a nation should be free to exercise its right of self defence when provocation of the nature that the Iranians have offered occurs. If the Iranians were to think that no such self-defensive action were to follow, it would give them a carte blanche to become involved in further actions, such as the mine laying.

Mr. David Young (Bolton, South-East): Both sides of the House accept that there was provocation, but will the Minister tell us whether there was any consultation under the much-flaunted special relationship between the United States and Britain regarding the retaliatory action that was taken? That action must inevitably involve, in some form of escalation, the lives of British seamen. Has the Minister any information about the supply, or promise, of speedboats to Iran by neutral countries such as Sweden? If so, what representations are being made by the Government?

Mr. Mellor: It is a matter for individual judgment, but I believe that the greatest threat to the lives of British seamen is from the laying of mines in international waters by the Iranians. Failure to take action to deal with that puts British seamen at a greater risk than they are as a result of the alternative course that has been adopted.

With regard to what the United States did this morning, we were notified a few hours before, but we were not consulted as such. As to the sale of arms to Iran and Iraq, until there is an arms embargo resolution of the United Nations it is a matter for each country to determine its rules. We, of course, have our own have very clear rules about such sales.

…atement is not the forerunner of a decision, reported … many quarters, to cut British Shipbuilders' lifeline by withdrawing Government support later this year?

Would it not be ironic—though all too typical—if the Government destroyed our merchant shipbuilding industry just at the time when that industry has become technologically advanced and is therefore well placed to take advantage of the increased demand for world shipping? Is the Minister aware that he will not be forgiven if he allows a historic and vital British industry to expire, with all the damage that will do to jobs, to the regions and to the national strategic interest? I invite the Minister to tell the House that his statement will not be, and is not intended to be, the death knell of British shipbuilding.

Mr. Clarke: What I have announced today is very good news for a part of British shipbuilding on the Clyde, at Govan. The Norwegian company involved is an operator of gas-carrying ships. It has been constructing them, putting its technology under licence, at various yards throughout the world. The company wishes to acquire a yard of its own where that technology can be developed. It has given up shipbuilding in Norway because it is too expensive. It believes that Govan can be turned into such a yard and that it can be the base for the company's activities. It has work to place. That is good news for Govan, where they are building two Chinese container ships which are likely to be completed in the fairly near future.

I cannot give the House details of the basis on which we might dispose of the yard. What I have announced today is that British Shipbuilders has received a letter of intent and that negotiations are now to take place. A purchase of the yard would involve taking over employees. They would be transferred to the new company with their accrued pension benefits intact.

As for Appledore, we have a number of expressions of interest, but they are all commercially confidential at the moment. It would be most unwise of me to run the risk of prejudicing discussions about the future of Appledore by giving further details to the House now.

At North East Shipbuilders, as people in that part of the world know, there are certain contractual difficulties at the moment between British Shipbuilders and the purchaser of the ferries built there. There are six very good ferries in the water in the Wear, and British Shipbuilders is negotiating with its customer how to resolve the contractual difficulties. I hope that those discussions are successful. I am keeping steadily in touch and I shall keep the House informed if I have anything to report.

Mr. Bruce Millan (Glasgow, Govan): Is the right hon. and learned Gentleman aware that nobody is more anxious than I am to get additional work placed at the Govan yard? I would warmly welcome orders for ships from Norway or anywhere else. What we object to is the disposal, or, more accurately, the give-away, of the yard. The Minister has produced absolutely no justification for that. Why can there not be an ordinary commercial contract? There might even be a joint venture between the Norwegian company and British Shipbuilders. Why is the yard being disposed of, bearing in mind the long-term implications, to say nothing of those for the rest of British shipbuilders?

What we want for Govan are long-term assurances for the future, not short-term relief. We are talking of an international company which operates abroad. It is closing its own yard in Norway, despite vehement protests from the trade unions involved. There are to be 600 job losses. We are apprehensive of the fact that the same could happen to Govan in a comparatively short time.

Mr. Clarke: Kvaerner prefers to buy the yard. We cannot force it to place orders in a yard on any terms other than those in which it is interested. This is an attractive proposition. At the moment Kvaerner places orders for ships in various yards around the world, using its own technology under licence. It wants to acquire a yard where it can develop that technology and use it as the basis for future developments. That is extremely good news.

While the Govan yard is owned by British Shipbuilders, it is completing work on two Chinese container ships. The right hon. Member for Glasgow, Govan (Mr. Millan) knows that that work will be completed in the reasonably near future. Lay-offs will begin this year if no other work is forthcoming and, unless other orders are found, the yard will have to close by next year. What I have described today is the most encouraging development that we have seen in regard to Govan for a long time. I hope that the negotiations succeed and that everybody who is interested, as the right hon. Gentleman says he is—I am sure that he is—in the long-term future of the yard will welcome the development, trust that the negotiations will succeed and encourage people to do everything possible to bring them to a successful conclusion.

Mr. Tony Speller (Devon, North): May I press my right hon. and learned Friend, not for any commercially confidential information, but to bear in mind when he mentions the Appledore shipyard en passant the fact that it is one of the smaller but more efficient and highly productive yards and is a vital cog in the north Devon and Torridge economy? When he speaks of the yard, will he bear in mind the yard's relative smallness, but its great importance to north Devon and north Cornwall?

Mr. Clarke: I realise the importance of the yard to the economy of Devon, as it is the major engineering employer in the area. It has had some success in attracting orders for dredgers, which are a speciality of the yard. It is encouraging—I hope my hon. Friend agrees—that a number of people have expressed an interest in acquiring the yard and running it as a going business. We will enter such a deal only if we are convinced that it is in the best interests of the yard and of the economy of the surrounding area.

Mr. Bob Clay (Sunderland, North): Will the Minister confirm that the contractual difficulties at NESL to which he referred are not in any way the responsibility of either the management or the work force at NESL but lie with the purchaser, and that the programme for the delivery of those ships is on time?

Does the Minister also accept that his statement today, with the background of press rumours that have been continuing for some days, strikes great fear into the hearts of everyone who is committed to the future of British merchant shipbuilding? The previous chairman, Mr. Graham Day, who butchered the industry enough, always said that one could not sink below the present levelof facilities and that any further reduction in capacity would make the industry unviable.

The Minister has given no assurance about the future of NESL and the very uncertainty reflected in this

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statement, with the further division of the industry and what is happening at Govan, makes it virtually impossible at present for NESL or any of the other subsidiaries to obtain the few orders that are around in the world at present. I believe that the Minister knows that. He should underwrite the future of the industry now. He should stop the rumours and the nonsense. He should keep British Shipbuilders together and enable it to obtain the significant orders that are available at present, rather than sabotage them, as the statement does.

Mr. Clarke: I regret the uncertainty that surrounds the future of the industry, and I understand the demoralising effect of that uncertainty. For that reason, when I was in Sunderland last Friday, I had a meeting with the hon. Gentleman and the trade union——

Mr. Clay: The Minister said nothing about it then.

Mr. Clarke: It was probably a good thing that I did not enter into more detail, because had I done so I would have fed the uncertainty and might have run the risk of prejudicing the negotiations with Kvaerner, about which I could not tell the hon. Gentleman. They have been leaked to the press and have caused some excitement in Scotland. I hope that I have been able to calm down fears in Scotland, because it is good news for Scotland.

Meanwhile, it is not helpful for me to enter into the merits of any dispute that may develop between British Shipbuilders and the purchaser of the Danish ferries. I am keeping in touch with the discussions between the chairman of British Shipbuilders and his colleagues and the customer and, as I have said, I hope that those discussions will come to a satisfactory conclusion. If they do not, we may face a serious situation, because the only orders in Sunderland at present are for the Danish ferries. However, if a serious situation arises, we shall face it then and certainly do whatever we can to ensure that the well-being of Sunderland is sustained.

