

PREM 19/4328



Part 16.

M.T.

SECRET

Confidential Filing.

Shipbuilding Policy

Shipbuilding Pay.

Attached letter: Joint Government/Industry
Working Party on British Shipping. Submission
Report

NATIONALISED
INDUSTRIES.

Part 1: May 1979

Part 16: Dec 1989

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
20.12.89		Series closed		see Trade & Industry			
8.1.90				Shipbuilding / Merchant shipping			
13.3.90							
26.3.90							
19.6.90							
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31.5.91							
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23.7.92							
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PART 16 ends:-

D POOL to PM 20.1.93

PART 17 begins:-

WEC to ~~WEC~~ MOD 26.2.93

Published Papers

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

Cm 2121 - The Government response to the House of Lords Select Committee on Science and Technology Report on Safety Aspects of Ship Design and Technology. Presented to Parliament by the Secretary of State for Transport by Command of Her Majesty December 1992.

Published by HMSO ISBN 0-10-121212-7

Signed M.W. Lewis Date 1/5/18

PREM Records Team

amy/pwz

CONFIDENTIAL

PRIME MINISTER

20th January 1993

SWAN HUNTER

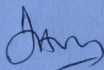
You have asked me to keep you in touch with developments.

I was telephoned from the Bank of England this afternoon to be told that an unexpected cash flow crisis has arisen. The Bank convened a meeting of the Company's Bankers, Lloyds, and the MoD to make certain that all bases are being covered. The principle creditor turned out to be the Inland Revenue and it is possible that the Bank will conclude that they should speak to the Revenue to obtain a brief deferral. At the moment, it looks as though a little tweaking and some pushing will get them through the next week or two after which, the Bank believes, they should be able to keep going for some time.

Negotiations for the possible acquisition of the business continue and I have suggested to the Bank that they touch base with the Company's Merchant Bank to get a feel for progress.

You may care to note that I was told that the MoD are being particularly helpful, indeed bending over backwards to be so.

I will keep you in touch when necessary.



DAVID POOLE

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COMMERCIAL IN CONFIDENCE



SECRETARY OF STATE

MO 26/3/3M

PRESIDENT OF THE BOARD OF TRADE

SWAN HUNTER SHIPBUILDERS (SHS)

Thank you for your letter of 14 December about the future of Swan Hunter Shipbuilders.

2. You may be sure that we will be as helpful as we can, within the constraints set out in my letter of 4 December. We must recognise, however, that the 50% reduction in the naval shipbuilding programme has the inevitable consequence of reducing employment in the shipbuilding industry; and the unfortunate fact is that the three largest warshipbuilders are all located in areas of high unemployment.

3. I will certainly keep in mind the potential importance of the LPH order to the prospects of a successful takeover of SHS, and will consider how soon we could be in a position to make an announcement. As you recognise implicitly, we could not contemplate bringing the actual work or the expenditure forward. Before we are in a position to make an announcement, we must go through the process of evaluation and assessment of the tenders, and be in a position to negotiate a taut contract with the winning bidder. The LPH is a one-off ship, with two different design solutions on offer, and assessment is a complex process. We currently plan to complete this by the autumn, and I see no prospect that we could advance this to as early as March without risking a serious loss of value for money.

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COMMERCIAL IN CONFIDENCE

I should add that we cannot make the assumption that the SHS bid will be the winner; and the other tenderer (VSEL in conjunction with the Kvaerner Govan yard on the Clyde) may also claim consideration in the light of the very marked rundown and heavy job losses at Barrow. A further factor will be the need to confirm the place of the LPH in the defence programme in the light of the PES 1992 settlement.

4. Copies of this minute go to the Prime Minister, Norman Lamont, Gillian Shephard and Sir Robin Butler.

MR

Ministry of Defence

(M R)

23 December 1992

COMMERCIAL IN CONFIDENCE

plc
CONFIDENTIAL

pl. kept me informed. f
16 December 1992

PRIME MINISTER

SWAN HUNTER

✓ I can now confirm that the necessary steps have been taken to ensure the survival of this company into February, or even perhaps March, next year. That is the good news.

The bad news is that I have now been properly briefed by MoD in the person of Malcolm Mackintosh who is the Head of Defence Procurement. It looks unlikely to me that Swan will receive the order they are hoping for to construct a helicopter landing vessel in time to put their financial affairs to right. Indeed, it is by no means necessarily the case that they will be awarded the contract even if the project is proceeded with. I am told that another shipbuilder could well win on the merits of their case.

I do not now, however, believe that my concern regarding MoD's motives, which I referred to in my last note, were soundly based.

I will keep an eye on this situation in the coming months but I rather fear that it is unlikely that Swan Hunters yard, and the employment that goes with it, has much of a future unless the company is acquired by a better capitalised business. I understand that discussions to this end are in hand but I have to say that I am not very optimistic about the outcome since any intelligent acquirer would wait for the company to go bust and then pick up the bits very cheaply rather than pay a higher price for the business as a going concern.

Once again, no action required on your part but I will keep you in touch if matters develop further.

DA

DAVID POOLE

208.dp

The Rt. Hon. Michael Heseltine MP
President of the Board of Trade

495/12
Dr.
p/c
COMMERCIAL IN CONFIDENCE



The Rt Hon Malcolm Rifkind MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON
SW1A 2HB

cc M Pople
This has
considered with you
note today 6.45
PM. 1.15.10
your note: could
you advise on
the President's
points?
MC
16/12

Secretary of State
Department of
Trade and Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 4440

DTI Enquiries
071-215 5000

14 December 1992

In haste

SWAN HUNTER SHIPBUILDERS (SHS)

I was grateful for your letter of 4 December confirming that you are prepared to make an interim payment of £5 million to SHS. I understand that their bankers have offered matching finance.

As you say, this should allow time for SHS to find a purchaser. But of course they have no financial "cushion", were they to hit unexpected problems. I trust that you would, in these circumstances, again do your best to be helpful, bearing in mind the employment consequences and substantial additional costs that would accrue to the taxpayer if the company were to fail.

It will of course be quite impossible for SHS to find a purchaser if they do not know whether they have won or lost the LPH order. I should therefore be grateful if you would confirm that the order will have been placed by March, although of course you may not be able to allow work to commence until much later.

Subject to these two points, if SHS had not found a purchaser by March, we might then not be able to continue to be so sympathetic to the company's problems. But let us in that case then discuss the problem again before any final decisions are taken.

I am copying this letter to the Prime Minister, Norman Lamont, Gillian Shephard and Sir Robin Butler.

for Mr. M. Pople: I know, but Mr. doesn't, that there is no possibility of the order being given within these timescale. Swan's would not necessarily get it anyway. The likely purchaser is VSEL - the company who might well win the order, in fact. We should stand COMMERCIAL IN CONFIDENCE back but MOD should be preparing a plan for action to complete the outstanding work if Swan's do go down.

PE12118

dti
the department for Enterprise





Mrs Mary Francis
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

NACM
cc - Press
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

- 9 DEC 1992

Dear Mary,

The Government response to the House of Lords Select Committee Report on merchant ship safety is being published by the Department of Transport (DOT) tomorrow.

The Select Committee Report focused almost entirely on DOT matters, though the draft response, has been cleared at official level with those Departments who have an interest. The response is unlikely to generate much press coverage beyond shipping circles.

The announcement of publication will take the form of inspired PQs in both Houses, and a Press Notice. Copies of the Government response will be placed in both Houses at about 11:00 am tomorrow.

- I enclose copies of the response, Press Notice and briefing, for
- your information. I am copying this letter and enclosures to Peter Smith (DTI), Joan Bailey, Tim Sutton, David Russell (ED), Murdo Maclean and Ed Ollard.

Yours sincerely,

Chris Jones

PA MISS B HILL
Private Secretary

DRAFT PRESS NOTICE

Annex D

GOVERNMENT PROMOTING NEW APPROACH ON SHIP SAFETY:
RESPONSE TO HOUSE OF LORDS REPORT PUBLISHED TODAY

John MacGregor, the Secretary of State for Transport, today announced Government action to press for higher international ship safety standards, following a House of Lords Report which recommends the 'Safety Case' approach for ship operations.

The Report envisages that the 'Safety Case' would require operators to demonstrate achievement of primary safety goals, including structural standards, operational competence, and safety management for every type of ship operation, the case to be approved and audited by the flag state.

Commenting on today's publication of the Government's response to a report on "Safety Aspects of Ship Design and Technology" by the House of Lords Select Committee on Science & Technology, Mr MacGregor said:

"I cannot emphasise enough our commitment to safety in all areas of transport; and our response today demonstrates the importance we attach to safety at sea. The Committee has produced an important report, setting the agenda on ship safety for years to come. We are taking up the challenge. We recognise that the 'Safety Case' has a role to play in ship safety, and we intend to explore this further. We need to examine carefully the scope for less prescriptive forms of regulation, including the safety case approach for ship operations. Our efforts to improve maritime safety will become more responsive to the benefits of new technologies. Because of the international flavour of the shipping industry, the right forum in which to promote debate is the International Maritime Organisation (IMO)."

Other points made in the Government response to the Select Committee's report include:

- The Surveyor General's Organisation (SGO) is being prepared for Executive Agency status and will be re-named the Marine Safety Agency.

- That signatories to the Memorandum of Understanding (MOU) on Port State Control, have recently agreed to a UK amendment to the Memorandum, which will enable UK and other MOU countries to crack down, through the MOU, on ships and flags with a poor safety or pollution record;

- Support for further strengthening of Port State Control, worldwide;

- Support for work at IMO on hull stress monitoring systems and voyage data recorders;

- Support for work in IMO to establish minimum standards for the classification societies used by flag states to issue international certificates;

- The UK also considers that there should be internationally recognised certificates for ship surveyors;

- Consideration is being given to a new safety code for fishing vessels below 12 metres in length.

The House of Lords Report's principal recommendation is that the development of a 'Safety Case' for every ship trading commercially should form the basis for safety regulation in the long term. However, it acknowledges that this would be 'impracticable' under present conditions. The Government's response focuses on the steps the UK and IMO have already taken to promote this approach. The Government response also announces that the UK will be presenting a discussion document to the IMO on the scope for making maritime safety regulation less prescriptive by greater use of performance standards and the application of risk assessment techniques. In addition, to meet the challenge of the 'Safety Case' debate, the DOT has given a professional officer lead responsibility for 'Safety Case' issues.

NOTES FOR EDITORS

The House of Lords Select Committee on safety aspects of ship design & technology began work in February 1991, sat until the end of 1991, and published its Report on 28 February 1992. (HL Paper 30-I, ISBN 0 10 482192 2) The Committee sought and obtained a wide range of views from individuals and organisations. The DOT's Marine Directorate gave both oral and written evidence. The Report was debated in the House of Lords on 1 June 1992.

The Government response is published in the form of a Command Paper, presented to the Houses of Parliament. (ISBN X XX XXXXXX X) The response to the Report's recommendations is in two parts.

Part I is a paper addressing the three recommendations on the 'Safety Case', which form the central focus of the Report. The House of Lords Report recommends, in the long term, the development of an operational 'Safety Case' for every ship trading commercially. The vessel's 'Safety Case' would comprise a series of primary safety goals to be met by the operator, and to be audited by the state the vessel is registered with. Those goals would be set, the House of Lords Report envisages, internationally for ship types, through IMO. Part I of the Government response defines the 'Safety Case' concept; notes areas where elements of it are already effectively used in maritime legislation; and, although Part I records the technical difficulties involved in carrying the concept further, advocates the development of the 'Safety Case' debate in the shipping world, principally at the IMO.

Part II of the Government response provides replies to the other 17 recommendations made in the House of Lords Report. Press copies of the response are available from the DOT Press Office.

Annex A

PUBLICATION OF GOVERNMENT RESPONSE TO HOUSE OF LORDS SELECT
COMMITTEE REPORT ON SHIP SAFETY

Line To Take

- Select Committee produced an informative & thorough Report. Government recognises that Safety Case has a role to play in ship safety, and intend to explore this further, particularly in the arena of the International Maritime Organisation.
- Our Response sets out in more detail what we are, and shall, be doing.
- In respect of port state control, which figures significantly in the Report and recommendations, Memorandum Of Understanding (MOU) signatories have recently agreed to a UK proposal that will allow MOU states to target ships of Flag states which are recorded as having above average numbers of delays and detentions.

(Enquirers on more detailed matters should be directed to DOT Information Division (071 276 5172).)

Background

1. The Government Response to the House of Lords Select Committee Report on ship safety will be published on 10 December. The Select Committee published its report in February 1992. It sought and obtained a wide range of views from individuals, organisations, and Government Departments. The Report was debated in the House of Lords in June.

2. The Report's primary recommendation is, in the long term, the development of a safety case regime for every ship trading commercially. The safety case would demonstrate that the individual ship's operations could achieve relevant primary safety goals set by IMO. These would include standards of stability and operational competence. In turn, those goals would be subject to prescribed conditions, involving such matters as manning levels and safety management systems. However, because of the variations in implementation and policing of regulations etc world wide, the safety case concept is, in the Report's words, 'a Utopian vision when set against present realities'.

3. The Government response is in two parts. Part I - entitled 'Shipping & The Safety Case Concept' - addresses the trio of recommendations that represent the intellectual heart of the Committee's view of the way forward on ship safety - the Safety Case. Part I examines the development of the Safety Case concept; and the inherent difficulties in transferring it to the sphere of shipping. Part I then highlights the extent to which the DOT has already involved safety case ideas in maritime safety legislation; and how the safety case debate can be developed within the shipping world, principally at the International Maritime Organisation.

4. Part II of the response provides replies to the remaining 17 recommendations in the Select Committee Report.

- To ask the Secretary of State for Transport when the Government expects to publish its response to the House of Lords Select Committee on Science and Technology's Report on Safety Aspects of Ship Design.

The Government response to the Select Committee on Science and Technology's Report was published today. Copies of the response have been placed in the Libraries.

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SECRETARY OF STATE

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 071-21 82111/2/3

*Prime Minister
To note. This confirms
the information David Polle
has given you.*

MO 26/3/3J

MF

4/12

4 December 1992

Dear Michael

SWAN HUNTER SHIPBUILDERS (SHS)

You will be aware of the severe financial difficulties facing Swan Hunter Shipbuilders (SHS). They have asked for an immediate MOD advance of £5-7M, rising to £12M by early next year.

SHS have claimed that MOD owes them sums rising to £24M for the contracts for the Auxiliary Oiler Replenishment (AOR) and the three Type 23 frigates and that this is the cause of their cash flow problems. In the case of the AOR, on which SHS have very recently lodged a claim for £17.7M, we have now agreed to make an interim payment of £5M. This will be formally offered to the Company shortly. Our judgement is that MOD's total liabilities for claims under the contract will be at least this amount. On the Type 23 frigate contract, payments to the Company are at present slightly ahead of the value of work done, calculated against the contract price. SHS are making losses on this contract but this is due to a degree of over-optimism in their bid and to the fact that the contract overhead rates are not covering their actual overheads; the latter reflects SHS's lack of success in winning further orders over which overheads could be recovered. We have also reviewed our

The Rt Hon Michael Heseltine MP
President of the Board of Trade

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contracts with SHS to ensure that all amounts properly due are paid promptly. Payment of more than this £5M interim payment could expose MOD to financial and other risks under the Insolvency and Companies Acts.

This payment should be sufficient to allow SHS to continue trading until March, provided that their bankers continue to support them with an increase in their overdraft facility. This will allow more time for SHS to find a purchaser, but the possibility cannot be ruled out that SHS may be unable to continue trading and that this position could be reached quite soon. If SHS were to fail as early as this month, my Department's exposure for additional costs in completing vessels elsewhere could be as much as £45M, taking into account Performance Bonds provided under these contracts. This exposure will reduce to about £20M by March as work on the four ships presently in the yard progresses.

The main reason for SHS's current losses is their inability to cover their overheads with income from present orders. There is little prospect of further Defence orders in the near future over which to recover their full costs, and I understand the position on civil orders is no more promising. The Naval new construction programme was reduced by a half following the changes announced in "Defence for the Nineties" and further reductions may be in prospect. It will be at least November 1993 and possibly later before new orders can be expected and there are no firm prospects for other work for SHS. SHS are assessed as having no future without a large cash injection, hence the need for them to seek a parent company, probably another shipbuilder. The payment of the £5M should allow a little more time for a buyer to be found.

At the time of privatisation, it was recognised that the prospective purchasers lacked financial backing and capital and that there was a distinct danger that the company would fail, leaving MOD with considerably delay and dislocation to its programmes and additional costs. It was, however, judged that these costs would be considerably less than the cost to Government of continuing

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ownership of the yard, through British Shipbuilders. Whilst unable to accept firm commitments, in his letter dated 14 January 1986 the Chief Secretary did not rule out the use of the Reserve if that were justified at the time. This would need to be addressed later, in the light of the extent and timing of additional expenditure falling to my Department.

I am copying this letter to the Prime Minister, Norman Lamont, Gillian Shephard and Sir Robin Butler.

[Handwritten signature]

[Handwritten signature: MLC]

Malcolm Rifkind

PRIME MINISTER

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3rd December 1992

SWAN HUNTER

✓ 11) As a result of rattling the bars and involving the Bank of England, Swan Hunter have been offered £5 million on account by the MoD and Lloyds Bank has been persuaded to increase the Company's overdraft by a further £5 million. This should, barring unforeseen accidents, tide the Company over until March.

The management is now aware that they would be wrong to believe that MoD will prove a soft touch - a message that I have had transmitted to them by Pen Kent. As a result, I understand that they are resurrecting serious conversations with potential purchasers such as GEC.

The Company will not survive unless it obtains a further order. It is hoping to receive one from the Navy for an amphibious helicopter landing platform. As a result of the recent PES round, a decision on this has been deferred. I have a slight suspicion that, having been treated severely, the Navy is now seeking to demonstrate the impact of the decisions Cabinet took. I propose to speak to the appropriate people in MoD so that I understand the situation better and will report back to you in due course.


DAVID POOLE

2018
PAGE 03
M. Poole
cc 7/6
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PRIME MINISTER

1 December 1992

SWAN HUNTER

I have now spoken to the DTI, the MoD and to the company's Merchant Bank (this last in secret) and it is clear that the company is on the verge of failure. Indeed, if cash is not forthcoming shortly, the Directors may be advised by their legal counsel that they should cease trading. A Board meeting to discuss this will be held on Thursday this week.

On the one hand, I have come to suspect that the company simply does not believe that the MoD may not, in fact, help them out. On the other hand, I suspect that the MoD believes that the company is being over-alarmist in order to force the MoD's hand. I have asked Penn Kent in the Bank of England to see whether he can assist by bringing the parties together for a serious discussion. This would include the company's bankers, Lloyds.

As I see it, there is a tricky course to steer: it is most undesirable to have significant job losses on Tyneside which would be blamed on a reduction in naval spending and it would also be undesirable for the MoD to find itself with three uncompleted frigates on its hands in a bankrupt shipyard. On the other side, I am sure that we do not wish to be seen to intervene in a thoroughly 1970s' manner. Penn Kent is seized of this and I hope that he will be able to find a middle way forward.

I will keep you informed.

David Poole

DAVID POOLE

pl a Alex - to see Prime Minister
MoD told us this evening
that new proposals for
closing Swan Hunter are
being considered. We will
know more on Monday.
27th November 1992 MF
Thank! 27/11

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PRIME MINISTER

cc Sarah

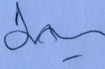
SWAN HUNTER

Swan Hunter, is one of the three principle naval shipyards in the country. It is currently engaged in building three Type 23 Frigates and an ALR support ship for MoD. The Company currently employs 3,900 people (some of whom are contracted-in labour) though it has announced plans to reduce that number down to 2,200 by the spring. In addition to those directly employed in the Yard, some 12,000 jobs on Tyneside and elsewhere in the UK depend on the Yard.

The Company was formed as a management buy-out. It was under-capitalised. It has no firm orders to replace the work which is currently in hand which, I understand, has now reached the fitting-out stage in each case.

The Company is rapidly running out of cash and may have to go into liquidation before Christmas. I have spoken to officials in MoD and DTI as well as to Pen Kent in the Bank of England. Discussions are in hand to see whether any payment rephasing by MoD is possible which would tide the Company over its immediate difficulties. I have arranged to go and see the Company's Merchant Banker's, Schroder's, for a secret meeting on Monday as I wish to have a proper understanding of its true financial position.

There is no need for any immediate action on your part but I will keep you informed as the matter progresses, particularly if the news deteriorates.