Mr. Robin Maxwell-Hyslop (Tiverton): Is not the truth of the matter that there is a vast tonnage of very new general merchandise carriers laid up and that there is a vast number of shipyards throughout the world in competition for the available demand? Should we not, therefore, welcome the opportunity to bring the focus of specialist skills for specialised markets to shipyards of our own that have no other prospects?

Mr. Clarke: I agree with my hon. Friend. As he has shrewdly said, this is a buyers' market, where there is a huge excess of would-be builders of ships compared with would-be purchasers. That is why it is so foolish for Scottish Members to say, "We prefer the industry to remain nationalised, come what may," and wait for the purchasers to come along. That is no guarantee that any purchasers will come along.

A good Norwegian company wants to make Clydeside the basis for its particular strength in the market place in gas technology. That should be welcomed by all Scottish Members.

Mr. Chris Mullin (Sunderland, South): Is the Minister aware that in the past few weeks there have been repeated reports that the Government plan to pull the plug on what remains of the entire British shipbuilding industry, by cutting all further Government aid? Will he say now whether there is any truth in that, and will he recognise that the possible deal with Govan spells ruin for thousands of people in Sunderland?

Mr. Clarke: It makes no sense for one Member of Parliament for Sunderland to complain about the rumours and uncertainty, and for the other Member for Parliament for Sunderland to say, "I have just heard another rumour. Would the Minister like to comment on it?"

As I said to the hon. Member for Sunderland, North (Mr. Clay) last Friday, on the last occasion that I met him, the Government have taken no new decisions on British shipbuilding since we had a protracted debate on the subject in the House last summer. As hon. Members will gather, this is a fast-moving scene and I am keeping in close touch with events in all the yards. We have to keep the future of the yards under review because the Government have already lost £1½ billion in those yards over the last nine years. We are putting substantial amounts of money into the yard, but the situation is so serious that one must keep in close touch with it and deal properly with events as they come up, sometimes week by week, as is now the case in Govan.

Mr. Neville Trotter (Tynemouth): Does my right hon. and learned Friend accept that this will be seen as good news in Scotland, with a future assured for Govan? However, does he also accept that there will be great concern in the north-east about the future of the industry there? Will he give an assurance that the Government remain committed to intervention fund assistance for all shipbuilders in this country, and, in particular, will seek every possible order for Sunderland shipbuilders, bearing in mind the difficulties in respect of the Danish ferries?

Mr. Clarke: Fortunately, the yard closest to my hon. Friend's constituency, Swan Hunter, is at present in a good state, has an order book and is doing well in its newly privatised condition.

As I have said, the Government have given substantial support for orders throughout the past eight or nine years and British Shipbuilders has also incurred substantial losses on top of that intervention fund support. If orders come alone, the Government have to consider what is proposed and see what the costs are and whether they are justified to continue maintaining the yard for that particular order. However, at present, I know of no orders in prospect for Sunderland after the completion of the Danish ferry contract.

Mrs. Ray Michie (Argyll and Bute): Why is the Minister allowing British Shipbuilders to take that course, when he knows that the privatisation of Scott Lithgow was really a rip-off? I still do not understand why the Norwegians' buying Govan shipyard will make all the difference. I do not understand why Govan shipyard should not be able to build those gas-carrying ships itself.

I should also like to know what consultations the Minister has had with the Secretary of State for Scotland and the Scottish Office on the question of selling off what is known as the jewel in the crown of British shipbuilding, Govan shipyard?

Mr. Clarke: I am not quite sure on what basis the hon. Lady says that the sale of Scott Lithgow was a rip-off. I do not know what she believes British Shipbuilders would be building in the yard if it still owned it. As she knows,

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Should it acquire Govan, Kvaerner intends to transfer its gas ship technology to the UK via the yard by giving project support and assistance for gas ships built at Govan. Thereafter, Kvaerner plans to develop Govan into its centre for gas ship technology in support of worldwide activities in this sphere.

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Kvaerner would attach certain conditions to an agreement in Govan. Kvaerner say that some restructuring would be inevitable to ensure that the yard is fully competitive in the international market place. As an important part of the

agreement Kvaerner would undertake to place an order for two medium sized LPG carriers to be built at Govan for delivery in 1990 and 1991.

I also have to tell the House that the Chairman of British Shipbuilders has told me about contractual difficulties with the ferry programme at North East Shipbuilders at Sunderland. Naturally I hope these difficulties can be overcome and I am keeping closely in touch with developments. I will keep the House closely informed and make a further statement if necessary in due course.

DRAFT STATEMENT ON BS

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I have to say that, for over a decade, BS has survived only through Government subsidy much of it to meet losses on contracts. Since 1979 we have lost over £1½bn of the taxpayers money in the Corporation, which today only employs less than 6,500 people.

When I came to the House last July to propose increasing BS's borrowing limit by £200m, that increase alone represented over £30,000 for each employee of the Corporation. Our backing for British Shipbulders has clearly been strong and continuous. Our commitment to the Corporation over the last eight years cannot therefore be seriously in question. That said, in view of the continuing high cost of support for British Shipbuilders, high losses on contracts under their control, and the fact that there is capacity in plenty to absorb any general recovery in merchant shipbuilding demand, and that any such recovery could well be short lived, I am convinced that it makes no commercial sense for Britain to have a nationalised shipbulding industry and no sense at all to continue to use taxpayers money to attract further orders into yards remaining in the Corporation's hands.

We have therefore decided that British Shipbuilders should take no more orders that require support or make losses. I expect there to be further bids from the private sector in addition to those I have mentioned to takeover some of the Corporation's facilities. Inevitably we are facing the expectation that some of the facilities will close when present work runs out. We shall continue to provide support to meet the costs of each yard until present work is completed. We shall take powers in due course to allow for the rundown of the Corporation and for the management of its outstanding affairs.

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I know of course the enormous problems that the areas affected by this outlook face. We are therefore announcing special measures, with new spending commitments by £30m, to make assistance available to encourage the modern local economy and the new jobs that people living in the North East need.

My Rt Hon Friend the Secretary of State for the Environment intends to establish an Enterprise Zone in Sunderland in order to promote new job opportunities through attracting new investment and stimulating the expansion of existing businesses. He will make an announcement on this shortly. In addition, I propose to ensure that new factories will be built, as soon as possible, on several sites to provide advance factory space for new and expanding businesses in the Sunderland area. opt We have allocated £7½m of new public spending in the next financial year for this factory building programme in Sunderland. // Delete.

To manage this activity in the North East, and to make arrangements in Bideford in Devon should the disposal of the Appledore yard not succeed, we shall establish a new Enterprise Company under the Chairmanship of John Lister, the Chairman of British Shipbuilders. This will carry out the full range of training, counselling and placement activities previously undertaken by British Shipbuilders Enterprise Limited. In addition it will place a much stronger emphasis than British Shipbuilders Enterprise

IS8AAB

Limited was able to do on the stimulation of new employment in the vicinity of all British Shipbuilders yards, whether in England or Scotland.

It is our firm intention to work closely with individuals and communities affected by today's announcement to build a more secure future for their areas. Today's measures backed by new spending commitments totalling £30m show how determined we are to help Sunderland and the other areas affected by make the change to more secure jobs. That change can and must be made for the sake of today's workforce and future generations of residents in those towns.

This Announcement certainly does not represent the end of shipbuilding in Britain. On the contrary, there is the excellent prospect of a further expansion of private sector merchant shipbulding as a result of the disposals presently in hand. There are already well over 26,000 people building ships in the private sector, four times as many as presently employed by BS. It does however represent the end of a policy that no longer has any commercial justification and no sensible aim. Allowing BS to pretend to struggle on would merely slow up the development of a stronger more diversified and more soundly based economy for the towns that have no future in shipbuilding.

IS8AAB

The House knows that British Shipbuilders have received expressions of interest for the disposal of a number of its facilities, notably at Govan on the Clyde and Appledore in Devon. These approaches are being taken seriously, consistent with our policy of returning as much of the Corporation as possible to the private sector. No interest has yet been expressed in North East Shipbuilders at Sunderland, or in the Ferguson yard on the Clyde.

As regards Govan, British Shipbuilders have received a Letter of Intent to purchase the yard from Kvaerner Industries, a Norwegian company at the forefront of international gas ship technology, which operates an important fleet of its own. This is a very welcome development. I hope the negotiations succeed.

I have to tell the House that the Chairman of British Shipbuilders has told the Government about contractual difficlties with the ferry programme at North East Shipbuilders at Sunderland. Naturally I hope these difficulties can be overcome. But I have to say that, for over a decade, British Shipbuilders has survived only through Government subsidy much of it to meet losses on contracts. Since 1979 we have invested over 1bn in the Corporation, a company that today only employs less than 6,500 people.

Last July, the Government proposed increasing British Shipbuilders' borrowing limit by 200m. That increase alone represented over 30,000 for each employee of the Corporation. Our backing for British Shipbulders has clearly been strong and continuous. Our commitment to the Corporation over the last eight years cannot therefore be seriously in question. That said, in view of the continuing high cost of support for British Shipbuilders, high losses on contracts under their control, and the fact that there is capacity in plenty to absorb any general recovery in merchant shipbuilding demand, and that any such recovery could well be short lived, I am convinced that it makes

no commercial sense for Britain to have a nationalised shipbulding industry and no sense at all to continue to use taxpayers' money to attract further orders into yards remaining the Corporation's hands.

We have therefore agreed with the British Shipbuilders that they will take no more orders that require support or make losses. Unless there are any bids from the private sector in addition to those I have mentioned to takeover any of the Corporation's facilitues, inevitably we are facing the expectation that the yards will close as shipbuilding yards when present work runs out. We shall continue to provide support to meet the costs of each yard until present work is completed. We shall take powers in due course to allow for the rundown of the Corproation and for the management of its outstanding affairs. (Reassurance on backing for borrowing).

I know of course the enormous problems that the areas affected by this outlook face. We are therefore announcing special measures to make assistance available to encourage the modern local economy and the new jobs that people living especially in the North East need.

My Rt Hon Friend the Secretary of State for the Environment intends to establish an Enterprise Zone in Sunderland in order to promote job opportunities through attracting new investment and stimulating the expansion of existing businesses. He will make an announcement on this matter shortly. In addition, I propose to ensure that new factories will be built on several sites to provide advance factory space for new and expanding businesses in the Sunderland area. We have allocated 7¨m of new public spending in the next financial year for this factory building programme in Sunderland.

To manage this activity in this North East and to make

arrangements in Bideford in Devon should the disposal of the Appledore yard not succeed, we shall establish a new Enterprise Company under the Chairmanship of John Lister,the Chairman of British Shipbuilders. This will carry out the full range of training, counselling and placement activities previously undertaken by British Shipbuilders Enterprise Limited. In addition it will place a much stronger emphasis than British Shipbuilders Enterprise Limited was able to do on the stimulation new employment in the vicinity of all British Shipbuilders yards, whether in England or Scotland.

Also in Scotland My Rt Hon Friend will announce measures he is proposing in addition to the support to be offered through the new Enterprise Company (to be cleared with the Scottish Office).

It is our firm intention to work closely with individuals and communities affected by today's announcement to build a mroe secure future for their areas. Today's measures backed by new spending commitments totalling 30m show how determined we are to help Sunderland and the other areas affected by make the change to more secure jobs. That change can and must be made for the sake of today's workforce and future genrations of residents in those towns.

This Announcement certainly does not represent the end of shipbuilding in Britain. On the contrary, there is the excellent prospect of a further expansion of private sector merchant shipbulding as a rsult of the disposals presently in hand. There are already well over 26,000 people building ships in the private sector, four times as many as presently employed by British Shipbuilders. It does however represent the end of a policy that has no commercial justification and no sensible aim. Allowing British Shipbuilders to pretend to struggle on would merely slow up the development of a stronger more diversified and more soundly based economy.

SECRET 1

PRIME MINISTER

SHIPBUILDING STATEMENT

You are meeting colleagues to discuss the contents of the statement to the Commons this afternoon on shipbuilding. (There will be no Lords statement - the Opposition prefer to get on with education).

I attach at Flag A the main cuttings from today's press, and at Flag B the record of the 31 March meeting.

Mr. Clarke will bring with him a draft of the statement. Given the timing of the statement at 1530 there is little time available to resolve the text. I gather Mr. Clarke will want to make a fairly broad statement; Mr. Rifkind (who is flying down from Scotland and may be a few minutes late) wants to keep it as short as possible.

The main issues are:

a. Govan - what should be said about the terms of the negotiations? Should the possibility of a dowry rather than an Intervention Fund be mentioned?

b. Sunderland - what should be said about the negotiations with Mr. Johanssen on the Danish ferries contract?

- should closure when the Danish ferries are finished be announced? And if so, how much detail should be given about the package of financial assistance? (The DTI and Treasury are still arguing about where the money for the package should come from, which was not resolved at the 31 March meeting).

- one element of the agreed package is an Enterprise Zone for Sunderland. Mr. Walker is concerned about announcing this before he announces an extended EZ for Delyn (see Flag C)

c. Appledore and Clark-Kinkaid - should anything be said?

d. Other yards - should anything be said about availability or otherwise of Intervention Fund support? NB. the Scottish Office letter at Flag D you saw this morning.

e. Harland and Wolff - should anything be said given the stories in today's press (see the last cutting at Flag A) about a possible Ravi Tikoo announcement tomorrow? I think we must avoid saying anything about H&W given the interaction with Shorts and Mackies. NIO are trying to cool down the press speculation.

RLCG.

PAUL GRAY

18 April 1988

SL2APA

CONFIDENTIAL

PRIME MINISTER

During your tour of North Wales in March 1987 you visited Breger and Gibson on the Greenfield Business Park, Holywell and while they were impressed by the case advanced by the Leader and Chief Executive of Delyn Borough Council to designate the Business Park as part of the Delyn Enterprise Zone. In subsequent correspondence with my predecessor, it was explained why Delyn's case could not be advanced until we had reached decisions on the Consultants' Review of Enterprise Zones.

We have now decided on the future policy for EZs and you will recall my letter of 21 March to Nicholas Ridley in which I expressed my doubts about an early announcement on creating an Enterprize Zone at Sunderland, given the difficulties this would present when I had yet to reach a decision on whether to pursue the extension for the Delyn Enterprize Zone.

Last week I undertook an extensive tour of the Delyn Enterprize Zone and the Greenfield Business Park. Like you, I was impressed by the vigour and commitment demonstrated by the Council in successfully marketing the Zone and Business Park and the dynamic approach to resolving the deep-seated industrial problems of the area. The outcome is that I am convinced that the only real option available is to extend the EZ regime to Greenfield. This minute is simply to advise you and colleagues that I will shortly be seeking agreement that the Business Park should be designated, irrespective of what we finally decide on Sunderland.

/ I am copying this to members of **E(UP)** and to Sir Robin Butler.