DAVID POOLE

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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON
SW1A 2HB

✓
14 May 1992

Dear Malcolm:

Thank you for writing to me on 5 May about the decision by Harland & Wolff to sub-contract completion of the AOR vessel to another yard on the mainland.

I understand that decision, and your Department's agreement to it. The aim now must be to have the vessel completed with the least delay possible.

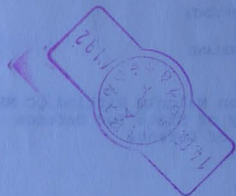
On the public dimension to the subject I intend merely to say, if pressed, that this is a business and operational matter between Harland & Wolff and the MOD. I look forward to hearing from you again when the NAO report is received.

A copy of this letter goes to the Prime Minister, the President of the Board of Trade and the Chief Secretary, and to Sir Robin Butler.

Yours sincerely
X
J. Smith

The Rt Hon Sir Patrick Mayhew QC MP
Secretary of State for Northern Ireland

Nat Ind Shipbuilding Pt16



SECRETARY OF STATE

COMMERCIAL IN CONFIDENCE

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

MO 26/3/3D

5 May 1992

Paul White

Dear Patrick,

attached

rw

Following Tom King's correspondence with Peter Brooke about the Royal Fleet Auxiliary FORT VICTORIA you will wish to be aware that Harland & Wolff have decided, with Ministry of Defence agreement, that completion of the ship, already more than two years behind schedule, can best be achieved by placing it at another yard. Their nominated sub-contractor is likely to be Cammell Laird Shipbuilders on Merseyside but a contract has not yet been placed. The history to this decision is summarised in the enclosed Annex.

I understand that Harland & Wolff have briefed their management and union representatives. The information is being passed down the management chain and is therefore likely to become public. There may well be parliamentary and press interest in the move when it takes place in May or June, not least because of the perceived impact on employment prospects in Belfast, though this will of course be offset by the corresponding gains in Merseyside. Interest may increase when the NAO publish a report on the AOR project. This will, we expect, include reference to the decisions by OD to place the order for AOR 01 at Harland & Wolff and AOR 02 at Swan Hunter Shipbuilders and to the payments made to Harland & Wolff by NIDED.

The Rt Hon Sir Patrick Mayhew QC MP
Secretary of State for Northern Ireland



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SECRETARY OF STATE

We have been in close contact with Harland & Wolff and we have no objection to AOR 01 being completed by a sub-contractor subject to a number of conditions which preserve the Ministry's rights and ensure that no liabilities will attach to MOD as a result.

The main objective now is to complete AOR 01 as quickly as possible so that it can take its place in support of the Fleet with as little delay as possible.

I will write to you again when we have received the NAO report.

I am copying this letter to the Prime Minister, the President of the Board of Trade and the Chief Secretary, and to Sir Robin Butler.

Malcolm Rifkind



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SECRETARY OF STATE

ANNEX

The Auxiliary Oiler Replenishment is to be an armed, one stop replenishment ship for the Royal Fleet Auxiliary capable of providing fuel, ammunition and stores to naval units. Two ships have been ordered to date, AOR 01, RFA FORT VICTORIA, from Harland & Wolff (H&W) in Belfast in April 1986, and AOR 02, RFA FORT GEORGE, from Swan Hunter Shipbuilders (SHS) in Newcastle in December 1987. AOR 01 was intended as First of Class with the design to be used as basis for AOR 02 and any subsequent ships.

Following OD consideration of the results of the competition a contract for AOR 01 was placed with H&W as prime contractor on a fixed price basis for £127M at 1985/86 prices. At the same time, the Government announced that the order for AOR 02 would be placed with SHS subject to certain conditions. H & W are responsible for the design and build of the complete ship. The original delivery date for AOR 01 was April 1990 but this was subsequently extended to October 1990 with MOD agreement. Progress against the agreed programme has been poor from the start and despite frequent revisions by H&W their progress has consistently failed to follow their own programme. As a consequence the forecast delivery date has slipped significantly and the shipbuilder's latest forecast is October 1992. Our estimate for completion is November 1992 at best with a likely delay into 1993; a delay in delivery of over two years on a 4.5 year build programme.

The delays have been caused by H&W's initial failure to develop the design information necessary for production and their subsequent failure to establish proper management controls. The latter has manifested itself in the company's inability to achieve planned progress rates against any of their regularly revised programmes,



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SECRETARY OF STATE

poor planning controls and contractual disputes with sub-contractors. The design shortcomings have led to extensive rework and problems have also arisen as a result of inadequate specification of equipment.

Under the fixed price contract the delays have not involved increased direct costs to the MOD for AOR 01 although there has been substantial public expenditure through the NIDED. There has been a knock on effect on the price for AOR 02 as the MOD was liable for the late delivery of information to SHS for the build of AOR 02; because of this situation the majority of the design for AOR 02 was decoupled from that of AOR 01 in 1989 so that SHS could proceed independently. This course of action has resulted in satisfactory progress being maintained on AOR 02 by SHS and the Ministry expect this vessel, to be delivered with little or no delay to the agreed programme.

The Ministry has of course been very concerned with H & W's conduct as the prime contractor and has consistently sought to influence and improve the unsatisfactory situation. However, the scope for MOD involvement has been limited by the nature of the prime contractorship contract and the consequent need to avoid relieving H & W of design, procurement and management obligations they had accepted. The contract for AOR 01 and the arrangements for the privatisation of H & W have been the subject of considerable Parliamentary interest and the AOR project will be the subject of an NAO report due shortly.

H & W have seemed to take representations seriously initially but have quickly reverted to their normal rate of progress. Visits by Ministry senior management have resulted in many promises but no effective action. Stage payments were suspended in Spring 1990 as



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SECRETARY OF STATE

the then current programme was clearly unachievable. A revised programme was produced and payments resumed. Within a short period, progress again fell far short of the necessary targets and in May 1991 payments were again suspended. A further programme was proposed but, in line with previous editions, following a promising start progress again lapsed and is now well short of that required. The Ministry of Defence did indicate to H & W that unless a satisfactory way forward was found the Ministry would consider, amongst a number of options, determining the contract.

H & W are now intending to complete AOR 01 at Cammell Laird's following successful completion of contractors sea trials, which the company claim will take place in late May 1992 but we expect will be June or July 1992.

The Ministry has been in close contact with H & W and has stated that there is no objection to AOR 01 being completed by a sub-contractor subject to a number of conditions which preserve the Ministry's rights. These conditions include the acceptance of full liability by H & W of any additional costs falling to the Ministry that may be incurred by their actions.

The main objective now is to complete AOR 01 as quickly as possible so that it can take its place in support of the Fleet with as little delay as possible. Many lessons have been learned from this highly unsatisfactory saga and these are being taken into account in the procurement strategy for future vessels of this and other classes.



NAS: Shipbuilding
P10

cst.ps/dr/12dm12.2

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Treasury Chambers, Parliament Street SW1P 3AG

071-270 3000
Fax 071-270 5456

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

13 February 1992

Dear Secretary of State

File

AVIATION SUPPORT SHIP/HELICOPTER CARRIER

Thank you for your letter of 10 February.

2. I am not fully convinced of the need for an oral statement, but I will not press my objection.

3. I am afraid that I continue to have difficulty with the reference to "some £4 billion over the next 10 years." Such a statement prejudices my and colleagues' approval to specific projects which may, at the time and in the light of further work, prove unaffordable, inappropriate or poor value for money. But on the basis that the figure merely repeats what is currently planned and does not constrain consideration of such plans on their merits in due course, I am reluctantly prepared to agree to its use.

4. I am sending a copy of this letter to members of OPD, the John MacGregor, Richard Ryder and to Sir Robin Butler.

Yours sincerely

David Mellor

DAVID MELLOR

(Approved by the Chief Secretary and
signed on his behalf)

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NAT IND: Shipbuilding P116



13 FEB '92 12:48 MINISTER:DP - A CLARK

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MINISTER OF STATE FOR DEFENCE PROCUREMENT

Covernote for Facsimile Transmission

(To be completed in accordance with MOD Manual 4 Chapter 16 and transmitted as the first page of any facsimile transmission)

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.....PS / PRIME MINISTER
.....NO. 10. DOWNING STREET.
Tel930.-44.33.....

file
✓

SUBJECT AMPHIBIOUS FORCES.

From R.D. WATKINS..ESQ... Date ..13. FEB. 1992.....
PS / MINISTER (DP)... Time ..1255.....
.....M. O. D..... No of pages + leader sheet 3...
Tel MB Ext86621.....

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Rank/Grade AD: MIN (DP)..... Appointment ..AD: MIN (DP).....

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AMPHIBIOUS FORCES

With permission, Mr Speaker, I wish to make a statement on the Government's future plans for amphibious shipping for the Royal Navy.

"Options for Change" identified reductions in the size, and adjustments in the shape, of our armed forces made possible by the radical changes in the international situation. It also recognised that the qualities of mobility and flexibility will assume increasing importance.

Nothing exemplifies those qualities better than our amphibious forces and the specialist shipping which supports them. We have said that we intend to retain and replace these ships. We intend to refurbish three of our five Landing Ships Logistic which, by carrying and offloading personnel, vehicles and stores, played a significant part in the conflicts in the South Atlantic and the Gulf. Two of these vessels are relatively new - one was replaced and another rebuilt after the Falklands. Refurbishing the others will enable us to operate them well into the next century.

I can now tell the House that we have awarded contracts for Project Definition of replacements for the Assault Ships, FEARLESS and INTREPID, to YARD in Glasgow, VSEL in Barrow, and Dowty-Sema Limited in Esher. Further study contracts are due to be placed shortly.

I turn next to the latest stage of our plans for amphibious shipping. We are inviting tenders for the design and build of a new Helicopter Carrier. This ship, which we have previously referred to as an Aviation Support Ship, will be a flexible asset, suitable for a variety of tasks in and out of area. Its primary role will be to use its helicopters to deliver its embarked amphibious landing force ashore in a single wave.

Britain's four warship builders will be invited to tender. We are also ready to consider modifications of existing designs or conversions of existing ships. We expect firms across British Defence industry to benefit.

Our plans for our amphibious shipping amount to some half-a-billion pounds over the next 10 years. They are only part of our wider commitment to providing the Royal Navy with modern and capable equipment.

I think the House will agree that this equipment programme, and my announcement today on the Helicopter Carrier, ensures that the Royal Navy in the 1990s and beyond will exemplify our intention to provide armed forces that are flexible, mobile, smaller but better equipped.



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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

SECRETARY OF STATE

MO 26/3/D

February 1992

Dear David,

Thank you for your letter of 7th February about the Aviation Support Ship.

I am grateful to you for agreeing that we can now go ahead with the tendering competition for the Aviation Support Ship. The Business Managers have asked me to make the most of defence orders in the coming weeks, hence the plans for a statement. The impact of that would be significantly greater if we could indicate our - substantial - plans (within the agreed budget) for investment on amphibious forces. I should be grateful for your agreement to my including a reference to plans for "some £½ billion over the next 10 years."

Incidentally, we are also thinking of changing this ship's designation from Aviation Support Ship to Landing Platform Helicopter (LPH), or Helicopter Carrier in general usage. This will more accurately reflect the ship's role, as well as avoiding a particularly inelegant abbreviation.

I am sending a copy of this letter to members of OPD, the Lord President, Chief Whip and to Sir Robin Butler.

Tom King



The Rt Hon David Mellor QC MP
Chief Secretary to the Treasury

NAT IND: Shipbuilding P116

cst.ps/dr/15dm5.2

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Treasury Chambers Parliament Street SW1P 3AG

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The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
London
SW1A 2HB

7 February 1992

AVIATION SUPPORT SHIP (ASS)

Thank you for your letter of 4 February. I have also seen Patrick Mayhew's letter of 22 January and Peter Lilley's of 29 January.

2. I am grateful for your assurances about the conditions under which the tender competition for the Aviation Support Ship would be held and I am content for the invitation to tender to be issued on this basis.

3. I am somewhat surprised that you wish Alan Clark to make an oral statement. I am not sure that the issue of invitations to tender is, of itself, an event of sufficient stature to justify an oral statement and the information which you propose to include on other projects is already public knowledge.

4. If, however, you still intend to go ahead with the statement, I believe that the reference in the sixth paragraph to "some £600 million over 10 years" should be left out. Quite apart from the fact that decisions have still to be taken on both the ASS and the proposed replacements for FEARLESS and INTREPID, current estimates of the cost of vessels which are at an early stage of development cannot, surely, be regarded as reliable and in any event I am sure that you will wish to retain some programming flexibility. I have no other comments on the text of the proposed statement.

5. I am sending copies of this letter to the Prime Minister, the other members of OPD, the Chief Whip, and Sir Robin Butler.

DAVID MELLOR

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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
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SECRETARY OF STATE

Seen by JSW

MO 26/3D

4 February 1992

Prime Minister

*If Mr May makes a statement tomorrow
on amphibious capability, this will be it.*

David

*Frederic
info on file*

Thank you for your letter of 23rd January. I have also seen *with JSW*
Patrick Mayhew's letter of 22nd January and Peter Lilley's of 29th
January for which I was grateful.

I have been considering your suggestion carefully because I am
keen now to settle this issue and make an announcement. I welcome
your recognition that the amphibious capability forms part of the
Options force structure and that the ASS in turn forms an integral
part of that capability; this capability is, as you know, provided
for in our Public Expenditure plans. On that basis I do not think
that there is any case for further delay in announcing our intention
to invite tenders.

Your concern that we do not make an irrevocable commitment to
an order, whatever the results of the tender, is understandable. On
the other hand, it would be quite wrong for the Government to invite
tenders unless it had a clear need for the item in question. This
is particularly so in this case, since we have already been through
a tender exercise and not placed an order. The shipyards could not
be expected to spend considerable amounts of money on tenders a
second time unless we were serious. But I think your concern is met
by the standard conditions that we ourselves always include in

The Rt Hon David Mellor QC MP
Chief Secretary

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SECRETARY OF STATE

tender documents to preserve our freedom of decision. This makes quite clear that no invitation to tender guarantees a subsequent order. The form of words is attached. I would make clear to my officials that no stronger commitment should be given in any dealings they might have with the shipyards. The results of the tender would be considered in the usual way, and a decision on the order would then be made taking all relevant factors into account, as again is always our practice. I should be content to proceed on this basis, and would respond to inquiries as you suggest.

I am now keen to make an announcement, and I propose that Alan Clark should make an oral statement this week. The text of what I propose to say is attached, and I should be glad to know that you are content.

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

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Tom King



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SECRETARY OF STATE

MINISTER(DP) STATEMENT - ASS

Mr Speaker I wish to make a statement on the Government's future plans for amphibious shipping.

Options identified reductions in the size, and changes to the shape, of our armed forces made possible by the radical changes in the international situation. It also recognised that the qualities of mobility and flexibility will assume increasing importance.

Nothing exemplifies those qualities better than our amphibious forces and the specialist shipping which supports them. We have said that we intend to retain and replace these ships. We intend to refurbish three of our five Landing Ships Logistic, which played a significant part in the conflicts in the South Atlantic and the Gulf. Two of the LSLs are relatively new - one was replaced and another rebuilt after the Falklands. Refurbishing the others will enable us to operate them into the next century.

We have awarded contracts for Project Definition of replacements for the Assault Ships, FEARLESS and INTREPID.



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PAGE 02
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SECRETARY OF STATE

Today I am able to announce to the House the latest stage of our plans for amphibious shipping. We are inviting tenders for the design and build of a new Aviation Support Ship. The ASS will be a flexible asset, suitable for a variety of tasks in and out of area. Its role will be to enable an amphibious landing force to deploy ashore by means of embarked helicopters in a single wave. Britain's four warship builders will be invited to tender. We are also ready to consider modifications of existing designs or conversions of existing ships. And for this reason, industry generally has been invited to register its interest.

Our plans for our amphibious shipping amount up to some £600 million over 10 years. They are only part of our wider commitment to providing the Royal Navy with modern and capable equipment, a commitment recently illustrated by the order for three more Type 23 frigates. These plans include replacements for the Type 42 destroyers and the SWIFTSURE class nuclear powered submarines. We have ordered 44 Merlin ASW helicopters to replace the Sea Kings carried by the aircraft carriers and Type 23 frigates.

I think the House will agree that this equipment programme, and my announcement today on the Aviation Support Ship, ensures that the Royal Navy in the 1990s and beyond will be consistent with, and indeed will exemplify, our intention to provide armed forces that are flexible, mobile, smaller but better equipped.



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50. ENQUIRY ONLY

A. This is an enquiry only and shall not be taken to imply an undertaking on the part of the Authority to place a contract. The Authority is not bound to accept the lowest or any Tender and reserves the right to accept all or part of any Tender.



PRIME MINISTER

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File
21/10/18
I have seen Tom King's letter of 20 January to the Chief Secretary and the Chief Secretary's reply of 23 January about the timing of the tender exercise for the planned Aviation Support Ship (ASS). *What now?*

2 An early invitation to tender for the ASS would provide an important fillip for the warshipbuilding sector. It would be particularly welcome to the disappointed bidders in the recent Type 23 frigate competition such as Swan Hunter on Tyneside, who are well placed to compete for the ASS order.

3 The Chief Secretary's proposals cause me considerable concern. His initial proposal to delay inviting tenders for the ASS would have weakened the public and industrial credibility of the Government's commitment to the naval capability and requirement identified in Options for Change. The latest proposal set out in the Chief Secretary's letter of 23 January could further compound the risk. It would involve the bidding companies in substantial but wasteful expenditure from their own funds, of up to £1 million per yard, if they were invited to tender but in reality there was no reasonable expectation of an order being placed without a further fundamental review or at the least seeking specification changes and revised bids. Such an approach would attract widespread political and public criticism.

4 An uncertain world political environment seems likely to remain with us for the foreseeable future. I doubt that it will appear much more certain or settled in six or nine months time. The inherent flexibility of the ASS to meet a wide range of operational requirements in diverse circumstances within Europe and beyond would seem to offer a very suitable means of defending national or wider interests against these future uncertainties.



5 In my view, there are, in addition to the defence case, strong political, industrial and regional arguments for proceeding on the basis Tom King has proposed.

6 I am copying this letter to the other members of OPD, the Chief Secretary, the Chief Whip, and Sir Robin Butler.

P B L

29 January 1992

DEPARTMENT OF TRADE AND INDUSTRY

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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

SECRETARY OF STATE

MO 26/3D

23 January 1992

Sent by fax.

Me Z

Dear Nicholas,

AVIATION SUPPORT SHIP

My Secretary of State wrote to the Chief Secretary in January about the Aviation Support Ship. He said that it would be helpful to resolve that issue before the Statement on Frigate orders (which is scheduled for later today - the current draft is attached).

If the ASS issue is raised subsequently in questions the Defence Secretary proposes to say:

"we intend to invite tenders shortly: it is inconceivable that [Swan Hunter] will not be among the contenders"

This follows the policy position set out in the 1991 White Paper "Britain's Defence for the 90s" of which extracts are attached. Ministers can then settle the detailed understandings about issue of tenders separately.

I am sending a copy to Stephen Wall (No 10) and Tim Sutton (Lord President's Office), and to Sonia Phippard (Cabinet Office).

Yours sincerely

Janet Binstead

(MISS J R BINSTEAD)
Private Secretary

Nicholas Holgate Esq
Private Secretary to the Chief Secretary

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With permission Mr Speaker, I wish to make a statement on a further order for Type 23 frigates.

The Type 23 frigate will form the backbone of the RN anti-submarine surface force in the future and is in addition a highly capable allround warship. Four are already in service and six more are under construction. In June we invited tenders for up to three more frigates. The benefit of our competitive tendering policy was clearly shown in the extremely keen prices offered, which are significantly lower in real terms than previous ships. The benefits of privatisation of the yards, and the greatly improved productivity now, ensure better value for money for our own defence expenditure and help the yards themselves to compete once again overseas as the opportunities with Malaysia and Oman have shown.

Before I turn to the outcome of the competition, I remind the House that the contract with the shipbuilder is for less than half the total estimated cost of the frigates. The larger part is made up by the host of specialised equipments that such a frigate contains. For some of these, contracts have yet to be awarded. But some are already known; for instance, the ships' 4.5 inch gun will be ordered from VSEL in Barrow, the machinery control equipment from Vosper Thornycroft in Porchester, the Vertical Launch Sea Wolf missiles from British Aerospace in Bristol. The four Spey gas turbine engines for each ship will be ordered from Rolls-Royce at Coventry, main gearing from GEC Rugby and diesel generators from Paxman Diesels at Colchester. The shipbuilder will itself also have many sub-contractors. Hundreds of firms across the United Kingdom,

large and small, will benefit from this order over the next few years.