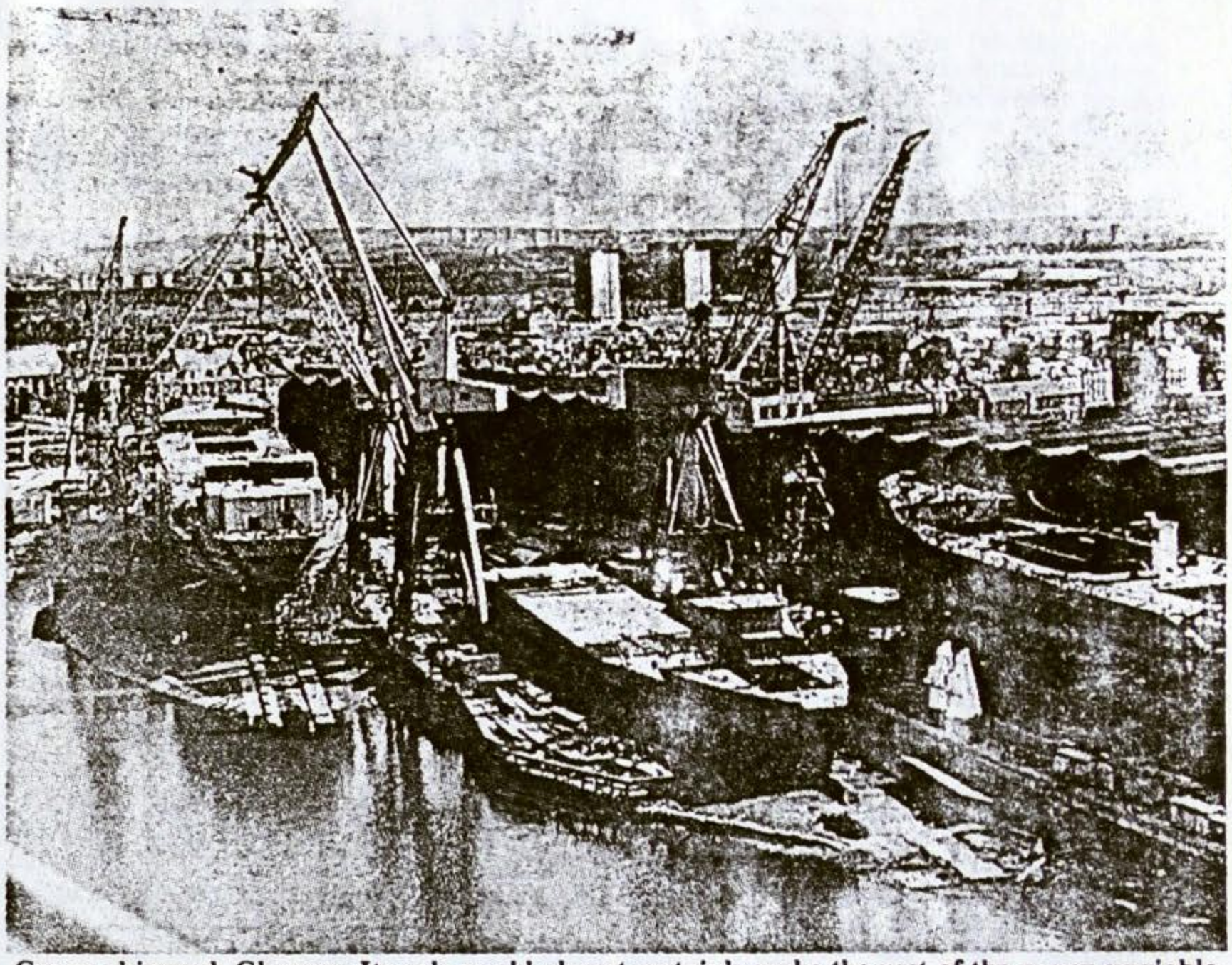
6 April 1988

Approved by the Secretary of State
and signed in his absence

Talks to sell off shipyard begin

23

By Jeremy Warner
Business Correspondent



Govan shipyard, Glasgow: Its sale would almost certainly make the rest of the group unviable

THE GOVERNMENT is considering the complete break-up of British Shipbuilders, the state-owned merchant shipbuilding group, by selling some yards and assets and closing others, it emerged at the weekend.

The Department of Trade and Industry confirmed yesterday that it was in discussions with Kvaerner Industrier, the Norwegian engineering, shipping and shipbuilding group, about selling the Govan yard in Glasgow.

Govan, employing 2,000, accounts for about 40 per cent of British Shipbuilders' remaining capacity and its sale would almost certainly make the rest of the group too small to remain viable.

The DTI said that Kvaerner had expressed an interest in acquiring the yard, and in building four ships there, which would guarantee employment into the 1990s.

Acquiring the yard would enable the Norwegian group to get the benefit of the 28 per cent subsidy paid by the EC to yards within the community so that they can compete with low cost producers in the Far East.

It is believed that Kvaerner has asked the Government to agree to write off all Govan's existing debt and guarantee any debt on contracts in progress as a condition of buying the yard.

The DTI said that although discussions have been taking place, they were of a confidential nature and no firm committments had been made.

Ministers have made clear in past statements that the future of British Shipbuilders was being kept under constant review in the light of its continuing losses.They have made it a priority to get the company off the taxpayers' backs by whatever means.

Kenneth Clarke, the industry minister, said last month that the Government "has to keep in close touch with the trading position of British Shipbuilders because of the very large sums of money involved".

Despite a further capital injection of £118m during 1987/8, and the closure of three yards in the past 18 months with the loss of 3,500 jobs, BS is still likely to lose more than £100m this year.

Ministers have been taking an increasingly tough line with the company in an attempt to reduce its burden on the exchequer. Over the past 10 years, British Shipbuilders has gobbled up £1.4bn of government money, while its workforce has dwindled to 6,500.

Govan is generally considered to be the most attractive of British Shipbuilders' four remaining yards, possessing the most up-to-date technology and the most flexible workforce.

Industry observers believe its sale would leave the rest of the group unable to compete and almost certainly lead to the closure of North-East Shipbuilders in Sunderland, which faces an empty order book once its present workload of 26 small ferries is completed in the middle of next year.

The other two yards, Appledore-Ferguson in Devon and Clark-Kinkaid in Greenock, would probably be saleable, analysts believe.

News of the Government's plans to sell Govan provoked a political storm in Scotland. Donald Dewar, the shadow Scottish secretary said he was "appalled".

But Malcolm Rifkind, the Secretary of State, said that the crucial objective for the Government should be that Govan has ships to build, and a sale to Kvaerner would mean work for years to come. Govan's present workload is due to finish next year.

8/2

FINANCIAL TIMES

Govan to form part of Kvaerner's expansion

BY KAREN FOSSLI IN OSLO AND PHILIP BASSETT IN AYR

PLANS BY Kvaerner Industrier, the Norwegian engineering, shipping and shipbuilding group, to buy British Shipbuilders' Govan yard in Glasgow are part of wider moves by the group to expand internationally, it was disclosed yesterday.

Kvaerner said it had given up shipbuilding in Norway because of the high costs of materials and labour, and was seeking to secure ownership or co-operation agreements with overseas yards.

It became known on Friday that the British Government is close to agreeing to sell the Govan yard, which accounts for about 40 per cent of state-owned British Shipbuilders' remaining capacity and employs about 2,000. The move will almost certainly lead to the sale or closure of British Shipbuilders' other yards.

To complete the Govan deal, Kvaerner will have to obtain a permit from Norway's central bank, Norges Bank, to export the capital it needs for the purchase. An official from the country's Ministry of Industry said this was likely to be a formality and he saw no reason why Norway would seek to block the deal.

He added that the Norwegian Government encouraged domestic companies to expand abroad as a means of strengthening their positions at home.

However, a vote by Kvaerner shareholders will be needed, and a storm of protests could come from Norwegian labour unions, which have fought the closure of several Norwegian shipyards and offshore oil industry construction yards as activity in recent years has tapered off.

Kvaerner's employees and unions have not yet been informed about its negotiations with yards outside Norway.

In Scotland, trade union leaders yesterday opposed any further privatisation of British Shipbuilders, but have so far made no specific move to block the likely sale of Govan.

Shop stewards from the yard, who met in Ayr yesterday before the conference there of the Scottish TUC, will today meet Govan management to discuss the negotiations which have been taking place on the sale.

After a meeting between the stewards and the STUC, the STUC General Council said it was "deeply concerned" about the report of the negotiations, but stressed the need to win orders for the yard, to safeguard it for the future and the need to safeguard other British Shipbuilders yards.

Mr John Edmonds, general secretary of the GMB general union, which represents about two-thirds of Govan's workforce, said the unions were shutting no doors at the moment, but simply wanted more information.

However, he said the unions' concern was that "the solution of one yard's problems is that the next in line becomes more vulnerable, and the work slowly seeps away."

Mr Hans Joergen Frank, managing director of Kvaerner's shipbuilding and offshore construction yard in Stavanger, Moss Rosenberg Verft, said the company was also investigating price

Continued on Back Page

Kvaerner has stakes in gas carriers used to transport gas and chemical cargoes. It operates as a separate unit which its main partners include Neste, the Finnish state oil company, and the Norwegian Havtor group. About a year ago, the unit bought the gas carrier fleet of UK-based P&O.

In February, Kvaerner closed its last domestic shipyard at Fredrikstad. In 1986 it closed its Moss shipyard, but it continues to operate and maintain Moss Rosenberg Verft.

Kvaerner is considered a world specialist in the field of liquefied natural gas (LNG) technology. It has a patent for the technology which is used to transport LNG, whereby natural gas is cooled to a level of -160 deg centigrade to take on a liquefied form for transport.

It has licensed three Japanese yards to build LNG carriers based on this technology.

Mr Frank said that the group sees a general trend in the gas carrier and chemical markets whereby rates are on the increase.

A recent report on the shipping industry issued by Norse Partners, an Oslo stockbroker, said the contracting of new gas ships showed the highest activity in the second half of 1987. The second-hand market, said Norse's report, was more active than it had been for many years, and in some cases prices had increased by 100 per cent.

In 1987 Kvaerner had a turnover of NKr5.6bn (£483m). Income from new orders reached NKr7.5bn, while net profits hit NKr360m.

8/1

20 The Guardian

Future of BS unsettled by Govan sale

20

Andrew Cornelius and Peter Hetherington

THE Government yesterday placed a question mark over the future of what remains of British Shipbuilders by confirming that it is discussing the sale of the Govan yard, which employs 1,750 people on the Clyde, to Kvaerner Industrier, a Norwegian engineering and shipbuilding group.

The discussions follow a ministerial review of the options for ending state subsidies to BS. Lord Young, the Trade and Industry Secretary, is adamant that they must end this year to complete his plan to transform the DTI from a sponsor of lame-duck industries into a "department of enterprise".

He is believed to have discussed the possible takeover of some parts of BS by Sumitomo Heavy Industries during a recent trade mission to Japan. Officials have also considered management buyouts.

However, any disposal of the Glasgow yard must call into question the future of other parts of British Shipbuilders, including the NESL yards in Sunderland and the Appledore yard in Devon, which employ a further 4,750 people.

Appledore has found a specialist niche building dredgers and the BS design team and the Clark Kincaid engine works on the Clyde are also highly rated. However, at NESL, work will run out for 2,400 employees by the end of the year.

The leader of the GMB general union, Mr John Edmonds, which represents a majority of the Govan workers, said yesterday that urgent talks with the Government were needed.

On the eve of the Scottish TUC's annual congress, in Ayr, shop stewards from Govan met STUC leaders and the Labour MP for Govan, Mr Bruce Millan, a former Scottish Secretary. The unions declined to condemn any Norwegian takeover, although they were deeply critical of the Government's decision to negotiate in secret only days after workers had been assured that the company was not to be taken over.

Mr Sammy Gilmore, convener at Govan, said: "We are opposed to privatisation — everybody is — but no one is winning. At the end of the day we want work and we are prepared to work with any employers that will recognise the dignity of men and women."

Mr Edmonds said the Govan affair would be a severe test of the Government's position on an industry vital to the Scottish economy. Besides those employed at Govan, a further 5,000 workers depended on the yard.

Huge debt write-offs, similar to those for the sale of Rover to British Aerospace, would also have to be agreed for BS, which has swallowed £1.3 billion of state funds in the past decade.

The Govan chairman, Mr Eric Mackie, is to make a statement to shop stewards at the yard this morning.

A contract for the Belfast shipyard Harland and Wolff to build the world's biggest cruise liner is expected to be announced tomorrow.

The yard, one of Ulster's biggest employers, has been facing a shortage of work stemming from a lull in the shipbuilding industry. It lost £60million last year and made 500 men redundant. An order for a huge cruise liner could provide salvation for the shipyard.

Tuesday's announcement is not expected to be that a final contract has been signed — that will depend on whether the Government is prepared to provide about £100 million to enable the yard to build the liner.

8/3.

death and step up violence in the West Bank.

After the worst day of clashes in the West Bank and Gaza Strip on Saturday, in which at least 14 Palestinians were shot dead as Israeli troops confronted angry crowds, yesterday's atmosphere was tense but calmer. Israeli troops sealed off the occupied territories in an effort to contain the anger.

Israeli leaders maintained their refusal to comment on charges that their agents murdered Abu Jihad. The Prime Minister, Mr Yitzhak Shamir, who is in charge of the Mossad secret service, dismissed any discussion of the killing at yesterday's Cabinet session, saying only that "he had heard about

labourers stayed away from work in Israel, responding to a PLO call for a three-day strike to mark the death of the revered Abu Jihad.

Israeli military authorities placed 14 refugee camps and towns on the West Bank under curfew after Saturday's violence — the worst in the four-month uprising and, according to some observers, the worst since Israel conquered the area in 1967. At Jalazoun on the West Bank, soldiers turned back a UN relief convoy trying to carry supplies to a camp.

Eight people were wounded in confrontations with troops, six in Gaza according to Arab sources, and two in the West Bank town of Tulkarem where

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ardian tomorrow

Belfast to build huge cruise ship

A correspondent

A CONTRACT for the Belfast shipyard Harland and Wolff to build the world's biggest cruise liner is expected to be announced tomorrow.

The shipowner behind the project is understood to be Ravi Tikoo, a London-based former officer in the Indian navy who has built a fortune on the operations of his Global Tankers fleet.

The yard, one of Ulster's biggest employers, has been facing a shortage of work. It lost £60 million last year and made 500 men redundant. The order for the liner could be its salvation.

The ship, intended to be Mr Tikoo's entry into the rapidly growing cruise market, would continue a policy of thinking big which he has pursued successfully in shipping oil.

As a tanker owner he put some of the world's largest crude-oil carriers into service and was well placed to profit from the oil crisis caused by the 1973 Yom Kippur war.

It was the knowledge that Mr Tikoo was behind inquiries that convinced both Harland and Wolff and the Northern Ireland Office to take questions about Belfast's ability to build a cruise liner of this size very seriously indeed.

Senior executives and planners at the yard, led by the chairman and chief executive, Mr John Parker, have been working overtime for months in their attempt to land the contract.

Tomorrow's announcement is not expected to be that a final contract has been signed: that will depend on whether the Government is prepared to provide about £100 million to enable the yard to build the liner.

Harland and Wolff built the last big liner constructed in the United Kingdom, the MV Canberra, launched in March 1960, which remains in service.

Since then it has been transformed. It now has fewer than 4,000 employees but Europe's largest building dock. It is the only remaining UK shipyard which could undertake a liner of this size.

The hundreds of "finishing" tradesmen needed for building liners left after the yard started to concentrate on tankers, bulk carriers and, most recently, high-technology specialist ships for the Royal Navy and the oil industry. The completion of the cruise liner is therefore expected to result in work for hundreds of subcontracting firms, and Harland and Wolff is thought to have booked capacity with many companies outside shipbuilding which have the necessary furnishing and decorating skills.

The news will be a tremendous economic boost for Belfast. Heavy fabrication work on the shipyard's order book is rapidly running out. Last month Harland and Wolff delivered the training ship RFA Argus to the Royal Navy; the only vessels now being built are a complex offshore oil ship for BP and the first of a new class of fleet-replenishment ships for the Navy.