Turning now to the results of the competition, I can tell the House that the tenders produced a winner by a very clear margin. We have accordingly decided to place a fixed-price contract for three Type 23 frigates with Yarrow Shipbuilders on the Clyde. The construction of the first ship will start in the second half of this year. These ships will join the Duke class and will be named HMS SOMERSET, HMS GRAFTON and HMS SUTHERLAND.

This is very good news for Glasgow, and for Scotland as a whole. I recognise that it is, equally, a disappointment for the other yards that had tendered for the work, and for people in those areas. However this Type 23 order is but one part of a substantial on-going programme of vessels for the Royal Navy. This will include a new anti-air warfare frigate, a second batch of Trafalgar class submarines and other significant vessels to ensure that we maintain a modern and effective Navy in the future.

This order brings to thirteen the number of Type 23 frigates ordered since 1984 and the number of vessels ordered for the Royal Navy since 1979 to seventy-one. It is yet more evidence that this Government is committed to ensuring the capability of the Royal Navy's fleet and to the wider aim of ensuring our forces of the future have the modern equipment that they need.

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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 8211/3

SECRETARY OF STATE

MO 26/3/1D

22 January 1992

Dear Tim,

TYPE 23 FRIGATE

I enclose a copy of a statement which, subject to the agreement of the Lord President, my Secretary of State intends to make tomorrow announcing the Government's plans for ordering Type 23 frigates. As you will be aware there has been a great deal of lobbying activity on the part of all the bidders over this potentially large contract. I understand that there are now a number of rumours circulating both in Glasgow and the north east as to the destination of the order and the likely timing of the announcement. Notwithstanding this I would stress how important it is that the identity of the winners is not revealed before my Secretary of State's announcement.

I might add that my Secretary of State feels that an oral statement announcing this very significant order will give an immediate opportunity to deal with comments from those adversely affected by our decision. It is also worth noting that my Secretary of State's proposals for proceeding with issuing the invitation to tender for the Aviation Support Ship in the fairly near future would, if agreed, offer another chance of significant business for the losing bidders.

I am copying this letter to the Private Secretaries to Members of OPD, John Neilson (Energy), Patrick Rock (Chancellor of the Duchy of Lancaster's Office), Martin Stanley (Trade and Industry), Alan Fraser (Scottish Office), Nicholas Holgate (Chief Secretary's Office), Martin Waring (Employment), Murdo Maclean (Chief Whip) and Sonia Phippard (Cabinet Office).

Yours

Janet Binstead

(MISS J R BINSTead)
Private Secretary

Tim Sutton Esq
Lord President's Office

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STATEMENT

1. With permission, Mr Speaker, I will make a statement on the Government's plans for ordering Type 23 frigates.

2. These frigates are amongst the most advanced anti-submarine warfare vessels in the world. Ten have been ordered so far and four have been accepted into service with the Royal Navy. I told the House during the Navy Debate on 27 June last year that we were inviting tenders for up to three more frigates. Swan Hunters on the Tyne, Vickers Shipbuilding and Engineering Limited in Barrow-in-Furness, Vosper Thornycroft in Southampton and Yarrow Shipbuilders on the Clyde were invited to tender. I am most grateful to the yards for taking part in the competition.

3. The tenders offered extremely keen prices, which we, on the taxpayer's behalf, naturally welcome. The prices, which are commercially confidential, are significantly lower in real terms than those of earlier ships and show that competition continues to be vital in securing value for money. The competition has also shown once again the much improved value for money that results from ordering in batches. The prices reflect the great improvements in productivity in all the yards, which can only make the yards more competitive in seeking work overseas, as the interest shown in British warships by various countries, such as Oman and Malaysia, proves. And they vindicate the return of the yards to the private sector where their managements have had the freedom to improve their competitiveness.

File ①

4. Before I turn to the outcome of the competition, I should tell the House that the contract with the shipbuilder will be for less than half the total estimated cost of the frigates. The difference is made up by the ships' weapon and communication systems and a great variety of other items. For some of these, contracts will be awarded after competitions that are yet to be held. But the source of many items is already known; for instance, VSEL in Barrow will be supplying the ships' 4.5 inch gun, while Vosper Thornycroft in Portchester will supply the machinery control equipment. British Aerospace at Filton in Bristol will provide the vessels' Vertical Launch Sea Wolf missiles. The four Spey gas turbine engines for each ship will be ordered from Rolls-Royce at Ansty, main gearing from GEC Rugby and diesel generators from Paxman Diesels at Colchester. The shipbuilder will itself also have many sub-contractors. Hundreds of firms across the United Kingdom, large and small, will be boosted by the order over the next few years.

5. The Type 23 programme is, of course, but one part of a substantial on-going programme of vessels for the Royal Navy. We have, for instance, begun a programme of exploratory work with our French counterparts for a future anti-air warfare frigate, with the prospect of substantial work for shipbuilders and other firms in the second half of this decade. In the more immediate future, we shall be making announcements about our plans to maintain our amphibious capability [ASS]. And we are evaluating VSEL's tender for the fourth Trident submarine, which will be so crucial for the future of that firm and of Barrow-in-Furness. VSEL have also been awarded a contract for design studies into a

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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2JL

second batch of TRAFALGAR-class submarines. [Refit prospects]

6. Turning now to the results of the competition, I can tell the House that the tenders produced a winner by a very clear margin. We have accordingly decided to place a fixed-price contract for three Type 23 frigates with Yarrow Shipbuilders at Scotstoun on the Clyde. The ships will be built over a period of about five years, starting in the second half of this year. They will be named HMS SOMERSET, HMS GRAFTON and HMS SUTHERLAND.

7. This is, of course, very good news for the city of Glasgow, for the region of Strathclyde and for Scotland as a whole. I recognise that it is, equally, a disappointment for the other yards that had hoped for the work, and for people in those areas. But, as I have already told the House, there are many other contracts associated with this order, and all parts of the country will see the benefits.

8. This order is yet more evidence that this Government is committed to maintaining the numbers and capability of the Royal Navy's surface fleet. It brings to thirteen the number of Type 23 frigates ordered since 1984 and the number of vessels ordered for the Royal Navy since 1979 to seventy-two. And it will ensure that the Royal Navy sustains the sterling contribution to the defences of this country that it has made for hundreds of years.

The Rt Hon Peter Sutherland
Secretary of State for Northern Ireland

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22 OCT 1992

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SECRETARY OF STATE

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

MO 26/3/1J

8th October 1991

Peter

HARLAND AND WOLFF

Thank you for your letter of 23rd September.

The position at the moment is that Harland and Wolff have been told, in a letter sent by our Contracts staff on 9th September, of the decision not to invite them to tender for the refit work. We have not so far received any reply, but I think that in any case it would be difficult now to change our ground.

I understand your concern that the refit work might be seen as entirely separate and unrelated to the AOR. Our own worry is that Harland and Wolff may fail to manage that work as they have failed to manage the AOR, and that the orders for bulk carriers, which you mention as establishing an excellent public image, could lead the company to divert resources in order to meet commercial contract requirements.

It is because we are genuinely concerned about Harland and Wolff's ability to carry out the work satisfactorily that I do not think we could properly invite them to tender. It is not our practice to seek tenders from a company whose bid, even if it is

The Rt Hon Peter Brooke MP
Secretary of State for Northern Ireland



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SECRETARY OF STATE

the lowest and is compliant on terms, would not be acceptable to us on other grounds.

I am copying this letter to the Prime Minister and Peter Lilley

2
Tom King

Tom King

X I think it would be very unwise of H&W
to make any public fuss. It will only
damage them, at a time when they
are moving on to other types of work
for which they are clearly much more
suitable. If you would like me to
speak to John Parker, I would be
happy to do so.



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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Tom King MP
Secretary of State for Defence
Ministry of Defence
Whitehall
LONDON SW1A 2HB

23 September 1991

Dear Tom,

HARLAND AND WOLFF

Thank you for your letter of 30 August.

As I said in my previous letter, I fully understand your frustration over AOR 01.

While I have no intention of defending H&W over completion of AOR 01 I could be in a more difficult position publicly on the question of refit work since this will be seen by the company as entirely separate and unrelated to the AOR. You will understand that in view of the recent orders for six bulk carriers the company has an excellent public image at present. I am in little doubt that if the request to tender is refused the company will make a public issue of the decision and I think it may be difficult to win a public argument over the fairness of not allowing the company at least to bid for unrelated contracts. It will appear to be penalising H&W for bad performance which they will blame on others.

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If possible I would prefer that the company is allowed to tender and you can then apply normal judgment and discretion to the bid. I assume that there is no reason to think that the H&W tender would automatically win in any case.

I am copying this letter to the Prime Minister and Peter Lilley.

Louise
Pein

PB

When I wrote on AOR 01 on August 19 I suggested we might have a quiet word when we were both back. Our agenda when we dined on September 11th was on other matters, and we failed to discuss AOR 01, but we are going to see each other as soon as you are back again and we could discuss it then. I realise H+W have replied to you on it.

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SECRETARY OF STATE

MO 26/3/15

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

30 August 1991

Dear Stephen,

HARLAND AND WOLFF

My Secretary of State wrote to the Northern Ireland Secretary on 8 August explaining that, because of Harland & Wolff's poor performance on their contract for building RFA FORT VICTORIA (AOR 01), we would have to contemplate termination of the Contract and the completion of the work elsewhere unless the Company put forward satisfactory proposals for timely completion of the ship. I enclose a copy of that letter. We have not yet received a response from the Company who have until 18 September to react.

The Company have meanwhile asked to be allowed to tender competitively for refit work on RFAs ARGUS and REGENT. The Defence Secretary has considered this request and, although the Company's repair activities are managed separately from their Shipbuilding and Heavy Industries, and despite the fact that they presently have two (relatively small) MOD ship repair contracts, feels that we can have no confidence that larger refits would be carried out to our complete satisfaction. He has therefore decided that we should not invite them to tender for the additional and larger refit work at this time.

I enclose a copy of his letter to the Northern Ireland Secretary telling him of this. I am also copying this letter and enclosures to Martin Stanley (DTI).

Yours

Miss J R Binstead

(MISS J R BINSTAD)
Private Secretary

J S Wall LVO CMG
10 Downing Street



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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
Telephone 071-21 82111/3

SECRETARY OF STATE

MO 26/3/1S

30 August 1991

HARLAND AND WOLFF

I wrote to you on 8 August about the problem we face with Harland & Wolff over completion of RFA FORT VICTORIA and the action I had authorised to encourage the company to improve the situation. The Company's proposals are due by 18 September. I am writing to let you know now that we are turning down a request by the Company to be invited to tender for the refit of RFA ARGUS (which H&W built by conversion of a commercial vessel in 1986/88) and for some lesser refit work on RFA REGENT.

I realise that the Company's repair activities are managed as a separate company from Shipbuilding and Heavy Industries and that their small current contracts for repairs to Ministry vessels are being carried out satisfactorily. However, the continuing and increasing delays on AOR 01 are such that we can have no confidence that these larger refits, if they were to be placed with H&W, would be satisfactorily completed and that they would not adversely affect the already poor performance on AOR 01.

I therefore intend to authorise our contracts staff to decline the Company's request to be allowed to tender for these vessels. I will keep you informed of developments.

The Rt Hon Peter Brooke MP
Secretary of State for Northern Ireland



File

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MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2JH
Telephone 071 293 3131

SECRETARY OF STATE

COPY TO:
SAC/FC
SAC/CF
SAC/FF

SECRETARY OF STATE

A copy of this letter goes to the **Prime Minister** and to Peter Lilley, together with a copy of my letter to you of 8 August.

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Km

Dear Peter

Tom King

You will wish to be aware of the position we have with regard to the completion of the HVA VOST programme (which) is being and of the action that I have authorised to encourage the company to take a decision as to the programme.

2. The contract for VOST VICTORIA was let in early 1980 with an original programmed acceptance date of April 1980. Work on the ship has proceeded considerably more slowly than the forecast rate and has been revised (in the right) as less than 7 times by the company. Their present estimate of the acceptance date is now June 1982, over two years later than the original acceptance date. Our own judgement is that even the revised date is over-optimistic; the actual progress continues to diverge steadily from the planned rate and that acceptance will inevitably slip yet again (some 1 year late on what was intended to be a 4 year programme).

3. At my request, the Controller of the Navy, Vice Admiral Sir Kenneth Nelson, has been visiting the shipyard on 10 July was expressing reading. Nelson, who is to visit completely but very few individual items or groups have been finished. There are numerous

The Rt Hon Peter Nicholas MP
Secretary of State for Northern Ireland



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Copy to:)
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NA/CFS
AUS(FS)
DGDC
CPR
DofC(SR)
DofC(SS)
Legal Adviser
see (SR)

MO 23/10J

8 August 1991

Peter

You will wish to be aware of the problem we face with Harland & Wolff (H&W) over the completion of the RFA FORT VICTORIA (AOR01) contract and of the action that I have authorised to encourage the company to take a firm grip of the project.

2. The contract for FORT VICTORIA was let in early 1986 with an original programmed acceptance date of April 1990. Work on the ship has proceeded considerably more slowly than the forecast rate and has been revised (to the right) no less than 7 times by the Company. Their present estimate of the acceptance date is now June 1992, over two years later than the original acceptance date. Our own judgement is that even the revised date is over optimistic (the actual progress continues to diverge steadily from the planned rate) and that acceptance will inevitably slip into 1993 (some 3 years late on what was intended to be a 4 year programme).

3. At my request, the Controller of the Navy, Vice Admiral Sir Kenneth Eaton, has been taking a close personal interest in progress; his report following a visit to the yard on 30 July makes depressing reading. Overall, work is 70-80% complete but very few individual items or areas have been finished. There are numerous

The Rt Hon Peter Brooke MP
Secretary of State for Northern Ireland



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problems caused by inaccurate information and poor technical drawings produced by the company's own design offices. Installation of the major heating, ventilation, air conditioning and fire-fighting systems is giving rise to substantial and unforeseen follow-up work. Only 50% of the cabling has been connected to the appropriate equipment or sockets. Many items of running equipment installed up to 2 years ago are poorly protected; there is no evidence of a systematic planned maintenance routine. The state of the ship is very poor with a significant amount of rubbish, dirt and detritus around.

4. The root of the problem lies in inadequate and weak middle management, poor project control and loss of key technical personnel in the run up to privatisation. There is no evidence that we can expect a quantum change in any, let alone all, of these problem areas. The company are pre-occupied with the five commercial tankers under construction for Fred Olsen, part owner of H&W, to the detriment of the FORT VICTORIA programme. The delay to her, and the problems with the Machinery Control and Surveillance System, have now resulted in a major force majeure claim against my department from Swan Hunter who are building AOR2.

5. Whilst I readily appreciate the political sensitivities, this situation is manifestly unsatisfactory in programme, financial and accounting terms. We need to take firm action with H&W without further delay; there are a number of options open to us none of which is easy:

- to continue to encourage H&W by every means available to increase the work rate on the ship and to achieve completion as soon as possible;



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SECRETARY OF STATE

- to encourage the company to enter into a sub-contract with another shipyard to complete the ship on their behalf;
- to determine the contract and remove the ship for completion by another shipyard. The contract allows us to do this on the basis of undue delay and at H&W's expense.

6. The advantages of the first option are self evident. Such exhortations have, however, singularly failed to date; we can no longer regard them as sufficient to protect our interests. In many ways, the ideal solution would be for H&W to arrange for the ship to be completed elsewhere - the second option. They are beginning to think about such action; Controller encouraged John Parker to consider making the ship ready for sea under her own power so that she could be sailed from Belfast this Autumn for completion elsewhere. The final option, determination of the contract, remains a real possibility, if the company fail to grip the programme.

7. John Parker is due to meet Controller again in September and to set out his proposals for completing the ship in a timely fashion, including use of another yard. However, as we have heard promises of such action before, I regard it as crucial that the Company understand fully the severity of the situation they face and the depth of our concern. I have, therefore, agreed that, on this occasion, our Contracts staff should write to John Parker with a list of actions needed to give us the requisite confidence that the ship will be completed to specification and in the shortest possible time; the letter will also advise him on a "without prejudice" basis that unless the Company produce satisfactory proposals my department will have to contemplate issuing a formal notice of default which could result in termination of the contract and its completion by another shipbuilder.



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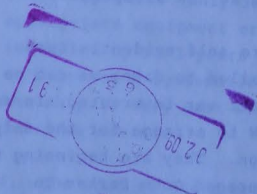


SECRETARY OF STATE

8. We hope this clear warning will jolt the Company into producing viable proposals. I will keep you informed of developments.

2 m
1 am

Tom King



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President:
The Rt. Hon. The Lord Sterling of Plaistow, CBE.

General Council of British Shipping
30-32 St. Mary Axe
London EC3A 8ET
Telephone : 071-283 2922

The Rt Hon John Major, MP
Prime Minister
10 Downing Street
London SW1A 2AA

28th June 1991

Mr Prime Minister,

I am sure you will be interested to read the attached Memorandum which is the outcome of recommendations made by the Government/Industry Joint Working Party on British Shipping. It reports on the General Council of British Shipping's Task Force on this subject.

This is the key to the future health of the British Shipping Industry, other maritime related industries and, of course, this Country's defence needs.

The accompanying note to the members of the Joint Working Party spells out both the opportunity if positive action is taken and conversely the outcome through lack of action.

7-
JG

President :
The Rt. Hon. The Lord Sterling of Plaistow, CBE.

General Council of British Shipping
30-32 St. Mary Axe
London EC3A 8ET
Telephone : 071-283 2922

13/7

27 June 1991

From: Lord Sterling
To: Government members of the Joint Working Party on
British Shipping (list of addressees attached).

SHIPPING INDUSTRY TRAINING INITIATIVE

One of the key recommendations of the Joint Government/Industry Working Party on British shipping published last September was "to raise the profile of marine training and urgently progress an action plan for change". Industry action to improve the recruitment and training - and therefore employment - of British seafarers - was considered to be essential both for the long-term health of our industry and for defence purposes.

I know you will be interested in the positive and swift progress made by the shipping industry to enact this.

GCBS immediately set up a Training Task Force to formulate measures to be taken by the industry, in consultation with Government, colleges and unions. Its report has now been completed and a copy is attached. It contains far-reaching and imaginative proposals that would transform maritime training; reduce the additional cost of employing British seafarers over that of crews of comparable standard from elsewhere in the world; maintain and enhance high standards of professional competence at all levels and make the best possible use of the abilities of all seafarers.

Of course, the feasibility of the plan depends on a number of factors. In particular, the Task Force worked on the assumption that the Government would give effect to the Working Party's conclusion that shipping was a "vital national asset", by taking practical steps in the Budget to encourage the use of the UK register and of British seafarers. Indeed, the Joint Working Party report itself noted that the present circumstances in shipping offered a window of opportunity which the UK industry needed to use to its advantage. It also went on to warn that, if this opportunity were not taken, further decline of the fleet could prove irreversible. There was a critical mass below which

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it would be very difficult to sustain recruitment and training activities and extremely difficult to re-expand, even if circumstances improved in the future.

As you will be aware, Admiral of the Fleet Lord Fieldhouse made the following statement in his maiden speech in the House of Lords earlier this month: "The number of British-manned ships, sailing under the British flag and available for defence purposes, is now at a crucial level and may already be too few. We ignore this situation at our peril."

Without question, the industry is more than prepared to play its part. However, one inevitable consequence of failure to take action in the Finance Bill is that the enclosed action plan is unlikely to be supported and therefore would not be implemented. We still hope that Government will take the positive action needed to implement the conclusions of the Joint Working Party.

Some extra copies are also enclosed to each Department for further distribution if wished.

Jim [signature]



**REPORT OF THE
TRAINING TASK FORCE**

MAY 1991

MINISTRY OF DEFENSE

INSTRUMENTS

REPORT

REPORT OF THE
TRAINING TASK FORCE

MAY 1991

The purpose of this report is to provide a summary of the findings and recommendations of the Training Task Force. The Task Force was established in 1989 to study the training needs of the Department of Defense and to recommend ways to improve the training of military personnel. The Task Force has held several public hearings and has received many suggestions from military and civilian leaders. This report is the result of the Task Force's work.

The Task Force has identified several key areas for improvement in military training. These include the need for more realistic training environments, the need for more emphasis on leadership training, and the need for more emphasis on the training of reserve and National Guard personnel. The Task Force also recommends that the Department of Defense should establish a training task force to study the training needs of the Department of Defense and to recommend ways to improve the training of military personnel.