Govan sale talks, page 20

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Martin Walke

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the department for Enterprise

SECRET

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

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

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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Direct line 215 5147
Our ref
Your ref
Date 18 April 1988

Dear Nigel,

BRITISH SHIPBUILDERS

I was surprised to see from your Private Secretary's letter of 7 April circulating your minute of 30 March that you were seeking Departmental contributions to the cost of special measures to deal with the effect of BS. I have made it clear on every occasion since the issue was first raised that these merited extra expenditure as part of the price for withdrawing from continued support for shipbuilding.

I had, however, assumed that your minute of 30 March had been circulated primarily for the record since you did not raise the question at the meeting on 31 March. I was, however, astonished to hear from my officials that yours had told them on Thursday that not only were you seeking Departmental contributions to the cost of special measures, but that you were now also expecting contributions to the closure and sale costs of British Shipbuilders. This runs if anything even more strongly counter to the thrust of our position on the need in your words "to grasp the nettle of the cost of BS closure".

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the department for Enterprise

The formal position in the Public Expenditure White Paper is of course that BS had an EFL of £80m for 1988/89 - its previous baseline which we agreed to leave in place for the time being. John Major, in his letter of 4 September, recognised that "a substantial aggregate increase above the baseline cannot be avoided". The preliminary figures for the cost of closure were set out in my paper of 20 October.

I hope therefore that I can proceed on the lines agreed at the Prime Minister's meeting, on the assumption that the extra costs above BS's artificially low EFL will be borne by the reserve, as will the costs of the agreed special measures.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Tom King, and Nicholas Ridley, and to Sir Robin Butler.

KENNETH CLARKE

AP2ABN

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the department for Enterprise

5

SECRET

To:

PRIME MINISTER

From:

KENNETH CLARKE

18 April 1988

SHIPBUILDING

Following your meeting on 31 March, my officials and British Shipbuilders have continued their negotiations with Kvaerner Industries, the Norwegian company interested in acquiring Govan. Negotiations have reached the point where I expect Kvaerner to present BS today with a letter of intent to purchase, subject to their reaching a satisfactory settlement with their workforce and acceptable terms of transfer, including support from us. I am very glad to say they have confirmed their willingness to negotiate on the basis of a dowry, the very strong preference expressed by colleagues at your meeting. I have congatulated my officials responsible for the face-to-face negotiations for their success in achieving this conclusion, which I strongly

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preferred, without having to fall back on the final position that we authorised.

2. Kvaerner insisted that they would not be able to sign an agreement, even with variations, without a satisfactory agreement with the workforce, including the prospect of a reduction from 1,800 to 1,300 employees to improve competitiveness, and for far less generous lay-off terms than BS agreed nationally some years ago. They are also now acutely nervous of the latest leak, which has emenated from Oslo, prejudicing the confidence of the workforce in the yard's management, which Kvaerner would take with them. Given the importance of providing other bidders with a possible chance to identify themselves, I have decided that I must make a clear announcement today (Monday) about the privatisation possibilities now facing BS and in particular about the possible disposal of Govan.

3. This will put very great pressure on us to make a clear statement about the future of the remaining yards and, in particular, NESL in Sunderland. On 31 March I reported the contractual difficulties that have arisen with Johansen, the Danish financier behind the programme of 24 small ferries now being built at Sunderland. As agreed at your meeting, BS gave notice of defaults under the building contract for a number of ships. While there are certainly technical grounds for counterclaim by the Danes, Johansen has made clear he will be amenable to suggestions of curtailment.

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the department for Enterprise

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The upshot is that a combination of contractual strife and negotiations could bring the programme to an end later this year.

4. These kinds of difficulty, the continuing costs of BS, and the lack of economic orders explain very graphically my conviction that subsidised shipbuilding in state-owned yards should cease as soon as present orders are complete. This is underlined by the independent survey from Peat Marwick I mentioned in my minute of 29 March, which showed that there would be sufficient capacity to absorb the peak in world shipbuilding demand widely expected in the 1990's in such a way that there was no prospect of lasting viability for BS without continuing support. The BS Board have endorsed my conclusion on viability. I believe that colleagues shared my conviction at the meeting you held but the discussion proceeded on the basis that we should announce this when the Danish purchaser defaulted.

5. I therefore now propose that my statement should also say that we have decided that there should be no more support for new orders in BS yards, nor should any more loss making orders be taken. This is against the background of orders regularly running at a loss over the past few years, despite assurances from BS that they would not.

6. I attach a draft of my Statement. I could only make the full Statement if my disagreement with Nigel Lawson about

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who should pay for cost-avoiding dowries and remedial measures is accepted by him. I find his arguments totally inconsistent with the basis upon which we reached agreement at your meeting.

7. I also think it is very important that Tom King should make a thoroughly uncompromising Statement about the prospects for Harland and Wolff in due course. I strongly believe shipbuilding on both sides of the Irish channel should be treated similarly whenever announcements are made. If Harlands were to stay open other than as a privatised yard, the task of the Chairman of British Shipbuilders would become much more difficult, and we might face resignations. I cannot see how I could explain a different policy in Wearside to one in Ulster on the subject of the financial treatment of shipbuilding. I fully recognise the appalling and very special difficulties that Tom King faces in Northern Ireland but I do not think that they would be accepted as an explanation in North East England.

8. I believe the arguments for an early comprehensive Statement about merchant shipbuilding in Great Britain are strong. Delay would also risk losing the initiative in Parliament, since the Shipbuilding Unions are preparing a mass lobby for the second half of May, and their friends are to press for a Debate in the expectation of decisions around June or July. Tom King is obviously facing the beginnings

of an intensive public relations campaign in favour of the cruiseship which will build up very quickly.

9. On more technical grounds, my draft Statement refers to legislation and includes a phrase to reassure those from whom BS might borrow in the months ahead. This is because Treasury officials have advised that BS can no longer use Public Dividend Capital given the clear intent behind my proposed Statement, and that access to grant under the Consolidated Funds Act 1932 requires procedures in Parliament, possibly in July, before such monies can be made available.

10. My hopes for the disposal of Govan and Appledore by means of dowry will require EC approval. My officials have meetings arranged in Brussels for Friday and I shall be speaking today to Peter Sutherland. The more restructuring they can point to, especially in terms of an announcement withdrawing support from BS yards, the more likely is the Commission to accept whatever we need to do to achieve those disposals. The radical nature of the announcement I propose could also help David Young on Rover and to secure the Commission's agreement to our proposals for Enterprise Zones in Inverclyde and Sunderland.

dti
the department for Enterprise

SECRET

11. I invite my collegues to agree that I should make a comprehensive Statement on the lines of the attached draft text.

12. I am sending copies of this minute to Nigel Lawson, David Young, Malcolm Rifkind, Tom King, Nicholas Ridley and to Sir Robin Butler.

KC

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18. IV. FM88

DRAFT STATEMENT ON BS

British Shipbuilders have been approached about the disposal of a number of its facilities, notably at Govan on the Clyde and Appledore in Devon. These approaches are being taken seriously, in line with our policy of returning as much of the Corporation as possible to the private sector.

As regards Govan, BS have today received a Letter of Intent to purchase the yard from Kvaerner Industries, a Norwegian company at the forefront of international gas ship technology, which operates an important fleet of its own. Kvaerner Industries are a respected Company with expertise in gas carying ships which they would proposed to build in future on the Clyde. I regard this as a very welcome proposal. I hope the negotiations succeed.

Should it acquire Govan, Kvaerner intends to transfer its gas ship technology to the UK via the yard by giving project support and assistance for gas ships built at Govan. Thereafter, Kvaerner plans to develop Govan into its centre for gas ship technology in support of worldwide activities in this sphere.

Kvaerner will attach certain conditions to an agreement in Govan. In particular it will be necessary to reach appropriate agrements with the workforce. Some restructuring will be inevitable to ensure that the yard is

IS8AAB

fully competitive in the international market place. As an important part of the agreement Kvaerner will undertake to place an order for two medium sized LPG carriers to be built at Govan for delivery in 1990 and 1991.