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K. G. P.

GENERAL COUNCIL OF BRITISH SHIPPING

TRAINING TASK FORCE

R E P O R T

1. INTRODUCTION

- 1.1 The report of the Joint GCBS/Government Working Party (JWP) "British Shipping : Challenges and Opportunities", published in September 1990, identified a number of regulatory policy options which, if acted upon by Government, would encourage the British merchant fleet to expand. Training was identified as the main area requiring action by the industry. The Training Task Force was set up by GCBS in October 1990 to develop an action plan set out in the JWP report.
 - 1.2 The Task Force proceeded with its work on the assumption that the Government would accept the conclusion of the JWP that "shipping is a vital national asset" by taking steps to retain and enhance the industry with ships under the UK flag and manned by British seafarers. At the time of reporting (end April 1991), there is no evidence that the Government intended to take such steps.
 - 1.3 This inaction is bound to have an effect on the perceptions of the decision makers in the industry and on employment practices. The JWP report stated that there may be a critical mass below which it would be difficult to sustain training and recruitment activities (Annex 4, paras. 4.19 - 4.20). There is a growing realisation that the number of British seafarers is very close to that position. It is also apparent that some companies undertake training only in the knowledge that others are sharing the burden. This means that, if only a few of the training companies are forced to change their employment practices (because of ship sales, flagging out and substitution of nationalities), the effects could be far reaching - on retention of trained seafarers, on recruitment and on the ability to maintain training facilities in the UK.
 - 1.4 It is against this background that this report is presented. (The Terms of Reference of the Task Force and its membership are given at Annex 'A').
2. AIMS
- 2.1 Within the industry as a whole there is a natural desire to employ UK seafarers, partly to train future technical management, partly to maintain security of supply (which in the case of foreign nationals could easily be affected by short term political or military factors) and partly for "company-cultural" reasons. But it has to make

commercial sense to do this and the Task Force has seen its role as being to suggest new manning and training arrangements which:

- (i) reduce the total cost of employing British seafarers so that the net premium over the cost of crews of comparable standard worldwide may be more acceptable in some instances;
- (ii) allow companies to respond more effectively to the changing manpower demands of the shipping industry;
- (iii) maintain high standards of professional competence at all levels by measuring ability to undertake duties and responsibilities at sea against a recognised set of performance standards, with particular reference to safety and the need to protect the marine environment;
- (iv) achieve greater flexibility in the structure and methods of training;
- (v) make the best possible use of the abilities of all entrants to the seafaring career.

3. CONCLUSIONS

3.1 The conclusions of the Task Force (see also Annex 'B') are as follows:

- (i) the aggregate of companies recruitment targets for 1991 are for some 500 deck and engineer officer trainees and 200 junior rating entrants, as indicated by a survey of training companies at the beginning of March 1991, covering 19 companies/groups of companies employing 7,000 British officers on 393 UK flag and 270 non-UK flag ships and current levels of training at the National Sea Training College, Gravesend.

The result for officers is some way below previous estimates, made on the assumption that the number of ships to be manned by British officers would increase and that the combined effect of high age profiles and under recruitment in recent years would have to be corrected. However, until there is evidence of new investment on the scale required even to replace the current British manned fleet, the Task Force does not feel justified in making any recommendations to increase recruitment over and above the company returns. These cover a high proportion of the British officers employed in British owned or managed ships. In present circumstances, this may prove a better

indicator than other methods of forecasting future requirements;

- (ii) the market for school-leavers - traditionally the primary recruitment source for the industry - is tightening considerably, with 25% fewer 16 year olds expected in 1993 than was the case in 1989 in some parts of the country. This means that companies must keep their recruitment practices under review;
- (iii) there should be a modular structure for all shipboard qualifications, allowing the most effective accretion of the skills needed on board individual ships, along the lines developed by the Merchant Navy Training Board;
- (iv) this modular structure of qualifications should be developed in two stages. The first step, aligning groups of modules to current certificates, would assist the transition to a new system and re-assure existing certificate holders that their qualifications would remain valid. The second step should lead to a "core" certificate structure which, it is believed, would meet a large percentage of companies' requirements, permit role flexibility, provide logical career paths for all seafarers and provide a base on which specialist requirements could be built;
- (v) as new, high technology ships enter service, the role of UK nationals serving as ratings can be upgraded to the rank of "Technician", capable of undertaking skilled maintenance tasks without detailed supervision and providing enhanced support for watchkeeping functions. Entry standards would need to be increased to recognise the enhanced role in future and give individuals the opportunity to rise to more senior positions;
- (vi) a combined training and career structure for all seafarers should be introduced, with a broad recruitment base. Greater use of alternative approaches to learning, such as open and distance learning, would provide greater flexibility and an opportunity for all seafarers (including serving seafarers) to progress through the modular structure, over any time frame, according to their ability and ambition;
- (vii) the development and use of personality profiles of successful seafarers, to assist the selection of new entrants with the aptitude and potential to succeed, should be investigated further. It is believed that this could reduce

wastage during training and help ensure competent performance of duties at sea thereafter. Academic qualifications alone indicate only ability and potential to cope with further learning rather than the qualities needed for employment in the industry;

(viii) training should be concentrated at a limited number of centres to maximise cost effectiveness and utilisation of resources. In return for assurances of support from industry, centres could offer a year round programme of courses and should make more extensive use of modern training technology (e.g. simulators and computer based training) to enhance acquisition of relevant skills and knowledge, reduce training times to achieve the desired standards of competence and reduce total training costs;

(ix) funding of the designated centres should be safeguarded by central government either on a direct grant basis (as with the National Sea Training College (NSTC) at Gravesend) or through the new funding councils proposed recently by the Government for all public-sector colleges. The NSTC should be integrated within the overall funding arrangements;

(x) the MNTB should be retained as a forum through which training related issues can be discussed by all interested parties (Government, Unions and Colleges). There is also a need for an employer organisation, with membership drawn at a senior level from companies in all sectors of the industry, to maintain surveillance over training in the industry and to deal with strategic training issues affecting the industry as a whole;

(xi) recent initiatives in national education and training policy (such as the Education Reform Act and the Government-backed reform of vocational qualifications) have created the opportunity to reach a new consensus on objectives, based on the conclusions reached by the Task Force, and to rationalise training arrangements. Firm guidance from the centre could then be given to the providers of education and training as to what is required;

(xii) a full realisation of the plans put forward by the Task Force would require amendments to the 1978 IMO Convention on Standards of Training, Certification and Watchkeeping (STCW) because the convention is based on the traditional departmental structures and allocations of work which the industry believes must change in future. Other European countries are also

seeking amendments which give the flexibility to develop new systems of work. This is being pursued through the International Shipping Federation, as well as with Government.

Annex 'A' to
TTF Report

TRAINING TASK FORCE
TERMS OF REFERENCE

1. To formulate measures to be taken by industry, in consultation with Government, colleges and unions where appropriate, to give effect to the action plan for change in maritime training proposed in the Joint Working Group Report "British Shipping : Challenges and Opportunities", with particular reference to:
 - (a) a commitment to recruit at least the minimum number of trainees needed to fill industry's projected requirements for UK nationals;
 - (b) implementation of the modular structure of qualifications and the development of optional modular manning models;
 - (c) the way in which recruitment and training is organised and action required by industry and/or individual companies, and the education service;
 - (d) the training and use of UK ratings, with a view to making better use of more highly qualified ratings;
 - (e) alternative training methods and other structural changes in marine training to achieve the underlying objectives of a flexible, relevant, accessible and cost effective system.
2. To consider the extent to which the STCW Convention would impede adoption of alternative modular manning arrangements and if necessary to put forward proposals for amending the Convention accordingly.
3. To report progress to the General Policy Committee by April 1991.

TRAINING TASK FORCE

MEMBERSHIP

Mr. T D Underwood (Chairman)	Chairman	Denholm Ship Management (UK) Ltd
Capt R G Brown	Managing Director	Shell Tankers UK Ltd
Mr W D Everard	Managing Director	F T Everard & Sons Ltd
Capt B E Keer*	Divisional Manager Ship Operations Division	BP Shipping Ltd
Capt T Crookall	General Manager	Blue Star Ship Management
Capt A Watters	Senior Marine Superintendent	Benmarine Ltd
Mr F M Marchant*	Group Manager Fleet Personnel	P&O SN Co
Mr D W Gosden	Divisional Director	The Geest Line
Mr J D Tait*	Chairman	Ship Safe Training Group Ltd (and BMSOA)
Mr D Grimes	Chairman	Lowline Ltd (and BOSVA)
<u>Co-opted</u>		
Capt J Waters*	Operations Manager	Shell Tankers (UK) Ltd
Capt C G W Hunter	Principal	National Sea Training College

Note: * Also on the Strategic Policy Committee of the MNTB, which is developing the new modular structure of qualifications for seafarers.

SUMMARY REPORT AND CONCLUSIONS
OF THE TRAINING TASK FORCE

1. RECRUITMENT

- 1.1 Recruitment Targets: During the 1980's, the contraction of British and world shipping was such that very little recruitment into the industry actually took place. The result is an ageing work force and the replacement of officers retiring or leaving is not sufficient to prevent shortages in the short to medium term and there is bound to be an upward pressure on wage costs.
- 1.2 With Governmental assistance for Merchant Navy officer training, recruitment of officers into the industry has increased in recent years, from 162 cadets in 1987 to 435 in 1989 and some 510 in 1990 (see Appendix 'A'). A survey of training companies at the beginning of March 1991, covering 19 companies/groups of companies employing 7,000 British officers on 393 UK flag and 270 non-UK flag ships, produced a recruitment target of 505 deck and engineer cadet/trainee officers for 1991.
- 1.3 The result is some way below previous estimates, made on the assumption that the number of ships to be manned by British officers would increase and that the combined effect of high age profiles and under recruitment in recent years would have to be corrected. The Task Force itself estimates that 650 new entrant trainee officers would be needed to maintain officer numbers on British ships at the present level (approx. 8,000).
- 1.4 However, until there is evidence of new investment on the scale required, the Task Force does not feel justified in making any recommendations to increase recruitment over and above the company returns, which cover a high proportion of the British officers employed in British owned or managed ships. In present circumstances, this may prove a better indicator than other methods of forecasting future requirements.
- 1.5 The situation for ratings is different in that supply and demand is in better balance and the much shorter periods of initial training mean that shortages can be quickly corrected by increased training. The current level of recruitment of junior ratings is some 200 per annum (deck, catering and engineroom).
- 1.6 Availability of Young People: The market for school-leavers - traditionally the primary recruitment source for the industry - is tightening considerably, with 25% fewer 16 year olds expected in 1993 than was the case in

1989 in some parts of the country. This means that companies must keep their recruitment practices under review and be prepared to broaden the recruitment base, to attract entrants from non-traditional sources (e.g. 'mature' entrants) and to renew efforts to upgrade the qualifications of serving ratings.

- 1.7 **Improving Recruitment:** Links with schools and careers officers need to be maintained and strengthened if industry is to continue to be able to recruit sufficient young people to the standards it requires. Publicity and promotion must be maintained as the industry is seeking a fairly high proportion of recruits amongst a very competitive market for better qualified school leavers.
- 1.8 **Roles and Responsibilities:** In the past two years, the efforts of companies, acting individually or as part of training groups, have been successful in raising recruitment within an overall framework of support and co-ordination provided by GCBS and government assistance.
- 1.9 The need for a more direct industry role and/or to establish more group training associations must be kept under review if a need is established at some future stage to further substantially increase recruitment.
- 1.10 **Wastage and Retention:** It has to be recognised that careers at sea will, for the majority of entrants, be of relatively short duration for reasons which have been well documented (e.g. Tavistock Institute, Sealife et al). Qualified seafarers are a traditional source of skilled manpower for many shore-based marine-related industries and there is value to the shipping industry in having ex-seafarers working in associated positions ashore as it ensures that the nature of the industry is properly understood. However, the shipping industry must put its own training requirements first and should not agree to shore-based businesses having any undue influence over the entry and training standards of seafarers.
- 1.11 Essentially, measures to retain seafarers in the industry are best taken at company level. Across the industry efforts should be made to capitalise on the fact that many young people are attracted to a career at sea and, with good selection and the right training and operating environment, can cope with early responsibility.

2. **MODULAR QUALIFICATIONS AND FUTURE MANNING MODELS**

- 2.1 The development of a modular structure of qualifications (MSQ) and the achievement of its benefits would be best served by adopting a stepped approach to its introduction:

- the first step should involve the development of a near mirror image of the existing DTP

Certificates of Competency, using combinations of the modules, to replicate the skills and knowledge contained in the various levels of Certificates which are now in general use;

- the second step would take account of shipowners perceived and preferred needs for the manning and certification of their existing and future designs of vessels. The final objective of this second step would be the provision of a "core" certificate structure (i.e. a common set of ranks and associated modules) which meets a large percentage of shipowners and managers requirements and to which extra modules can be added to satisfy specific and individual needs.

- 2.2 In general, the adoption of a "core" certificate structure provides a greater degree of flexibility and:

- creates a role for those currently recruited as ratings that would be worthwhile and rewarding with a full opportunity to rise to more senior positions;
- permits a better distribution of skills and knowledge across all ranks. In a conventional crew most skills and knowledge is concentrated in the four or five senior positions. Lower ranks often appear to hold few skills and little knowledge. There is an opportunity to increase skills and knowledge in these ranks;
- allows a logical career path with combined deck and engineering qualifications if required, in all positions.

- 2.3 Benefits of the modular approach include more cost effective manning; role flexibility; the ability to cope with peak workloads and avoid fatigue without increasing crew sizes and a more equitable allocation of duties amongst those on board, leading to enhanced job satisfaction and career prospects. It also allows individuals to obtain proficiency in single modules, leading to higher or broader qualifications, in their own time and at their own pace.

3. **BETTER QUALIFIED RATINGS**

- 3.1 The rank of "Technician" has been identified within the modular structure of qualifications, to provide a logical way forward for UK nationals currently recruited as ratings. On new tonnage, with a higher level of technology incorporated in the design, operation and maintenance of the ship, the role of the rating will be markedly changed from that on existing ships. In addition to the traditional duties (e.g. cleaning,

keeping a look-out, it will require an individual capable of undertaking skilled maintenance work without detailed supervision and of providing enhanced support for navigation, engineering and cargo handling watchkeeping functions.

- 3.2 The modular structure of qualifications facilitates the development of the Technician concept by allowing greater role flexibility amongst all crew members. The rank of Technician also provides the first rungs on the ladder to higher level skills and qualifications. It requires:

- (i) a significant improvement in recruitment standards which recognises an enhanced role in future and allows an individual's potential to be recognised and achieved;
- (ii) the development of new working systems based on the new modular structure and making the best possible use of each individuals attainable skills;
- (iii) a change of name from the word 'rating' to avoid perpetuating traditional attitudes;
- (iv) maintaining the enthusiasm with which young people currently recruited as ratings commence their careers by greater job satisfaction in an enhanced role.

4. ALTERNATIVE TRAINING ARRANGEMENTS

- 4.1 Present Arrangements: Achievement of a Class 1 Deck or Engineer certificate takes some eight or nine years at a cost, after allowing for wastage, estimated to be in the order of £50,000 to companies, £45,000 to the state and £6,000 for individuals. Trainee deck/engine room and catering ratings receive their initial pre-sea training at the National Sea Training College, Gravesend, which is funded jointly by shipping companies using the College and the Department of Education and Science. The total net cost of maintaining the College is in the order of £700,000 per year. The initial training and selection of radio/electronic and electrotechnical officers is undertaken entirely by colleges with no involvement by industry until after the course has been completed and the desired qualifications achieved.

- 4.2 The Need for Change: whilst the quality and effectiveness of training, including pass rates in examinations, are generally of a high order, the uncertainties of having to undertake manpower planning over the time scales involved and the need to organise periods at sea around fixed college term dates detract from the overall efficiency of present arrangements for officer training.

- 4.3 The clear distinction between officer and rating training reflects, and tends to perpetuate, traditional and outdated distinctions and working practices at sea.

- 4.4 Selection Procedures: The Task Force considers that personality profiles of successful post holders should be used as part of the selection process and, if possible, all potential trainees should have a period of familiarisation aboard commercial trading vessels before the selection process is completed. These procedures would supplement academic qualifications which tend to indicate potential and ability to cope with further learning more than qualities needed for employment at sea.

- 4.5 Training Structure: A common training and career structure for all seafarers would complement the modular structure of qualifications and allow seafarers of varying ability to progress as far as they are able and desire. There should be two main routes through the qualification structure after an initial period of induction and assessment:

- (i) **structured course(s)**, conducted entirely at a training centre ashore over an 18 - 24 month period, for those selected for senior positions and with the ability to cope with an intensive training regime. Simulators, training vessels and modern training technology to be utilised to reinforce traditional learning techniques, help integrate theory and practice and reduce training time. The course would be followed by the balance of sea service for first level DTP certification. Higher grade certificates would be awarded on the basis of further experience in a watchkeeping capacity and assessment of competence by DTP without the need for further periods of study ashore.

- (ii) **flexible training**, allowing the acquisition of units or modules of competence one by one, over any time frame and to the extent that resources permit, by any means. This would also be of benefit to re-entrants and serving seafarers seeking to refresh, upgrade and/or extend their competence.

- 4.6 The above represents a radical blueprint for the future and a significant departure from normal practice, involving:

- (i) a rolling college course programme available all year round;
- (ii) front-ending a substantial amount of the knowledge and basic skill requirements for the

highest level qualifications to an early stage in the qualification process;

- (iii) extensive use of modern technology to support learning and assessment of performance, including the use of training vessels attached to colleges as part of the basic training process.

4.7 Training Facilities and Funding: The Education Reform Act has given colleges in the public sector greater freedom to operate and manage their affairs within delegated budgets based on per capita funding formulae. Colleges are under pressure to seek maximum cost efficiency in all their activities and need to be sure of support from industry before departing from their normal pattern of provision. There is a strong case to be made in favour of:

- (i) concentrating training at a limited number of centres to maximise cost effectiveness and utilisation of equipment and offset any rise in unit costs as a result of the use of modern training technology;
- (ii) funding of the designated centres should be safeguarded by central government either on a direct grant basis (as with the National Sea Training College (NSTC) at Gravesend) or through the new funding councils proposed recently by the Government for all public-sector colleges. The NSTC should be integrated within the overall funding arrangements.

5. ORGANISATION

5.1 There is a need for a high level industry body to deal with strategic training issues affecting the industry as a whole. To be effective and secure the involvement and commitment of employers, the GCBS should establish an industry Training Council, with membership drawn at a senior level from companies in all sectors of the industry, to undertake the functions such as: monitoring and reviewing skill requirements; monitoring actual and projected training activity in the industry; and supporting companies in identifying and planning for their own immediate and longer term needs.

5.2 The MNTB should be retained as a forum through which training related issues can be discussed with other interested parties (Government, unions and colleges).

5.3 This proposal would be in line with Government policy that there should be a network of Industry Training Organisations (ITO) across all businesses in the UK.

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 January 1991

CAMMELL LAIRD

The Prime Minister was grateful for your Secretary of State's minute of 2 January, indicating the state of discussions with Sir Leon Brittan about possible access to Intervention Funding for Cammell Laird.

The Prime Minister is content to accept your Secretary of State's advice that he should not speak to Sir Leon at this stage. He is also content to await further clarification of the position by your Secretary of State, following further contact with Sir Leon's office.

BARRY H. POTTER

Martin Stanley, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

General Council of British Shipping

10-12 St Mary Axe London EC3A 8ET Telephone 071-283 7922 and 071-626 8131

Telex 884008 and 884768 SMA-G Facsimile 071-626 8135 (Group 3)



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 December 1990

PRIME MINISTER'S MEETING WITH FRANK FIELD MP AND
LYNDA CHALKER MP: CAMMELL LAIRD

As you know, the Prime Minister met Frank Field MP and Lynda Chalker MP this afternoon for a brief discussion of the position at Cammell Laird. As the meeting was essentially a political matter, no record was taken by a civil servant.

Following the meeting, however, the Prime Minister indicated that he was concerned about reports that Cammell Laird was not competing for merchant ship contracts on a level playing field. First, there was the question of the availability of EC Intervention Fund assistance to competing merchant shipyards in other European countries. Second, it appeared that shipyards in what had been East Germany might still have access to overt or hidden subsidy.

The Prime Minister wonders whether it might be appropriate for him to have a word with Sir Leon Brittan to see what could be done to help Cammell Laird through this period of adjustment. However, he would be grateful for your Secretary of State's thoughts before taking any further steps.

BARRY H. POTTER

Martin Stanley, Esq.,
Department of Trade and Industry.

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PRIME MINISTER

MEETING WITH FRANK FIELD MP AND LYNDA CHALKER MP

You met Lynda Chalker and Frank Field today at what they agreed was a private meeting, although they said that they had publicised the fact that they were seeing you. They wished to discuss the situation of Cammell Laird Shipbuilders.

Frank Field said that the crisis at Cammell Laird was only the first one of a series, as yards which formerly produced for the defence industry were now losing orders. They would need to win merchant shipbuilding orders, and they need help from the EC Intervention Fund. Merchant shipbuilding was increasing and there was no reason why they could not then find a buyer for the yard.

He added that Cammell Laird did fight off disruptive union action earlier, and therefore it would be a pity if there were substantial job losses.

Lynda Chalker accepted that because of the peace dividend all such industries would have to adjust. However, she stressed that they were not looking for Government help for the yard, but she believed with the Government that there should be a "level playing field" between countries. Although there was no evidence, she was certain that German yards were receiving assistance.

After you had seen them, you expressed hope that some help could be given during this period of adjustment, particularly on Merseyside, and thought that you might speak to Sir Leon Brittan about the issue.

DD

PP JUDITH CHAPLIN
11 December 1990

File

CAMMELL LAIRD SHIPBUILDERS

Workforce Prospectus



Some of the world's most famous ships started their lives on the Cammell Laird slipways on the banks of the Mersey.

We come from all over Merseyside to work here, as many of our fathers did before us. We are proud of our great shipbuilding tradition, and of the reputation our loyalty, dedication and flexibility have earned.

"The future is not in the hands of Fate, but in ours"

For 172 years workers at our shipyard have proudly demonstrated their skills, building ships and steel structures of all kinds.

As improved relations between East and West continue to reduce the need for large warship fleets, we continue to improve our methods to secure alternative work for our yard.

We want to ensure that our great shipbuilding tradition continues, and find someone prepared to build ships here or to use our skills on other work. Our new owner is assured of our total commitment to the success of the yard.

This prospectus has been compiled entirely by the workforce of Lairds. It is our introduction to you. We hope it gives you an insight into our yard, and its great potential.



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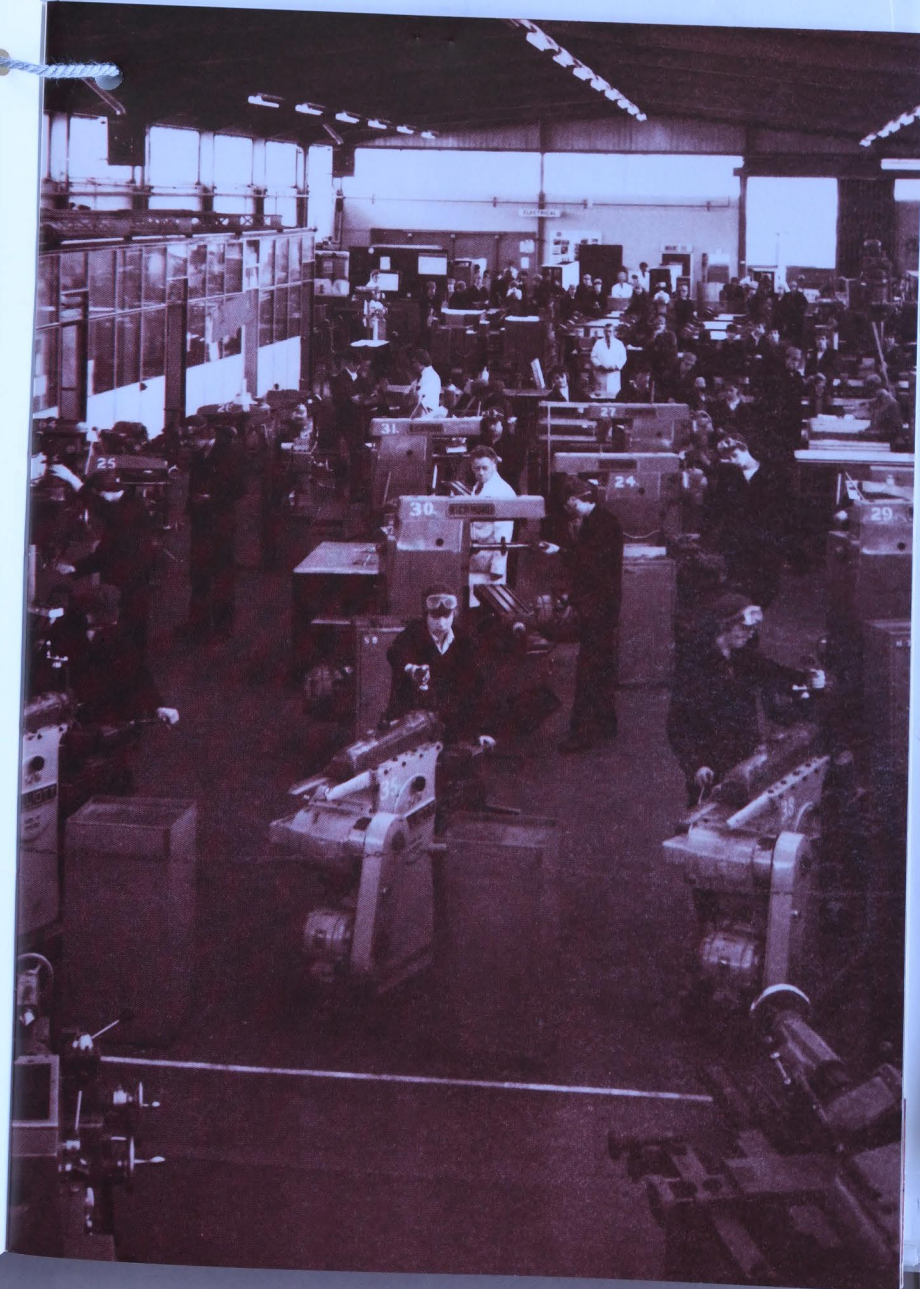
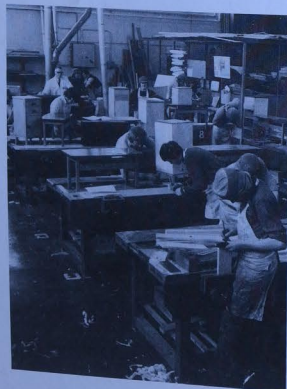
Cammell Lairds are committed to training - the skills and expertise acquired here are exported all round the world.

Our apprentices reach standards of excellence in every branch of shipbuilding, to the highest international criteria.

"The youth of a nation are the trustees of prosperity"

Presently the yard is grooming the next 95 craft apprentices and a small number of post graduate trainees.

Cammell Laird also provides places for youth training in all clerical skills. The yard has strong links with local schools, offering large numbers of pupils a bridge between school and industry.



THE keynote of our technical staff is the level of skill they bring to a very wide range of shipbuilding tasks.

"Skill is stronger than strength"

Our technicians in the four integrated drawing offices use traditional skills and are highly expert in the latest computer technology. We are leaders in the use of CAD/CAM in the British shipbuilding industry, and our dedicated CAD/CAM team is proud of the savings it has achieved.

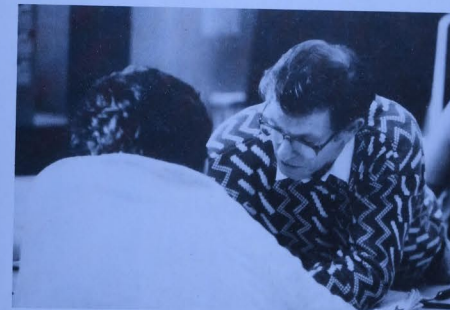
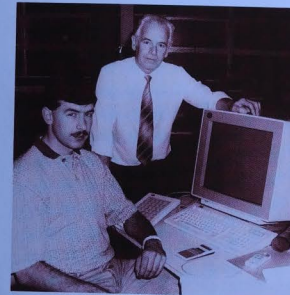
Our production engineering and planning team includes staff with shipbuilding experience from the shop floor who complement the work of highly qualified graduates in science and engineering.



Design, estimating, purchasing and quality assurance back up all activities within the yard.

Staff drawn from every section of the yard apply their practical experience to produce all forms of project control. This experience is tailored to the needs of any contract.

All the staff - realising the importance of communication - constantly exchange information.



All construction work begins with steelwork tradesmen. We use modern equipment for production, assembly and erection.

Quality is controlled at each stage of the programme to avoid delays. Fabrication and welding is critical. The quality attained at Cammell Laird is to the highest standard.

"The reward of a job well done is to have done it"

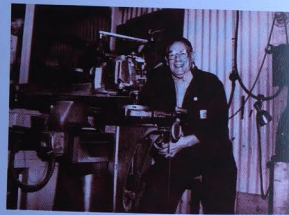
We come from a generation of steelworkers who during the last war turned out a ship every 20 days.

Teaming the traditional outfitting skills with modern practices now enables us to undertake the most advanced designs.

Always attentive to programme schedules, we have demonstrated that we can deliver on time and to budget.

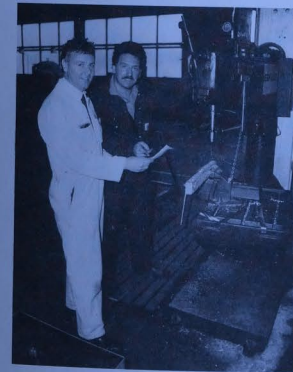
Letters of commendation have been received from the MOD and merchant section congratulating the workforce on the excellence of our work.

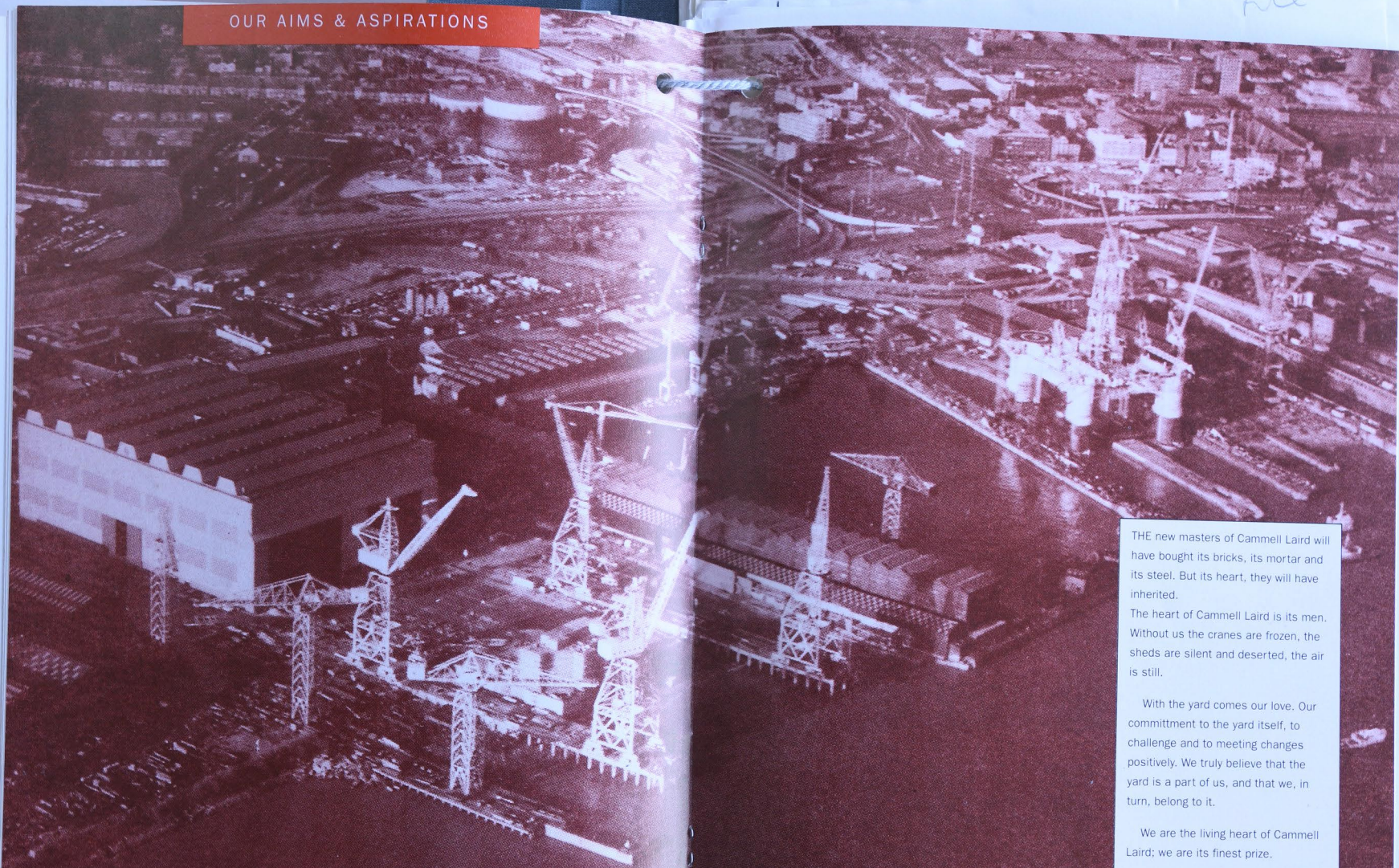
Supervision of work together with discipline of men is the responsibility of foremen. They control each stage of construction using composite squads of skilled workers.



Interchangeability of foremen results in real cost savings. A prospective employer will find a highly trained, fully flexible and dedicated group.

The ancillary departments offer a competent, experienced and highly flexible contribution to the range of yard services. Rationalisation has produced a keen component to the company's assets in the form of economic manpower.





"Prosperity is only a tool to be used, not a god to be worshipped"

THE new masters of Cammell Laird will have bought its bricks, its mortar and its steel. But its heart, they will have inherited.

The heart of Cammell Laird is its men. Without us the cranes are frozen, the sheds are silent and deserted, the air is still.

With the yard comes our love. Our commitment to the yard itself, to challenge and to meeting changes positively. We truly believe that the yard is a part of us, and that we, in turn, belong to it.

We are the living heart of Cammell Laird; we are its finest prize.

Fifty years ago our working men rallied to Churchill's words: 'Give us the tools, and we will do the job.'

We have the tools. And we want to work.

The emphasis in the relationship between our management and our trade unions is one of partnership. We work hard, continually looking for ways to improve.

"Yesterday is not ours to recover but tomorrow is ours to win or lose"

The success of employee relations within Cammell Lairds in recent years has been achieved through the personal commitment of the workforce. Working together we have recognised that our long term goals are one and the same - the job security and wellbeing of the workforce relies on the success and prosperity of shipbuilding on Merseyside.



Significant improvements have been achieved in working practices over the past four years, based upon the agreements between management and employees.

Traditional lines of demarcation, which were the cause of many inter-union disputes, have been wiped out - now if a person is held up and has the ability to carry out the required task, they do so.

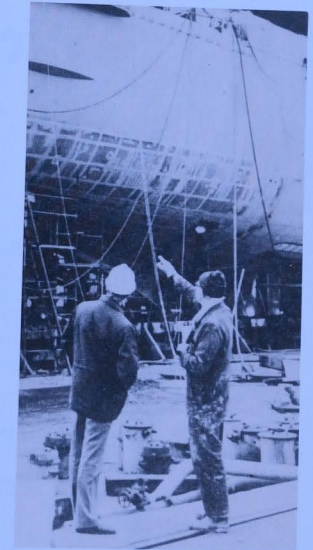
"Change is inevitable in a progressive company"

This elimination of wasteful and inefficient working practices has been the ultimate goal to improve productivity.

Labour resources are 'balanced' to meet contractual programme requirements. Composite groups made up from all trades work together.

Hold ups are avoided by continually improving working practices.

The process of improving working practices is continuous and is based on the co-operation of all.



National Safety Awards are presented to companies who, over a 12 month period, have an accident rate well below the national average for their particular industry.

The workforce of Cammell Laird have earned 10 consecutive awards from the British Safety Council - a record in ship building. And we are well on the way to receiving our eleventh.

...Living proof that safety does not have to be sacrificed even in traditionally 'high risk' construction industries.



'Few companies qualify for the National Safety Award, but it is the few who promise so much for this country and its future. With new legislation being introduced in the UK, and the competitiveness that will follow 1992, the example set by award winning workers such as yourselves will be of paramount importance.'

James Tye,
Chairman, British
Safety Council.

Members of the workforce are constantly involved in charitable work - sponsored parachute jumps, cycle rides, swims and marathons, with many giving their spare time to raise funds for local charities.

When our regional children's hospital - Alder Hey - appealed for our help recently we responded with a whole programme of fund-raising events involving the entire staff and management. This special effort was also supported by local traders and the company itself.

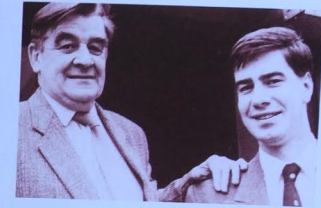
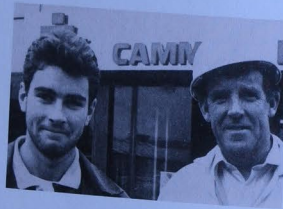
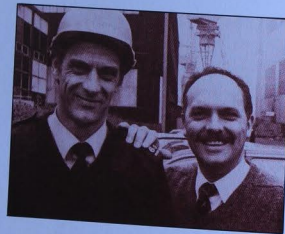
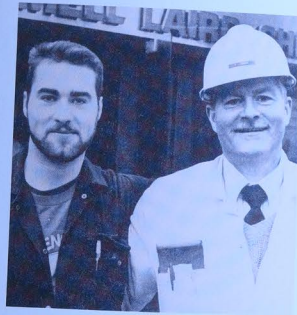
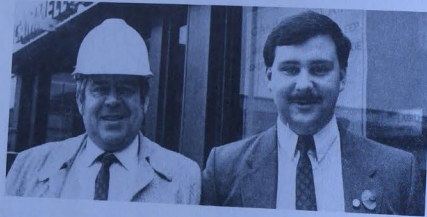
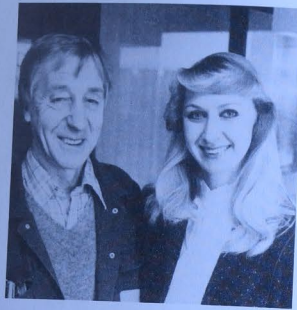
"Malice towards none, charity for all"

A voluntary levy of wages also raises money for Dr Barnados.

When one of our joiners died recently his widow asked that a boat he had been building at home be finished and donated to a charity of our choice. With the skills of our apprentices, 'The Spirit of Allan' is emerging. A company donation and money from the men are now jointly paying for the final stage - the engine.

Our links with the community are strong; the rewards of this involvement are great.





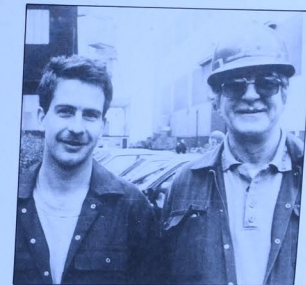
"We keep our shipyard and our shipyard will keep us"

The family connection at Cammell Laird has always been strong. Generations follow generations to make their living in our shipyard.

The connections reach back to Laird's earliest days, and carry on through these families.

Tomorrow will see new faces.

But the love for the yard, and the commitment to its success, will remain the same.



*"Nothing great was ever achieved
without enthusiasm"*



MINISTRY OF DEFENCE

Room 7115
Main Building, Whitehall, London SW1A 2HB
Telephone: (Direct Dialling) 01-218-2299
Switchboard 01-218-9000
From: Admiral Sir Derek Roloff, KC, CB, FRS
Controller of the Navy

308/51/3

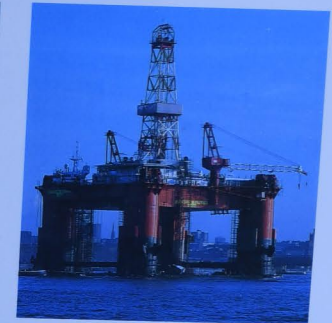
F Lister Esq
Managing Director
Cammell Laird Shipbuilders Ltd
New Chester Road
Birkenhead
Merseyside L41 9BP

Dear Mr Lister,

I have just received Commodore Rogers' report on the acceptance of HMS CAMPBELTOWN. It is most complimentary and highlights, in particular, the extremely high standard of construction and finish.