I also have to tell the House that the Chairman of British Shipbuilders has told me about contractual difficulties with the ferry programme at North East Shipbuilders at Sunderland. Naturally I hope these difficulties can be overcome and I am keeping closely in touch with developments. I will keep the House informed

I have to say that, for over a decade, BS has survived only through Government subsidy much of it to meet losses on contracts. Since 1979 we have lost over £1½bn of the taxpayers money in the Corporation, which today only employs less than 6,500 people.

Diesel

When I came to the House last July to propose increasing BS's borrowing limit by £200m, that increase alone represented over £30,000 for each employee of the Corporation. Our backing for British Shipbulders has clearly been strong and continuous. ~~(Our commitment to the Corporation over the last eight years cannot therefore be seriously in question.)~~ ~~That said~~, In view of the continuing high cost of support for British Shipbuilders, high losses on contracts under their control, ~~and the fact that there is capacity in plenty~~ to absorb any general ~~recovery in merchant~~ shipbuilding demand, and that any such ~~recovery~~ could well be short lived, I am convinced that it makes no commercial sense for Britain to have a nationalised shipbulding industry, ~~and no sense at all to continue to use taxpayers~~ money to attract further orders into yards ~~remaining in the Corporation's hands.~~

We have therefore decided that British Shipbuilders should take no more orders that require support or make losses. I expect there to be further bids from the private sector in addition to those I have mentioned to takeover some of the Corporation's facilities. Inevitably we are facing the expectation that some of the facilities will close when present work runs out. We shall continue to provide support to meet the costs of each yard until present work is completed. We shall take powers in due course to allow for the rundown of the Corporation and for the management of its outstanding affairs.

IS8AAB

I know of course the enormous problems that the areas affected by this outlook face. We are therefore announcing special measures, with new spending commitments by £30m, to make assistance available to encourage the modern local economy and the new jobs that people living in the North East need.

My Rt Hon Friend the Secretary of State for the Environment intends to establish an Enterprise Zone in Sunderland in order to promote new job opportunities through attracting new investment and stimulating the expansion of existing businesses. He will make an announcement on this shortly. In addition, I propose to ensure that new factories will be built, as soon as possible, on several sites to provide advance factory space for new and expanding businesses in the Sunderland area. We have allocated £7½m of new public spending in the next financial year for this factory building programme in Sunderland.

To manage this activity in the North East, and to make arrangements in Bideford in Devon should the disposal of the Appledore yard not succeed, we shall establish a new Enterprise Company under the Chairmanship of John Lister, the Chairman of British Shipbuilders. This will carry out the full range of training, counselling and placement activities previously undertaken by British Shipbuilders Enterprise Limited. In addition it will place a much stronger emphasis than British Shipbuilders Enterprise

Limited was able to do on the stimulation of new employment in the vicinity of all British Shipbuilders yards, whether in England or Scotland.

It is our firm intention to work closely with individuals and communities affected by today's announcement to build a more secure future for their areas. Today's measures backed by new spending commitments totalling £30m show how determined we are to help Sunderland and the other areas affected by make the change to more secure jobs. That change can and must be made for the sake of today's workforce and future generations of residents in those towns.

This Announcement certainly does not represent the end of shipbuilding in Britain. On the contrary, there is the excellent prospect of a further expansion of private sector merchant shipbulding as a result of the disposals presently in hand. There are already well over 26,000 people building ships in the private sector, four times as many as presently employed by BS. It does however represent the end of a policy that no longer has any commercial justification and no sensible aim. Allowing BS to pretend to struggle on would merely slow up the development of a stronger more diversified and more soundly based economy for the towns that have no future in shipbuilding.

IS8AAB

SECRET

SUBJECT
cc master

.4

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 April 1988

SHIPBUILDING

The Prime Minister held a meeting earlier this afternoon to discuss the Chancellor of the Duchy's minute of today's date and the attached draft statement. Those present were, the Secretaries of State for Northern Ireland, the Environment, Trade and Industry, the Chancellor of the Duchy of Lancaster, the Secretary of State for Scotland, the Chief Secretary, George Guise (Policy Unit) and Richard Wilson (Cabinet Office).

After a brief discussion it was agreed that the Chancellor of the Duchy should make the much briefer statement which he subsequently delivered to the House this afternoon. It was also agreed that the Chancellor of the Duchy should prepare a further paper setting out his proposals for the outstanding issues in the near future.

I am copying this letter to the Private Secretaries to the Secretaries of State for Northern Ireland, the Environment, Trade and Industry, the Secretary of State for Scotland, the Chief Secretary and to Sir Robin Butler.

PAUL GRAY

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster's Office.

SECRET

CONFIDENTIAL

Reference No: E0538

Mr Gray

I fully agree. I have checked my own notes and they record the same things as Mr Munyer, virtually verbatim. RJG. 15/4.

1. MR WILSON ✓

2. MR GRAY

Shipbuilding

file with PG

You asked if the point made in Mr Crawley's letter of 14 April is consistent with my recollection.

2. It is not. My detailed notes of the meeting record Mr Rifkind as saying that work on the current Ferguson's order, the Caledonian McBrayne ferry, would run out next year, and that he accepted that the yard would then close. The point he was trying to establish was that no explicit announcement should be made to that effect now. This point was accepted, but the Chancellor added the rider that Ferguson's should meanwhile take no more orders. Mr Rifkind did not disagree with this but repeated that work at the yard should reduce gradually, without fuss.

3. The meeting did not say, as the Scottish office now allege, that Fergusons should not be allowed to take orders 'on any basis other than that which is available to other yards in the UK'. Nor was there any reference to an order for Mauritius.

4. There is a more general consideration in dealing with this letter. The whole issue of shipbuilding policy may come to the boil next week. There is a complicated interplay between the DTI, Treasury, Scottish Office and Northern Ireland Office. Any concessions to the Scots could have a disturbing effect on this. DTI for example tell me that they are unhappy about Mr Rifkind's proposal because the Mauritius order, even though it was not backed by Intervention Fund support (but by support from the Aid

programme) would keep the yard open for another year at a loss of £3m. They are also unsure about the meaning of the statement that Fergusons could accept orders on the basis available to other yards in the UK, when for example the private sector yards will have access to the Intervention Fund for the time being.

5. In short, the Scottish Office letter is an attempt to improve their position in the discussions now imminent, in the guise of an unjustified comment on the minutes. I suggest that Mr Gray might deal with it by reaffirming the minutes, and saying that if Mr Rifkind wishes to pursue the proposals in the letter he should in the first place discuss them with the Chancellor of the Exchequer and the Chancellor of the Duchy.

G W MONGER

Economic Secretariat
15 April 1988

CONFIDENTIAL

Mr Gray
You may find this
background helpful.
A.J. 11/4.

Reference No: E 0537

MR WILSON

cc Mr Neilson

Shipbuilding

Mr Coates of DTI rang to say that the Chancellor of the Duchy wants to make a statement on Thursday 21 April, and will circulate a draft on Monday or Tuesday.

2. The immediate reason for the statement is that something must be said about the negotiations with Kvaerner. This is partly because they are or will soon become public knowledge - Radio Scotland already know about them and are saying nothing. It is also because Kvaerner themselves want an announcement since before they can finally decide whether to buy the yard they need to know the views of the unions on their plans for the labour force. These envisage a cut in it to 1300, and an end to arrangements for dealing with laid off workers which are very similar to those in the Dock Labour Scheme.

3. The prospects for the statement are however complicated by an intense argument that has suddenly developed with the Treasury, who are now insisting that DTI and the Scottish office should between them fund the dowry. Mr Coates said that the Chancellor of the Duchy will resist this strongly.