I congratulate you and Cammell Lairds on this fine achievement and ask that you pass the "customer's" thanks to all your people for presenting such an excellent product and delivering her on time. It has been a tremendous effort by all concerned, but has resulted in a very good job, well done; thank you.

*Yours sincerely,
Derek Roloff*



OPPOSITE

Top left
HMS Campbeltown
Type 22 Frigate

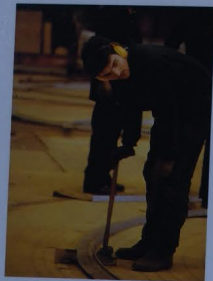
Top right
HMS Liverpool
Type 42 Destroyer

Bottom left
ST Edmund
Car Ferry

Bottom right
Sovereign Explorer
Semi-submersible
Drilling Rig

Bottom
HMS Revenge
Nuclear Ballistic
Submarine





PRIME MINISTER

MEETING WITH MR FRANK FIELD M.P. AND MRS LYNDA CHALKER M.P.

You are meeting Mr. Field and Mrs. Chalker tomorrow at 16.45 for 15 minutes. They will wish to discuss the proposed closure of the Cammell Laird shipyard at Birkenhead.

You may like to be aware of the background. The Prime Minister saw David Hunt, Peter Lilley and Lynda Chalker in August before the proposed closure had been announced. Separately she also met Frank Field. I attach as background my records of both meetings.

At tomorrow's meeting no doubt both MPs will wish to bring you up to date on the prospects of finding a buyer for Camell Laird. It is worth bearing in mind the following.

- i) The idea of an enterprise zone has already been considered and rejected. The Government indicated when an enterprise zone was created at Sunderland that it would be the last one. The EC would object to any further EZs.
- ii) Resources are available through the Merseyside Urban Development Corporation (MDC) and through regional selective assistance to help any incoming new business.
- iii) But the main hope would be EC Intervention Fund (IF) assistance in order to take on a merchant shipbuilding contract. The EC (Sir Leon Brittan) would have to give approval: this is unlikely - the UK earlier indicated that it would not seek IF money for privatised warship yards. DTI are opposed to expanding IF in this way in principle - while recognising the political attractions at Birkenhead.

Camell Laird have just lost a bid for a £30 million dredger contract (Mrs. Chalker may not know this) for which they sought IF assistance. You may be asked to support future IF applications in principle. The matter is up to the EC: you need not be drawn - but the chances of EC agreement are not high.

100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000

BHP

BARRY H POTTER

10 December 1990

The area south of the very serious problem currently facing Camell Laird is Birmingham. The road has been put up for sale and it will close if a buyer is not found shortly. Even if a sale does proceed we can expect further redecoration. Either way the area, which is already suffering unemployment rates in some wards of up to 30%, will be hard hit.

I have looked at what measures might be used to mitigate the effects of further job losses. I do not think that a package of measures is necessary here for we have available already a whole range of measures. But we do need to ensure that we are able to come up with a response which is appropriate to the difficulties facing the area and which is presented coherently and effectively.

There are a couple of projects on the transport front which I think will have a very helpful impact locally.

A11: Mirren Borough Council have applied for a £1.2m Transport Supplementary Grant and the same amount of grant cover to complete the dualing of the last mile or so of the A11. This road runs alongside the Camell Laird site.

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dti

the department for Enterprise
CONFIDENTIAL

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

n.b. P.M.

BHP

11/12

Rt Hon Malcolm Rifkind QC MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071-215 5622

Our ref PE12077

Your ref

Date 10 December 1990

Dear Secretary of State,

CAMMELL LAIRD : A41

HOOTON - CHESTER & HELSBY ELECTRIFICATION

You are aware of the very serious problems currently facing Cammell Laird in Birkenhead. The yard has been put up for sale and it will close if a buyer is not found shortly. Even if a sale does proceed we can expect further redundancies. Either way the area, which is already suffering unemployment rates in some wards of up to 30%, will be hard hit.

I have looked at what measures might be used to mitigate the effects of further job losses. I do not think that a package of new measures is necessary here for we have available already a whole range of measures. But we do need to ensure that we are able to come up with a response which is appropriate to the difficulties facing the area and which is presented coherently and effectively.

There are a couple of projects on the transport front which I think will have a very helpful impact locally:

A41: Wirral Borough Council have applied for £1.23m Transport Supplementary Grant and the same amount of credit cover to complete the dualling of the last mile or so of the A41. This road runs alongside the Cammell Laird site.

CONFIDENTIAL





the department for Enterprise
CONFIDENTIAL

Rail electrification: Cheshire County Council are seeking £1.6m credit cover over two years for the electrification of the Hooton - Chester and Helsby lines. This would make a considerable improvement to labour mobility within the area.

My officials have been in touch with yours about these schemes which have been considered and are supported by the inter-Departmental official group, the Cammell Laird Group, which is chaired by the Merseyside Task Force.

I very much hope you will be able to support them. I know that budgets are tight but the particular situation at Cammell Laird should, I think, require us to give them priority. If you agree you will want to make clear in any announcement that approval of these schemes demonstrates Government recognition of the needs of the area.

I am copying this to the Prime Minister and to Michael Heseltine.

Yours sincerely
Phil Bennett

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

CONFIDENTIAL





CABINET OFFICE

Barry Potter No 10

With the compliments of

Rolande Fruberson

(Brittan cabinet note
on Cammell Laird

as discussed)
N.B. This was passed to us in
confidence - please protect.

70 Whitehall, London SW1A 2AS
Telephone 01 270 - 0062

cc Mr Potter No 10
(personal copy)

10 December 1990

maire

on the use of the Cammell
merchant shipbuilding and
intervention fund support

Cammell Laird shipyard for
the possibility for the UK
production aid from the
aided by individual decisions
respect of aid to British
as more generally by the
Directives on aid to

Part of a Commission decision relating to aid to British Shipbuilders for the period 1984-86 (Fifth Directive) involved a substantial reduction in British Shipbuilders' physical capacity. One of the measures designed by the UK authorities to achieve the target set was withdrawal from all activities other than merchant shipbuilding by 31 March 1986. The sale of warship yards also involved in merchant shipbuilding contributed to the agreed reduction in capacity. In that context the British Government gave an undertaking that warship yards, such as Cammell Laird, once privatised, would no longer be eligible for Intervention Fund support. In a letter dated 6 June 1985 setting out the terms of the agreement between the Commission and the British Government, the Commission indicated:

"In order to meet the Commission's concern that these privatised facilities will not further be used for merchant shipbuilding, your Government indicates that it does not intend to give them access to the Intervention Fund except for exceptional reasons related to the maintenance of defence capacity and, in any event, after prior approval of the Commission."

The Commission authorised the original sale of Cammell Laird as part of a rescue package for British Shipbuilders, considering at the time that lack of

cc Mr Potter N°10
(personal copy)

10 December 1990

Aide Mémoire

Subject: UK shipbuilding

Commission position on the use of the Cammell Laird shipyard for merchant shipbuilding and possible access to Intervention Fund support

1. The future use of the Cammell Laird shipyard for merchant shipbuilding and the possibility for the UK authorities to grant production aid from the Intervention Fund are governed by individual decisions taken by the Commission in respect of aid to British Shipbuilders Ltd as well as more generally by the Fifth, Sixth and Seventh Directives on aid to Shipbuilding.

Part of a Commission decision relating to aid to British Shipbuilders for the period 1984-86 (Fifth Directive) involved a substantial reduction in British Shipbuilders' physical capacity. One of the measures designed by the UK authorities to achieve the target set was withdrawal from all activities other than merchant shipbuilding by 31 MARCH 1985. The sale of warship yards also involved in merchant shipbuilding contributed to the agreed reduction in capacity. In that context the British Government gave an undertaking that warship yards, such as Cammell Laird, once privatised, would no longer be eligible for Intervention Fund support. In a letter dated 6 June 1985 setting out the terms of the agreement between the Commission and the British Government, the Commission indicated:

"In order to meet the Commission's concern that these privatised facilities will not further be used for merchant shipbuilding, your Government indicates that it does not intend to give them access to the Intervention Fund except for exceptional reasons related to the maintenance of defence capacity and, in any event, after prior approval of the Commission."

The Commission authorised the original sale of Cammell Laird as part of a rescue package for British Shipbuilders, considering at the time that lack of

access to the Intervention Fund would ensure that the yards could not win orders, thus bringing about the objective of a reduction in merchant shipbuilding in the UK.

2. In view of the fact that the Commission's decision only specifically prohibited the granting of aid for merchant shipbuilding and not the activity of merchant shipbuilding itself, the Commission would not now oppose a resumption of merchant shipbuilding, conversion and repair, or the sale of the yard for such purposes, provided there is no element of state aid in the sale price and no subsequent access to contract-related production aid (Intervention Fund).
3. The Fifth Directive on Shipbuilding Aid does not provide for any reopening of capacity which has been closed as part of an aid package. However, the Seventh Directive, agreed by the Industry Council on 28 November 1990, does deal with such a situation. It provides that aided closures should be genuine and irreversible and that the yards should remain closed for at least five years. If, after the fifth but before the 10th anniversary of the closure, a Member State wants to reopen closed capacity, it must seek the prior agreement of the Commission. In deciding whether to allow the yard to reopen, the Commission will take account of the world balance between supply and demand and whether aid would be granted to the yard.
4. Although Cammell Laird's capacity was regarded as "closed" under the Fifth Directive, it would seem reasonable to apply to it the same rules as will apply under the Seventh Directive. Therefore, it should be treated in the same way as capacity which has been closed since 1985 or which will be closed in the future, i.e. that, if the Commission gives permission it may reopen if at least five years have elapsed since its closure or, without the permission of the Commission, ten years after closure. However, there is no basis for changing or challenging the Commission's original decision not to allow access to the Intervention Fund.

dti

the department for Enterprise

Parliamentary Under Secretary
of State for Industry and
Consumer Affairs

TO: BARRY POTTER
FROM: KATE PHILLIPS
PS/MR LEIGH

You might find the
attached papers helpful
background if the PM
sees Mrs Chalker & Co
on Tuesday.

None of the letters
to the Chief Sec/Sir
Leon Brittan have
yet issued.

The best background is
in the draft letter to
the Chief Secretary
about intervention
funding (A/D).

Please let me know if
you need anything
else & I would be grateful
for a call after the
meeting. Kate Phillips

that there could be no Intervention Funding for Cammell Laird, there is considerable pressure coming both from the MPs and from the yard for us at least to apply for Intervention Funding if a specific request is made. The Minister considers that it would be politically considerably more acceptable if we could be seen to have gone forward with the specific proposal to Sir Leon Brittan and have him turn it down. The Minister has agreed to do this and it seems that there may be a specific application for Intervention Funding for a dredger.

Reference

CONFIDENTIAL
IN CONFIDENCE

cc Sir Peter Gregson
Mr Williams
Mr Corley
Mr Nieduszynski
Dr Sutton
Mrs Taylor

*Number
the minute
I did for
SP*

ke to see the attached papers

er's meetings with
el Davies.

Minister's answer to
rst Order PQ's about

on attaching a draft letter for
to the Chief Secretary arguing
under the Home Shipbuilding
me for Cammell Laird.

Sutton attaching a draft letter
the Chief Secretary about
Funding for Cammell Laird and
Leon Brittan.

will be aware, Lynda Chalker and
to try and find a buyer for
on Brittan had already written
(and acknowledged this) saying

COVERING CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

To:
PS/SECRETARY OF STATE

cc Sir Peter Gregson
Mr Williams
Mr Corley
Mr Nieduszynski
Dr Sutton
Mrs Taylor

From:

KATE PHILIPPS
PS/MR LEIGH
Room 806
1-19 Victoria Street
071 215 5147

7 December 1990

*Under
the minute
I did for
S.P. [initials]*

CAMMELL LAIRD

The Secretary of State might like to see the attached papers about Cammell Laird. They are:

- A Records of the Minister's meetings with Lynda Chalker and Noel Davies.
- B Hansard Report of the Minister's answer to Frank Field during First Order PQ's about shipbuilding.
- C A minute from Dr Sutton attaching a draft letter for the Minister to send to the Chief Secretary arguing for enhanced support under the Home Shipbuilding Credit Guarantee Scheme for Cammell Laird.
- D A submission from Dr Sutton attaching a draft letter from the Minister to the Chief Secretary about possible Intervention Funding for Cammell Laird and a draft letter to Sir Leon Brittan.

2. As the Secretary of State will be aware, Lynda Chalker and the local MPs are working hard to try and find a buyer for Cammell Laird. Although Sir Leon Brittan had already written to Douglas Hogg (and Mr Leigh had acknowledged this) saying that there could be no Intervention Funding for Cammell Laird, there is considerable pressure coming both from the MPs and from the yard for us at least to apply for Intervention Funding if a specific request is made. The Minister considers that it would be politically considerably more acceptable if we could be seen to have gone forward with the specific proposal to Sir Leon Brittan and have him turn it down. The Minister has agreed to do this and it seems that there may be a specific application for Intervention Funding for a dredger.

The letter to the Chief Secretary (Flag D) alerts him to what we are doing should this application come forward. There is, however, a possibility that Sir Leon Brittan would accept our application in which case there may be public expenditure difficulties and an unwelcome precedent of allowing IF for warship yards could be created as outlined in the draft letter to the Chief Secretary. I would be grateful to know if the Secretary of State thinks we should alert the Chief Secretary to this possibility even in the absence of a specific application.

3. The Home Shipbuilding Credit Guarantee Scheme is a slightly separate issue although it relates to the same dredger. The case for enhanced support is argued in Dr Sutton's submission (attached at C) with which Mr Leigh is in full agreement.

4. I would be grateful if you could let me know whether the Secretary of State is content with Mr Leigh's approach.

5. I also understand that Lynda Chalker and Frank Field might see the PM about Cammell Laird on Tuesday. I am providing Downing Street with some background papers.

Kate Philipps

KATE PHILIPPS

WH12.106

To:

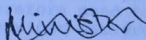
PUSS FOR INDUSTRY
AND CONSUMER AFFAIRS

From:

MIKE SUTTON
BTF2/5
Room 606A
Ashdown House
215 6729

7 December 1990

cc PS/Secretary of State
PS/Sir Peter Gregson
Mr Lane
Mr Nieduszynski BTF2
Mr O'Shea FRM1
Mr Lello DTI/NW (L)
Mrs Taylor IDA1
Mr Whitehead BTF2/5A
Mr Shand BTF2/5B
Mr Sutherland INF
Miss Bradley UKREP


CAMMELL LAIRDISSUE

Need to inform the Chief Secretary of the Treasury of your intention to approach the Commission again on intervention funding for Cammell Laird.

RECOMMENDATION

That you write as attached (at 'A').

TIMING

Cammell Laird are not certain whether there will or will not be non-EC competition for this contract. If there is, their application become live and it will be necessary to move with extreme urgency. You may wish to discuss with the Secretary of State in readiness should we need to move quickly.

BACKGROUND

1 The background is set out in the draft letter. Cammell Laird have insisted in putting in an application for shipbuilders intervention fund (SIF) against a specific order. Most copy recipients will have seen the note of Mrs Chalker's meeting with you on 5 December, and her appeal to be seen to be taking action. A copy of the report on the recent exchanges in the House is appended (at 'B').

2 The letter has been cleared by FRM.

ARGUMENT

I am extremely worried that by this approach we shall be risking a hard won position for the sake of one yard who failed to win defence orders even before "Options for Change". Nor do we really know how long it will be before

File & send to Mr Lane tomorrow. Also ask for SIF. I have checked SIF. Also ask for SIF. Also ask for SIF.

2

IF is ultimately phased out. We could be opening the door on continuing expenditure, albeit controlled and set against expenditure elsewhere. We could also be exposing ourselves to even greater pressures than we are now facing from Cammell Laird and other yards to open the door still further. (You will note, in that context, Dr Godman's immediate interjection on behalf of Scott Lithgow in the House.) There would be the inevitable criticism from Sunderland and all the other closed yards of special treatment for Cammell Laird. The Treasury will place great weight on these points. We shall therefore need to consider what we do very carefully against the wider background of defence cuts if by a miracle the Commission said "yes".

*Mike Sutton**ou.
er.*

MIKE SUTTON

CAMMELL LAIRD

1. As you know, Vickers Shipbuilding and Engineering Ltd. (VSEL) the holding company, have decided to put the Cammell Laird shipyard at Birkenhead up for sale. Their decision is based on their assessment of the future in view of the early intimations of the MOD's "Options for Change" Exercise. This indicates a reduction in submarine orders, and since they were unsuccessful in the last two competitions for frigates, they feel they have little chance of attracting other warship orders at Birkenhead.

2. The remaining super-lic work will continue for the time being, but as it runs down there will be a reduction in around 200 jobs in six months. If, as seems likely, a buyer cannot be found to take the remaining work, VSEL hope to dispose of the yard for an

DRAFTCONFIDENTIAL

Addressed to:

The Rt Hon David Mellor MP
 Chief Secretary to the Treasury
 Parliament Street
 LONDON SW1P 3AG

File No.

Copies to:

PS/SOS
 PS/SPG
 Mr Lane
 Mr Nieduszynski
 BTF2
 Mr O'Shea, FRM1
 Mr Lello DTI/NW (L)
 Mrs Taylor, IDA1
 Mr Whitehead
 BTF2/5A
 Mr Shand, BTF2/5B
 Mr Sutherland, INF
 Mr Bradley, UKREP
 Dr Sutton, BTF2/5
 (on file)

Originated by:

(Initials and date)

HMS

07/12/90

Seen by:

(Initials and date)

FRM1

Type for signature of

MR LEIGH

.....
(Initials and date)**DEPARTMENT OF TRADE AND INDUSTRY**CAMELL LAIRD

1 As you know, Vickers Shipbuilding and Engineering Ltd, (VSEL) the holding company, have decided to put the Cammell Laird shipyard at Birkenhead up for sale. Their decision is based on their assessment of the future in view of the early intimations of the MoD's "Options for Change" Exercise. This indicates a moratorium on submarine orders, and since they were unsuccessful in the last two competitions for frigates, they feel they have little chance of attracting other warship orders at Birkenhead.

2 The remaining submarine work will continue for the time being, but as it runs down there will be redundancies of around 500 every six months. If, as seems likely, a buyer cannot be found to take the submarine work, VSEL hope to dispose of the yard for an

alternative use. Depending on what arrangements can be made with any new owner, a point may be reached where remaining submarine work has to be transferred to their other yard at Barrow. An alternative use could be merchant shipbuilding; but the drawback here for any potential purchasers is the lack of access to the Shipbuilders Intervention Fund (SIF).

3 The history of Cammell Laird is as follows: the yard was privatised in 1985 along with other British Shipbuilders' yards with mainly warshipbuilding interests. Two of those yards (Cammell Laird and Swan Hunter) had traditionally also built merchant ships. An agreement was made between the Government and the European Commission that the privatised warship yards would not be eligible for IF. They would, however be able to bid for merchant ship work appropriate to their skills and expertise. In fact, Swan Hunter have been successful in obtaining two orders for highly specialised ships since privatisation; Cammell Laird have obtained no such orders.

4 In the letters exchanged between Norman Lamont and Peter Sutherland (15 May and 6 June 1985, copies of relevant papers attached) setting out the terms of the agreement, the Government said that it did not expect the question of the provision of IF support for the warship yards to arise. If for exceptional reasons

(CONTINUE TYPING HERE)

File No.

3

3

related to the maintenance of defence capacity an application was made, the Government undertook to seek the prior approval of the Commission before granting aid. The Commission in its reply acknowledged this undertaking "in order to meet the Commission's concern that these privatised facilities will not be further used for merchant shipbuilding". The gist of this exchange formed the basis for Norman Lamont's statement in the House on 5 July 1985. (Copy attached.) There is no indication in these letters of any further undertaking by the Government to prevent merchant shipbuilding in warship yards.

5 Douglas Hogg wrote to Sir Leon Brittan on 26 October seeking confirmation that the Cammell Laird facilities could be used for merchant shipbuilding, albeit without access to IF, under the terms of the 1985 agreement. Sir Leon's reply is attached. He stated clearly that "the Commission could not oppose a resumption of merchant shipbuilding, conversion and repair, provided there is no element of state aid in the sale price and no subsequent access to contract related production aid" (i.e intervention funding). I wrote to Sir Leon on 22 November thanking him for his very clear statement, but pointing out that in spite of his dismissal in the penultimate paragraph of his letter of any defence related argument for a resumption of IF to warship yards, the 1985 argument still stands

and we might want to invoke it in extreme circumstances. There the correspondence rests.

6 Since the sale was announced on 17 October, we have come under increasing pressure to allow the Cammell Laird yard access to IF. Local MPs (Linda Chalker, David Hunt and Frank Field) have been under pressure. Cammell Laird have tendered for an order for a dredger, worth some £30m, and have insisted on sending in an application to us for IF. Initially, we pointed out the need for non-European competition for this order for any European bidders to have access to contract related aid (IF, in our case). To be helpful, we asked the Commission to institute a procedure under Article 4(5) of the Shipbuilding Directive to ensure that none of the competitors had access to state aid. Unfortunately, the ship buyers decided to go the Far East for tenders which, if they bid and if competitive, would allow the European yards access to aid. [We have also indicated that we might be able to offer help under our other shipbuilding measure, the Home Shipbuilders Credit Support Scheme (HCS) and I [am writing/will be writing] separately to you on that.]

7 All of this have been of no avail and the local press, the company, the unions, and supporters such as the Bishop of Chester (in the Lords) have turned decisively on access to IF as the essential

(CONTINUE TYPING HERE)

File No.

5

5

pre-requisite of a successful sale. There is considerable determination that the issue should be vigorously pursued and, at a recent public meeting in the town hall, trade union speakers expressed their intention to press the case on the grounds that circumstances are now very different from those of 1985. There is resentment that former GDR yards will be allowed aid under the Shipbuilding Directive, and that the UK has cut its shipbuilding work force by a greater extent than EC members. This resentment surfaced in the House on 5 December during Parliamentary Questions, when I felt it right to indicate that I would approach the Commission again, although I emphasised that I held out no hope of success.

8 I am aware of the dangers of this course, though I am certain the Commission will refuse to reconsider. The extra cost to the public purse of including all the warship yards in the IF net could well be as much as £20m to £30m a year - at least half as much again as the present budget. We should therefore have to consider our position very carefully if by some miracle the Commission were to say "yes". We have gone through a painful restructuring over the last few years in shipbuilding, and we face further problems as reductions in warship expenditure start to bite. It might be possible to help these yards on a case by case

basis - after all, their problems stem from a withdrawal of Government support in a highly specialised sector. This might allow some, albeit limited, help for Cammell Laird without opening the floodgates for other yards. A criterion might be a net saving of prospective public expenditure elsewhere if the yard had to close, and a commitment to only limited funding. It is probable that IF will be phased out over the next three years anyway as European costs and Far East prices, which form the basis for setting the aid level, start to equalise.

9 I conclude that I have little option but to write to Sir Leon Brittan again, pointing to the arguments which are being used for a restoration of IF to Cammell Laird. It is doubtful that he will agree. However, if he does show flexibility, I think there may be scope for modest help without opening the floodgates to other warship yards by giving limited aid when it was possible at the same time to show a net saving in prospective public expenditure on aid where a yard is threatened with closure. This would certainly be justified in Cammell Laird's case, where as well as any regional aid there would be a possible saving in the deferred consideration on profits which would be payable by VSEL to Government through British Shipbuilders as part of the original privatisation arrangement.

(CONTINUE TYPING HERE)

Continuation Sheet No.

File No.

7

7

- 10 I will keep you informed of further progress.

The changes in shipbuilding described below will result in a 40% reduction in British Shipbuilders' physical capacity by 31 December 1986. An other major decline there will be further corresponding reductions in physical capacity.

Consequences for shipbuilding by British Shipbuilders

The Commission have already been provided with a detailed outline of the Commission's past record and future plans. The restructuring in the letters to Mr. Hunt dated 17 April 1984 and to Mr. Hunt dated 10 July 1984. As regards the past, the Commission's figures show that over the period 1975 to 1981 the UK shipbuilding industry reduced capacity, employment and completions very substantially - considerably more than any other major ship's industry. These reductions in the industry, particularly by British Shipbuilders, were achieved at an increased cost.

British Shipbuilders have been instructed to withdraw by 31 March 1986 from all activities other than merchant shipbuilding. Disposal of the warship yards owned in both merchant and warshipbuilding will lead to the removal from British Shipbuilders of around 25% of total merchant shipbuilding capacity. As these yards are being privatised as warship yards and Government do not expect the question of the provision of 17 support to arise. It however for non-physical reasons related to the maintenance of defence capacity an application was made, the Government would seek the prior approval of the Commission.

Merchant shipbuilding retaining British Shipbuilders will decline, as regards physical capacity British Shipbuilders may need to be reduced as well as close unused facilities as soon as possible after they have become surplus to requirements. A major reduction here will be the sale or closure by December 1984 of the Victoria Dock and Walker Shipyards which together represent some 44,000 sq ft of new building capacity. Other significant reductions will together amount to at least 15,000 sq ft and arising from 12's regionalisation programme; details are set out in the annex. For operational, industrial and social reasons, which I have explained to you and which I am sure you understood, it is not possible for the location of other employment and physical capacity reductions to be identified now. Details will be made available to the Commission as soon as possible. An overall review will be provided to the Commission at the end of the financial year 1985/86. As regards employment, a 40% reduction is envisaged by 31 December 1986.

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Extract:

15 May 1985.

LAMONT (HMG) TO SUTHERLAND
(COMMISSION)

The measures on restructuring described below will result in a 40% reduction in British Shipbuilders' physical capacity by 31 December 1986. As order intake declines there will be further corresponding reductions in physical capacity.

Consequences for restructuring by British Shipbuilders

The Commission have already been provided with a detailed outline of the Corporation's past record and future plans for restructuring in the letters to Mr Noel dated 17 April 1984 and to Mr Sunnen dated 30 July 1984. As regards the past, the Commission's figures show that over the period 1976 to 1983 the UK shipbuilding industry reduced capacity, employment and completions very substantially - considerably more than any other member state's industry. Future restructuring in the industry, particularly by British Shipbuilders, will continue at an intensified rate.

British Shipbuilders have been instructed to withdraw by 31 March 1986 from all activities other than merchant shipbuilding. Disposal of the warship yards engaged in both merchant and warshipbuilding will lead to the removal from British Shipbuilders of around 25% of total merchant shipbuilding capacity. As these yards are being privatised as warship yards the Government do not expect the question of the provision of IF support to arise. If however for exceptional reasons related to the maintenance of defence capacity an application was made, the Government would seek the prior approval of the Commission.

Merchant shipbuilding remaining, British Shipbuilders will decline. As regards physical capacity British Shipbuilders has been instructed to sell or close unused facilities as soon as possible after they have become surplus to requirements. A major reduction here will be the sale or closure by December 1986 of the Hebburn Dock and Walker Shipyards which together represent some 64,000 cgrt of new building capacity. Other significant reductions which will together amount to at least 15,000 cgrt are arising from BS's regionalisation programme; details are set out in the annex. For operational, industrial and social reasons, which I have explained to you and which I am sure you understand, it is not possible for the location of other employment and physical capacity reductions to be identified now. Details will be made available to the Commission as soon as possible. An overall review will be provided to the Commission at the end of the financial year 1985/86. As regards employment, a 30% reduction is envisaged by 31 December 1986.

COMMERCIAL IN CONFIDENCE

1THAMP

Extrait:

CONFIDENTIAL

6 JUNE 1986

REPLY BY SUTHERLAND TO LAMONT

- 2 -
(Commission)

(HMG)

- The instruction to withdraw by 31 March 1986 from all activities other than merchant shipbuilding. Since some warship yards are engaged in both merchant and warshipbuilding, this policy will entail the removal of around 25 % of total merchant shipbuilding capacity. In order to meet the Commission's concern that these privatized facilities will not further be used for merchant shipbuilding, your Government indicates that it does not intend to give access to the Intervention Fund except for exceptional reasons related to the maintenance of defense capacity and, in any event, after prior approval of the Commission.

- A regionalisation programme aiming at rationalizing the present facilities around two major poles - one in Scotland and one in the North-East - which should provide an additional reduction of capacity of at least 15,000 cgr.

In view of these commitments concerning the restructuring of your shipyard and of the formal commitment of your Government to provide the Commission as soon as possible and in any case before the end of the financial year 1985/86, with precise details of the restructuring measures planned, and having regard to the operational, industrial and social reasons you have explained to me, I intend to propose to the Commission not to raise further objections to the proposed aids as hereafter described.

First, I note the decision of your Government to introduce strict limits for offsetting losses incurred by public sector shipyards. It is planned that no finance (other than through the Intervention Fund) of significant importance (say of the order of £ 10 million) will be provided to British Shipbuilders for their activity in merchant shipbuilding over the two years 1985-1986 and 1986-1987.

I also take note of the fact that your Government will, prior to any award, notify to the Commission the amount at stake and give details of the loss to be compensated.

A global budget of £140 million (£ 100 million for British Shipbuilders and £ 40 million for Harland and Wolff) is set aside for awarding production aids. The rate of such aids will amount to a maximum of 20.5 % (plus 2 % of Shipbuilders' Relief) of the contract price of the ships to be built by British Shipbuilders, Harland and Wolff and the private sector. An additional 5 % can be granted to Harland and Wolff when it builds ships of 70,000 dwt or more.

but that they should consult their environmental health department about removing large amounts of asbestos materials.

Company Liquidations

Mr. Hancock asked the Secretary of State for Trade and Industry what was the number of company liquidations (a) between 1974 and 1979 and (b) from 1980 until the latest available date.

Mr. Fletcher: The number of company liquidations in England and Wales was:

1974 to 1979 inclusive	30,511
1980 to May 1985 inclusive	61,190

Source: British business.

Water Reed

Mr. Speller asked the Secretary of State for Trade and Industry what representations he has received from producers of water reed about the effects on the thatching industry of the growth of equivalent subsidised imports; and if he will make a statement.

Mr. Fletcher: My right hon. Friend the Minister for Trade has received one letter from the hon. Member for North Devon. We have received no evidence that the imported thatching reed is subsidised. Supplies of cheaper (and apparently good quality) reed appear to be in the interests of British thatchers and their customers.

Shipbuilding (Intervention Fund)

Mr. Malone asked the Secretary of State for Trade and Industry whether he has concluded negotiations with the European Commission on a new intervention fund regime for shipbuilding.

Mr. Norman Lamont: Yes. The new arrangements, which apply to orders taken from July 1984 and last until December 1986, permit an increased rate of up to 20½ per cent. intervention fund plus 2 per cent. shipbuilders relief. For vessels over 70,000 dead weight tonnes built in Northern Ireland, the maximum may be increased to 25½ per cent. plus 2 per cent. shipbuilders relief. The Commission has indicated also that it will be prepared to consider payments above these levels on a case by case basis particularly for orders where there is no EC competition.

I believe these new, more generous arrangements provide a satisfactory basis for the industry until the end of next year. The United Kingdom industry must use the opportunity offered by these measures to continue to improve its competitive position, so that in the future it may survive with steadily reducing levels of assistance.

Intervention fund assistance is essentially intended as a temporary aid to merchant shipbuilding and it is provided only for contracts taken on a non-profit basis. Aid of this kind will thus not normally be appropriate for, nor provided to, yards which have been or are to be privatised by British shipbuilders. The Commission has, however, agreed to consider any case where exceptionally, for reasons related to the maintenance of defence capacity, intervention fund support might be given.

ENVIRONMENT

Wild Birds (Habitat Protection)

Dr. Cunningham asked the Secretary of State for the Environment what response has been provided to the European Commission in reply to its letter dated 10 September 1984 concerning the protection of Duich Moss (Islay), a site of international importance for wild birds; and if he will reproduce in the *Official Report* the letter from the European Commission dated 10 September 1984 on this subject.

Mr. Patrick Jenkin: The following is the text of the letter of 10 September 1984 received from the European Commission:

"The Royal Society for the Protection of Birds has filed a complaint against the British Government alleging non-observance of requirements of the directive on the conservation of wild birds (79/409/EEC) with respect to the protection of an important bird area on the Scottish island of Islay.

The area concerned is described on the information sheet enclosed. It is also listed in the report of the Commission entitled: 'Aperçu des zones de grand intérêt pour la conservation des oiseaux sauvages'.

Considering that the area is clearly of Community importance for bird preservation, may I ask your Government to take the necessary steps to protect the area in accordance with the provisions of article 4 paragraph 4 of the directive 79/409/EEC and to add this area to the UK list of special protection areas.

I would be most grateful for an early reply."

The reply of 1 July was as follows:

"DIRECTIVE 79/409

I must regret the delay in replying to a series of letters from Mr. Andreopoulos about the appointment of the wild birds directive to an area of the Scottish island of Islay. You reminded us of this correspondence in a telex of 21 May to Sir Michael Butler.

You will be pleased to hear that the area of Islay in question, Duich Moss, was designated as a site of special scientific interest on 19 July 1984 under the Wildlife and Countryside Act 1981. This is an essential first step before Duich Moss can be considered for designation as a special protection area under article 4 of the directive. The necessary consultations to prepare for this designation are beginning in September.

Meanwhile the whole of the site of which Duich Moss is a part, which extends to some 1,419 acres, is receiving the protection appropriate to its status as a site of special scientific interest. The effect of this protection is to impose certain restrictions on particularly operations which would, in the opinion of the nature conservancy council, be detrimental to the scientific interests of the site.

However, these protective provisions do not preclude the carrying out on the land of any operation which has been authorised by the granting of planning permission, with any attendant conditions. Such permission has been given by the Secretary of State for Scotland for the digging of peat from an area of some 150 acres within the site of special scientific interest, the first phase being confined to an area of 44 acres. The background to the decision is set out in an annex to this letter. You will see that the strict conditions which have been set for the planning permission are designed to minimise disturbances to the Greenland white-fronted geese which roost on Duich Moss over the winter, and to ensure that the general nature conservation interest of the Moss is not adversely affected."

Local Government Finance

Dr. Cunningham asked the Secretary of State for the Environment if he will list those items of expenditure for which a disregard has been requested under section 8(4) of the Local Government Finance Act 1982 in respect of 1985-86 expenditure.

Mr. Patrick Jenkin: I shall write to the hon. Member.

Mr. Sainsbury: I very much welcome the hon. Gentleman's enthusiastic support for an open trading system, because that is what we believe in. I hope that I will have that same support if we start talking about textiles.

Sir Peter Hordern: Is my hon. Friend aware that the common agricultural policy is the biggest single obstacle to the success of the GATT round? Does he agree that it is time to get rid of a policy that does not help the farmer and places an intolerable burden on every family in Europe?

Mr. Sainsbury: My hon. Friend should recognise the fact that although agriculture is important to achieving a successful outcome of the Uruguay round of the negotiations, it is not the only matter at issue. We hope that a flexible approach by the Community to the offer on the table, which is a good offer, will enable progress to be made on other areas of great importance, covering the whole range of exports of goods and services, which represent about a quarter of the output of British industry and commerce. All those elements can benefit from a successful outcome. If we concentrate solely on agriculture, we mislead ourselves as to what the round is about—but I agree that we must adopt a flexible approach.

Mr. John D. Taylor: Since the objective of the European Community is that we all speak with one voice, does the Minister not think that that should be seen to happen in practice, especially in negotiations in connection with GATT? Does he agree that the Government's decision yesterday to break rank with the rest of the Community is downright disgraceful? Will that not damage the interests of the United Kingdom's agriculture and weaken the Community's negotiating stance at these talks?

Mr. Sainsbury: I do not recognise what the right hon. Gentleman is talking about. He speaks about the need for the European Community to speak with one voice. As I am sure he is well aware, the Community is the negotiating party in the GATT round. Of course, before the Community speaks with one voice, I hope he will agree that it would be sensible for the members of the Community to discuss and agree what is to be said by the Community on their behalf.

Mr. Favell: Does it not strike my hon. Friend as ironic that the European Commission, which is supposedly dedicated to free trade, should be suggesting a common economic and fiscal policy and a single currency at the same time as its flagship, the common agricultural policy, is jeopardising the whole of the world's free trade? Goodness only knows what would happen if there were a common defence policy and the Community was in charge of sending British troops to war.

Mr. Sainsbury: My hon. Friend makes a good point. It is important for the Community to show that it is able to make progress on issues for which it has been responsible for a long time, such as agriculture, before taking on fresh responsibilities. I hope, and I know that my right hon. Friend who is in Brussels also hopes, that flexibility will be shown at the meeting that is due to take place in about two and a half hours. I hope that we will be able to make substantial progress across the whole range of subjects being discussed.

Mr. Gordon Brown: Given the importance of the world trade talks to many industries and services, and the seriousness of a breakdown, will the Minister tell us whether the Prime Minister has talked to Chancellor Kohl and President Mitterrand, or will talk to them at their joint meeting today, to see whether at the highest level a positive and constructive European initiative can be agreed in order to avoid deadlock?

Mr. Sainsbury: As I have just said, there is a meeting at 6 o'clock Brussels time, 5 o'clock our time, of Trade and Agriculture Ministers of the Community. I have every hope that that meeting will cover the whole range of subjects being discussed. The Commission intends to put to the Ministers attending that meeting the progress that has been made. As a result, I hope that the Uruguay round will be able to go forward to a successful conclusion and that there will not be any damage to the prospect of a successful outcome because of a lack of flexibility in agriculture negotiations.

Mr. Riddick: Textile manufacturers in my constituency and throughout the country are concerned about whether the Government are taking a sufficiently tough line on the negotiations over the phasing out of the multi-fibre arrangement. Can my hon. Friend assure the House that the Government and the European Community will take an extremely robust line to ensure that export subsidies and tariff barriers, which are holding back British exports, are done away with? British textile manufacturers are not afraid of free trade as long as it is fair trade, but we need a level playing field?

Mr. Sainsbury: I assure my hon. Friend that we very much recognise the importance to our textile industry of better market and export opportunities because it is a successful exporting industry. He invites us to take a robust line. We are doing that in seeking reductions not only of tariff barriers but of other obstacles, including the subsidies to which he refers, so that we can create a more level playing field.

Shipbuilding

6. Mr. Orme: To ask the Secretary of State for Trade and Industry when he last met his European counterparts to discuss shipbuilding.

Mr. Leigh: The noble Lord the Minister for Industry represented Her Majesty's Government at the Industry Council on 26 November at which the seventh directive on aid to shipbuilding was adopted unanimously.

Mr. Orme: Did the Minister on that occasion raise the question of Cammell Laird, a shipyard which is crucial to the economy of the north-west of England and to thousands of workers? Did he ask for intervention aid and raise that matter with the Commissioner? People in the north-west want to know what the Government propose to do about the survival of that shipyard.

Mr. Leigh: The future for Cammell Laird is not strictly relevant to the seventh directive, but I will answer the right hon. Gentleman because this is a serious and important point. We are lucky to have such a hard-working local Member as my right hon. Friend the Member for Wallasey (Mrs. Chalker), who has been doing tremendous work trying to help the company to find orders. I also pay credit

to the hon. Member for Birkenhead (Mr. Field) who, as always, takes a positive and sensible view of such matters.

The problem with Cammell Laird, as the right hon. Member for Salford, East (Mr. Orme) is aware, is that it was agreed that the shipbuilding intervention fund would not be available to Cammell Laird. We have been back to the Commission and argued the case on behalf of the company, but we received a firm no. Subsidies will not be available to the company. It would be counterproductive for me to offer any hope that the Commission is likely to change its mind.

Mr. Frank Field: While we do not want the Minister to offer baseless hope, will he undertake to return to the Commission and specifically raise the matter of individual orders for which the company requests intervention fund backing? Does he accept that his negotiating position has changed as the negotiations on the seventh directive have progressed? At the beginning, it looked as though the jobs in the naval yards were secure, but it now appears that the 22,000 jobs in the naval yards will collapse to just over 8,000. On that basis, in this last month of negotiations, should the Minister not go back to the Commission and argue the British case to defend those jobs? If he fails to do that, not only will Cammell Laird suffer, but the Minister will have locked the whole of British shipbuilding into further decline.

Mr. Leigh: The hon. Gentleman's first question was also put to me yesterday by my right hon. Friend the Member for Wallasey. I am prepared to give the commitment that the hon. Gentleman asked for. I will go back and ask the Commission to waive the rule for particular orders, but I must be honest and say that, so far, Sir Leon Brittan, on behalf of the Commission, has given a very firm no. However, we will try again.

Mr. Maginnis: Will the Minister assure us that the Government are not out of line with our European partners in relation to subvention for shipbuilding? Does he realise that the majority of our European partners would like to see subvention remain at about 20 per cent. for at least six months and then, if it must be reduced, have it reduced in a structured way and not by the massive 50 per cent. currently proposed?