4. The minimum statement would be one that simply said that negotiations with Kvaerner are under way. Mr Clarke would however like it also to announce that no more support will be provided for yards remaining in BS ownership. It is not clear however whether this would be possible on 21 April. One question important to DTI is whether Mr King would be willing to make a simultaneous 'robust' statement about Harland & Wolff which would in some way mention the possibility of closure there, even if it did not slam the door completely on negotiations with Mr Tikkoo. BS are

apparently inclined to make an issue of the need for equal treatment of Great Britain and Northern Ireland. Mr Lister's resignation has even been mentioned as a possibility if such equality is not seen to happen. Mr Clarke seems to be pulled two ways: between the wish for an announcement on 21 April that would settle the position of BS; and the wish for perceived equality of treatment for Harlands, which Mr King will probably not be willing to announce on 21st (if ever).

5. As to Sunderland, recent talks between Mr Johanssen and ECGD have shown tht Mr Johanssen has reasonable grounds for behaving as he has and that he cannot be put in default at present. An arbitration procedure involving Germanische Lloyd may be agreed. Any announcement would therefore probably not say anything specific about Sunderland, although it would of course be covered by any general passage about BS.

6. Mr Coates said that Mr Gray knew of Mr Clarke's intention and is trying to find time for a suitable discussion. He might however find it helpful to have this further explanation of the points at issue.

G W MONGER

Economic Secretariat
15 April 1988

CC BJhp 3

SECRET

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Paul Gray Esq
10 Downing Street
LONDON
SW1A 2AA

14 April 1988

Dear Paul,

SHIPBUILDING

Hoppt 13.

My Secretary of State has asked me to comment on one point in your record of the meeting of 31 March.

In relation to the Ferguson yard at Greenock, my Secretary of State had understood the group to have agreed that it should not be allowed to take on new orders on any basis other than that which is available to other yards in the UK ie which would meet the restrictions on Intervention Fund support which would apply generally. Clearly this will make it relatively unlikely that any new orders would be forthcoming but to place a prohibition on any new orders would become publicly known and would have the same effect as an announcement of closure, which the group agreed would be unwise particularly in the context of the new Enterprise Zone and other measures being taken in Inverclyde. The end result may well be the same, but will be achieved with less potential for disruption at the yard or of the Government's wider efforts in Inverclyde. In the meantime, the yard could be in a position to secure an order for a small ferry for Mauritius for which no support would be required other than an aid package which has already been offered, if Ferguson's, which is the only UK yard in contention, wins the contract.

Copies of this letter go to the recipients of yours.

Yours sincerely,

David Crawley

DAVID CRAWLEY
Private Secretary

SECRET

HMP10407

NAT IND: shipbuilding pt 14

ps3/7T

SECRET 2

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 April 1988

Paul Gray Esq
10 Downing Street
LONDON SW1

Dear Paul

SHIPBUILDING

... I attach a copy of a minute from the Chancellor to the Prime Minister, dated 30 March. I very much regret that this was not circulated earlier, owing to an administrative error.

I am copying this letter and enclosure to Stephen Ratcliffe (DTI), Peter Smith (DTI), David Crawley (Scottish Office), Martin Donnelly (NIO), Deborah Lamb (Environment) and Trevor Woolley.

Yours sincerely

Jonathan Taylor

J M G TAYLOR
Private Secretary

RJ8.13

SECRET

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

PRIME MINISTER

SHIPBUILDING

The Chancellor of the Duchy's paper on the future of shipbuilding circulated on 28 March 1988 set out proposals for measures to alleviate the effects of redundancies in shipbuilding, on top of those measures promoting development and employment already available, which might be introduced in support of a decision for closure of NESL. These involve, in addition to counselling and retraining, enterprise promotion measures and a major new programme of factory building in the North East. He also supports Nicholas Ridley's proposal for an Enterprise Zone in Sunderland.

I understand that Malcolm Rifkind is also likely to propose a substantial package of measures for Scotland, again with a very large element of factory building. This would be in addition to the Enterprise Zone in Inverclyde already agreed.

I am very concerned about the public expenditure costs of the measures now being proposed for England and Scotland. We are agreed that closure should be accompanied by some package of special measures. But these should be proportionate to the problem. While the absolute number of redundancies which would be precipitated by the closure of NESL and the sale of Govan to Kvaerner is serious, it is a good deal less than has happened in other industries in recent years. Moreover, it will occur against the background of rapidly declining levels of unemployment generally. Given the continued economic recovery, the effect of closure on Sunderland, where the vast

bulk of the total redundancies would be concentrated, is no more than a temporary hesitation in the rate of decline in unemployment. The same would be true of the Glasgow Travel to Work Area, even were Govan to close.

Against this background the possible packages proposed for England and Scotland appear to me excessive. If the costs of the recent offer of assistance to Nissan and of the proposed Enterprise Zone for Sunderland are included, the proposals involve public expenditure of some £86m to generate some 5,000 jobs in England in response to some 3,000 job losses from shipbuilding. Similarly, including the new Enterprise Zone agreed for Inverclyde, they could involve public expenditure of around £71m in Scotland to generate about 6,000 jobs in response to some 1,300 job losses from shipbuilding. In total they could amount to expenditure of at least £157m (excluding any additional costs for counselling and training in Scotland, or any extension to the Inverclyde EZ). This would amount to over £36,000 for each shipbuilding job lost, more than double the cost per job limit for regional assistance in Development Areas.

On Harland and Wolff, while Tom King will be putting forward substantial proposals for remedial measures, I understand he has already accepted that further work by officials will be needed in the light of decisions on British Shipbuilders. I would very much hope that we could then agree something more modest than the £94m outlined in his paper.

Any package of remedial measures must also take into account the availability of resources to fund them. Closure will not lead to early savings of public expenditure for shipbuilding support which could then be used to fund remedial measures. I must, therefore, look to the Secretaries of State most affected for funding from within their existing provisions.

Whatever is done should be even-handed between the territories. Agreement to the Enterprise Zone at Inverclyde was on the basis of no additional provision, and I would in particular expect the same to apply to any Enterprise Zone for Sunderland, including any associated costs of regional assistance.

Whatever is done by way of remedial measures, I am quite clear that we must end Government subsidies to UK merchant shipbuilding at the earliest opportunity, and that it would be wholly counterproductive to try to safeguard jobs in shipbuilding areas by continuing and entrenching current support arrangements. Merchant shipbuilding in Europe is, and will remain for some years, an uneconomic activity. Even at the peak of the next shipbuilding cycle it is highly doubtful that UK yards could be competitive. In terms of job support, the costs of shipbuilding subsidies are indefensibly poor value for money.

I therefore entirely agree with Kenneth that the alternative to disposal of Govan must be its closure, and that we must not contemplate disposal on terms involving continuing subsidies. Closure of NESL seems inevitable, and I would support an early statement to that effect. We will need to discuss at your meeting whether there should be an early comprehensive announcement covering Govan and Harland and Wolff. But I am clear that it would be indefensible to maintain subsidies in Scotland and Northern Ireland, where the same arguments should apply with equal force.

I am copying this minute to David Young, Kenneth Clarke, Malcolm Rifkind, Tom King, and, in view of the reference to a possible Enterprise Zone for Sunderland, Nick Ridley and to Sir Robin Butler.

[N.L.]

30 March 1988

07.IV

SECRET

Pile MJ

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

5 April 1988

Dear Peter,

SHIPBUILDING

It has been pointed out to me that the gremlins have got to one of the figures given in my letter of 31 March. In the middle paragraph on page 2, the figure of £25m. should have read £75m. I should be grateful if you could arrange for this amendment to be made.

I am sending copies of this letter to Alex Allan (HM Treasury), David Watkins (Northern Ireland Office), Alison Brimelow (Department of Trade and Industry), David Crawley (Scottish Office), Hugh Kernohan (Ministry of Defence) and Trevor Woolley (Cabinet Office).

Yours,
Paul

Paul Gray

Peter Smith, Esq.,
Chancellor of the Duchy of Lancaster's Office.

SECRET

PART 13 ends:-

Pg to DT 31.3.88

PART 14 begins:-

Pg to DT 5.4.88