Mr. Leigh: I know that the hon. Gentleman takes a close interest in these matters. Indeed, he is leading a delegation to see me this afternoon. We are anxious to help Harland and Wolff in every way we can. It would be unwise for me to speculate on the outcome of negotiations that are still proceeding on the automatic degenerativity of shipbuilding aid—[*Interruption.*] For those not familiar with European jargon, degenerativity is the year-by-year cut in subsidies to shipbuilding. I repeat what I said in the debate on shipbuilding—it is extremely unlikely that aid will be cut to below the 10 per cent. margin. It will be somewhere between 10 per cent. and 20 per cent.

Dr. Godman: While the small Ferguson yard in Port Glasgow is thriving, principally because it recently signed an order with assistance from the intervention fund, the economy of the lower Clyde would be transformed if Scott Lithgow were allowed to compete successfully for orders for large ships. As that yard has been denied access to the intervention fund for more than five years, does the Minister recall the Commission's amendment, which he

quoted the other day, to the effect that after five years a shipyard may be given access to the intervention fund? Will the Minister give Scott Lithgow's case the most serious consideration?

Mr. Leigh: We are anxious to help our manufacturers in any way we can, and I should be happy to give the most serious consideration to Scott Lithgow's case, but the general position, as the hon. Gentleman hinted, is that the Commission is absolutely firm about the rule of up to five years. However, there may be more flexibility after five years and I am happy to take up the hon. Gentleman's suggestion and go back to the Commission.

Mr. Sayeed: My hon. Friend will be aware that in the past the Commission has changed the intervention rules for specific orders. May I, therefore, warmly welcome the commitment that he has given to the hon. Member for Birkenhead (Mr. Field) to go back with a specific request for intervention funds for specific orders?

Mr. Leigh: I am grateful to my hon. Friend.

The Gulf

7. Mr. Dalyell: To ask the Secretary of State for Trade and Industry what assessment he has made of the trade consequences of a military option in the Gulf.

Mr. Sainsbury: None.

Mr. Dalyell: With 300 Kuwaiti oilwells detonated, tankers in the Gulf Exocetted, some Saudi and Emirate production missile-eliminated, fire trenches described to many of us by General Colin Powell in a Committee Room last night as incinerated, and the use of nuclear weapons not excluded, what then happens when the price of oil is \$120 per barrel on the Rotterdam spot market? How do Ministers reply to today's Oxford survey? What happens then if there is a military option?

Mr. Sainsbury: All that is needed to bring about a peaceful resolution of the crisis is for Saddam Hussein to obey the United Nations resolutions and to withdraw. [HON. MEMBERS: "Answer the question."] The hon. Gentleman has made clear his concern about these issues on a number of occasions and he has been answered by my right hon. and hon. Friends.

Mr. Ian Bruce: Has my hon. Friend reflected on whether a quick resolution would ensure that we returned to normal trade throughout the region? Have not the high prices brought about by the crisis reduced the consumption of oil and petrol and thus reduced the greenhouse effect that the hon. Member for Linlithgow (Mr. Dalyell) is constantly talking about?

Mr. Sainsbury: My hon. Friend is aware that the trade consequences of what has already happened have been severe, especially on certain states in the area. The consequences of the rather volatile movements of oil prices are difficult to predict and we shall not know for a little while whether the good consequence of less oil being consumed and less sulphur dioxide in the atmosphere has been brought about. I am sure that the entire House shares the common concern that we should obtain a peaceful solution, but one which means that the United Nations resolutions have been obeyed.

FM4DDO.MS

dti

the department for Enterprise
CONFIDENTIAL

To:

PUSS FOR INDUSTRY
AND CONSUMER AFFAIRS

From:

MIKE SUTTON
BTF2/5
Room 606A
Ashdown House
215 6729

7 December 1990

cc PS/Secretary of State
PS/Sir Peter Gregson
Mr Lane
Mr Nieduszynski BTF2
Mr O'Shea FRM1
Mr Lello DTI/NW (L)
Mrs Taylor IDA1
Mr Whitehead BTF2/5A
Mr Shand BTF2/5B
Mr Sutherwood INF
Miss Bradley UKREP

CAMMELL LAIRD

ISSUE

Need to write to Sir Leon Brittan about intervention funding for Cammell Laird following your undertaking to the House on 5 December.

RECOMMENDATION

That you write as attached.

TIMING

Urgent, if non-EC competition emerges for the dredger order.

BACKGROUND AND ARGUMENT

As in the accompanying submission.

Mike Sutton
MIKE SUTTON



Recycled Paper

DRAFTCONFIDENTIAL

Addressed to:

Rt Hon Sir Leon Brittan QC
Vice-President of the Commission
of the European Communities
Rue de La Loi, 200
1049 Brussels

File No.

Copies to:

PS/SOS
PS/SPG
Mr Lane
Mr Nieduszynski
BTF2
Mr O'Shea
Mr Lello DTI/NW (L)
Mrs Taylor, IDA1
Mr Whitehead
BTF2/5A
Mr Shand, BTF2/5B
Mr Sutherwood, INF
Mrs Bradley, UKREP
Dr Sutton, BTF2/5
(on file)

Originated by:

(Initials and date)

HMS
07/12/90

Seen by:

(Initials and date)

Type for signature of

MR LEIGH

.....
(Initials and date)**DEPARTMENT OF TRADE AND INDUSTRY**

I wrote to you on 22 November 1990 acknowledging your earlier letter to Douglas Hogg about the conditions under which a potential purchaser of VSEL's Cammell Laird shipyard at Birkenhead would be able, under Community rules, to engage in merchant shipbuilding, conversion and repair. Your earlier letter had, as I acknowledged, quite clearly stated that the Commission could not oppose a resumption of merchant shipbuilding, conversion and repair, provided there is no element of state aid in the sale price and no contract related production aid.

I have to come back to you on the last point because of the arguments pressed on me by Parliamentary colleagues and others in the Merseyside area, who point out that there may be a need for special treatment for Cammell Laird, and also because the company has now tendered for an order for a dredger and have sent in an application

(CONTINUE TYPING HERE)

File No.

2

form for intervention funding. The Chief Executive of VSEL, the holding company, has asked me to forward this application to the Commission for further consideration. A copy of the application is therefore enclosed.

The company and its supporters believe that access to intervention funding is an essential pre-requisite of a successful sale. Locally there is considerable determination that the issue should be vigorously pursued on the grounds that circumstances are now very different from those of 1985, when the privatisation agreements were reached. They believe that it is surely unfair to privatise a mixed yard on the basis of continuing defence orders when, through no fault of theirs, these orders fall away and they are nonetheless effectively debarred from a minor diversification into merchant work. There is particular resentment that former GDR yards will be allowed aid under the Seventh Shipbuilding Directive, and that the UK has cut its shipbuilding workforce to a greater extent than other EC members. This resentment surfaced in the House of Commons on 5 December during Parliamentary Questions, when I felt it right to indicate that I would approach you again in relation to this specific dredger application.

(CONTINUE TYPING HERE)

Continuation Sheet No.

File No.

3

3

I am aware of the difficulties that this second approach may give you, but you will appreciate the strong feelings there are about this, particularly in Merseyside. I await your reply with interest.

*and the
will have into the
strongly representative
+ we are also aware
Lynda Challenor &
Rae Field.*



CAMMELL LAIRD SHIPBUILDERS LIMITED

New Chester Road Birkenhead L41 9BP England

Telephone 051-647 7080 Telex 629463 Facsimile No 051-647 7727

FROM:

DIRECTOR'S FAX N° 2615

(071-828-3258)

FACSIMILIE

DATE 5/12/90

TO: DTI SHIPBUILDING TASK FORCE

FOR THE ATTENTION OF: DR M. SUTTON

FROM A. COSTAIN

NUMBER OF PAGES (INCLUDING THIS HEADER PAGE) : 10

SUBJECT - (URGENT.)

SIF APPLICATION FOR DREDGER CONTRACT.

REGARDS,

ADRIAN COSTAIN.

SIGNATURE A. Costain TELEPHONE EXTENSION N° 2572

PLEASE ADVISE IF ANY PART OF THIS TRANSMISSION IS NOT RECEIVED INTACT.

A Member of

BT

051 651 647 7727

CAMMELL LAIRD SHIPBUILDERS

18:50

1990-12-05



CAMMELL LAIRD SHIPBUILDERS LIMITED

New Chester Road Birkenhead L41 9BP England

Telephone 051 647 7080 Telex 62946J Facsimile No. 051-647 7127

5th December, 1990.

M. Sutton, Esq.,
Head, Shipbuilding Task Force,
Department Trade & Industry,
Ashdown House,
123 Victoria St.,
London. SW1E 6RB.

Dear Dr Sutton,

Although you have advised that Cammell Laird Shipbuilders would not generally be eligible for Shipbuilding Intervention Funding, we have previously indicated our intention to submit an application for SIF on the basis of a specific contract opportunity, for consideration. On this basis I enclose a completed application to the Department for SIF support for the dredger vessel tender we are submitting to the Belgian shipowner, Jon de Nul. You will appreciate that time is of the essence in this matter as the owner intends to place the contract before the end of the month.

You will be aware that the owner has requested tenders from four Far Eastern yards including Mitsubishi (Japan); NKK (Japan), Hyundai (Korea) and Sembawang (Singapore), we are not at this stage aware what, if any, final tender prices these yards have submitted. However, we would presume that other European yards bidding for the contract, and intending to apply SIF to their tenders, will be required to provide suitable proof to the European Commission.

I understand that our Group Chief Executive, Mr C. N. Davies has written to your Minister explaining the basis of our decision to submit applications for SIF on a contract by contract basis, as the shipyard is restructured, and whilst the ORCD obtain agreement to abolish shipbuilding subsidies on a world wide basis.

We would hope that your appraisal of the application will include the overwhelming social arguments relative to ensuring the future of Cammell Laird as a major employer on Merseyside, in the present economic situation.

Yours sincerely,
(For Cammell Laird Shipbuilders Ltd)

G. E. Howell

G.E. Howell
Managing Director.

A Member of

VEE Consortium plc

02

051 651 647 7727

Registered in London Number 526932

CAMMELL LAIRD SHIPBUILDERS

18:51 1990-12-05

Shipbuilding Intervention Fund Application Form

SIF1

Completed application forms must be accompanied by the following :-

- Report and accounts of applicant and parent company for the last 2 years. If the latest accounting period exceeds 9 months, please attach management accounts for this period.
- Evidence of competition (which must be from a non EEC country) and the lowest price tendered, customers name and address or, the name, address and telephone number of the customer's representative.
- Cash flow projections for the period of construction. This should distinguish between existing contracts and prospective new business.
- A summary balance sheet at date of delivery for the company, which shows the effect of the cash flow and profits on working capital and capital employed.

Part 1

1. Name of Purchaser

JAN DE NUL N.V.

2. Purchaser's address

P.O. BOX 40 B-9300 AALST

BELGIUM

Postcode

3. Name of Representative

4. Representative's address

Postcode

Telephone number

5. Name(s) of building yard(s)

CAMMELL LAIRD SHIPBUILDERS LIMITED

6. Number of ships

ONE (1)

7. Type of ship

TRAILING SUCTION HOPPER DREDGER

8. Size of ship

10,000 CUBIC METRE

GT

CGT

16,000 TONNES

DWT

KW (required for tugs only)

9. Contract price per ship

1. £ 26,490,893

2. £

3. £

4. £

10. Amount of grant required

1. £5,960,451

2. £

3. £

4. £

11 % of build cost per ship

(EXCLUDING

1. 18% S/BLDRS RELIEF)

2.

3.

4.

12. Competition
(please attach evidence
of lowest tender)

Please answer this
question in full

Name/Country/Yard	Price quoted £'000	Other terms (eg credit)
1. MITSUBISHI/JAPAN		
2.		
3.		
4.		

13. Analysis and source of all
major items of equipment

Description of equipment	Country of manufacture	Price
M.A.N. DIESEL MAIN ENGINE	GERMANY	£2,486,632
DREDGER AND HOPPER UNLOADING EQUIPMENT	SEADREC-U.K.	£7,037,600
DREDGER INTEGRATED MONITORING CONTROL SYSTEM	MACNAULT B.V.	£1,146,000
GEAR BOXES (RENK)	GERMANY	£490,772
DECK CRANE (BULKIFT)	NORWAY	£510,295
COOLERS, HEATERS, PURIFIERS (ALFA LAVAL)	U.K./HOLLAND	£416,000
SWITCHGEAR, POWER MANAGEMENT, CONTROLS (SIEMENS)	U.K./GERMANY	£560,000
HEATING VENTILATION, AIR CONDITIONING (FLAT)	U.K.	£319,000

14. Please give details of other
financial arrangements proposed

1. AN E.C.G.D. SUPPORTED BUYER CREDIT TO JAN DE NUL, BELGIUM
2. A U.K. SHIPOWNERS LOAN (A S.M.F.C. LOAN) TO JAN DE NUL U.K.
3. A U.K. FINANCE LEASE TO JAN DE NUL U.K. INCORPORATING THE BENEFITS OF A U.K. SHIPOWNERS LOAN

15. Justification for order
in terms of -

Future employment in the yard

THE AWARD OF THE JAN DE NUL DREDGER CONTRACT WOULD PROVIDE

OVER 400 MAN/YEARS' DIRECT WORK AND CA. 150 MAN/YEARS

INDIRECT WORK

b) Building programme

CAMMELL LAIRD IS CURRENTLY COMPLETING A SERIES OF 3 DIESEL

ELECTRIC SUBMARINES FOR THE MOD(N). IT CURRENTLY FACES A

SUBSTANTIAL DROPOFF IN STEEL FABRICATION WORK AND ALSO

REQUIRES A SIGNIFICANT RE-ENTRY CONTRACT IN THE NEAR FUTURE.

c) Future yard development

IT IS RECOGNISED THAT A CONTRACT TO BUILD A COMPLEX DREDGER

VESSEL WOULD PROVIDE A GOOD RE-ENTRY ROUTE FOR CAMMELL

LAIRD INTO MERCHANT SHIPBUILDING MARKETS.

16. Please give details of other
orders in prospect

CAMMELL LAIRD ARE CURRENTLY NEGOTIATING A NUMBER OF

ENQUIRIES FOR WAVE PIERCER FERRIES AND A SERIES OF

13,000 DWT CHEMICAL TANKERS.

17. Number of employees

2,000

Part 2

Cost Details

1. Estimated construction costs

Materials

£20,836,357

Direct labour

£4,946,952

Sub contract labour

Overheads

£6,150,051

Others (specify)
(GUARANTEE
INSURANCE
CONTINGENCIES
LIQUIDATED
DAMAGES)

£1,180,257

Gross cost

£33,113,616

Less Shipbuilders Relief
(2% of Contract Price)

£662,272

Net Cost

£32,451,344

2. Building schedule per ship

Commerce fabrication

Launch

Delivery

1.	2.	3.	4.
JUNE 1991			
JULY 1992			
SEPTEMBER 1992 (END)			
day month year	day month year	day month year	day month year

3. Base date for estimate

1.	2.	3.	4.
DECEMBER 1990			
day month year	day month year	day month year	day month year

4. Direct material cost per ship

At fixed prices

Base cost of variable price materials

Cost escalation on variable materials

Total

1.	2.	3.	4.
£000	£000	£000	£000
£16,332,752			
£4,289,148			
£214,457			
£20,836,357			

5. Estimated weighted mean delivery date for materials

1.	2.	3.	4.
MID SEPT. 1991			
day month year	day month year	day month year	day month year

6. Rates of escalation assumed

1.	2.	3.	4.
% rates	% rates	% rates	% rates
6 %			

7. Steelweight/Alloyweight

a) Gross

b) Net

1.	2.	3.	4.
4103 TONNES			
3568 TONNES			

8. Direct man - hours

Steel/Alloy

Outfit

Other

Total

Year 1		Year 2		Year 3		Year 4	
Hours	£000	Hours	£000	Hours	£000	Hours	£000
0	0	278115	1817	58990	385		
0	0	39187	234	30949	184		
11000	75	93698	638	238061	1614		
11,000	75	411,000	2,689	320,000	2,183		

Please use a continuation sheet for projects involving more than 1 ship.

9. Steelwork/Alloywork
productivity rate (based on
gross steelwork/alloywork)
or, if appropriate explain
basis of calculation

STEEL PRODUCTIVITY RATE IS BASED ON HOURS PER NET TONNE
AND INCLUDES MINOR STEEL, STAGING & SORTERS

1. 2. 3. 4.
a) per ship 94.48 HRS/TONNE

b) rate achieved on last
similar ship LAST MERCHANT SHIP
SITAI 55 TANKER 134.7 HRS/TONNE

c) ship number of last
similar ship 1372

d) if (a) is different from (b)
please explain why

VESSEL 1372 WAS COMPLETED IN SEPTEMBER 1979, SINCE THEN
VERY SIGNIFICANT IMPROVEMENTS IN WORKING PRACTICES AND
FACILITIES HAVE RESULTED IN A PRODUCTIVITY INCREASE IN THE
ORDER OF 50%

e) previous best rate

SHOP FABRICATION RATE (JOBS 4001 & 4002
OF 70 HRS/TONNE CHICAGO BRIDGE)

1. 2. 3. 4.
10. Indirect man - hours INCLUDED IN
OVERHEAD RATE

1. 2. 3. 4.
11. Overhead recovery rate
(% of direct labour cost) 124.32 %

(Where recovery is not based
on direct labour, explain the
basis on which the rate is
calculated)

12. Level of activity assumed

2,400,000 HOURS IN 1991/1992 OF WHICH 1,650,000
IS CONTRACTED

13. Overhead recovery rate
achieved in accounts for
last financial year

134.42 % FULLY RECOVERED

14a. Overhead recovery rate
budgeted for in current
financial year

130.3 % FORECAST FULLY
RECOVERED

14b. If the Overhead Recovery Rate given in Q14a is different from Q11, please explain the difference

Please give details of actual budget levels of overheads and activity, which should include direct labour hours.

CHANGE IN CONTRACT MIX FROM NAVAL TO MERCHANT SHIPBUILDING CONTRACTS

14c. If the Overhead Recovery Rate given in Q13 is different from Q14a, please explain the difference

Please give details of actual budget levels of overheads and activity, which should include direct labour hours.

IMPROVEMENT IS DUE TO A MAJOR COST REDUCTION EXERCISE RECENTLY COMPLETED WHICH WILL REDUCE THE WORKFORCE FROM 2,400 TO CA.1700

15. Certification of Costs

To be signed by the Chief Executive(s) and Financial Director of the subsidiary and companies at which the ship(s) are to be built.

We declare that the information given in this application and any supporting documentation is true and correct to the best of our knowledge and belief, and that with the help of the assistance requested, the order will be taken on a breakdown basis. The current forecast profit/loss under the historical cost convention (before tax and interests) for CAMMELL LARID SHIPBUILDERS Ltd for the next 2 years is as follows

	Budget £'000	Latest forecast £'000	Variance £'000
19 90/19 91 Profit/Loss	1,260	(2281)	
19 91/19 92 Profit/Loss	(231)	(231)	

Signatures: G. S. Howell Chief Executive

Chief Executive

Ltd

R. D. Howell Financial Director

CANNELL LAIRD SHIPBUILDERS LIMITED

PROJECTED CASH FLOW - JANUARY 1991 - SEPTEMBER 1992

<u>1991/92</u>	<u>Existing Contracts</u>	<u>New Work</u>	<u>Total incl. New Work</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Funds generated by operations	1674	1610	3284
Less Capital Expenditure	(1000)	-	(1000)
Working capital			
(increase)/decrease	(5808)	(1356)	(7164)
CASH INFLOW/(OUTFLOW)	<u>(5134)</u>	<u>254</u>	<u>(4880)</u>
<u>1992/93 (to Sept 1992)</u>			
Funds generated by operations	(625)	(803)	(1428)
Less Capital Expenditure	(828)	-	(828)
Working capital			
(increase)/decrease	<u>476</u>	<u>1356</u>	<u>1832</u>
	<u>(977)</u>	<u>553</u>	<u>(424)</u>

5-12-90
RW

CAMPBELL LAIRD SHIPBUILDERS LTD

TRANSITIONAL POSITION.

(000 POUNDS)

BALANCE SHEET	1990/91	1991/92	SEP 92
FIXED ASSETS	22,246	21832	21,660
STOCK & WIP			
DEBTORS: TRADE	(5,486)	529	(1,165)
INTRA-GROUP	1,500	2918	2,065
PREPAYMENTS	6,762	7091	7,179
OTHER	1,200	821	350
	1,137	778	780
CASH AT BANK	9,229	4465	3,115
CASH IN HAND	12	15	15
CREDITORS: TRADE			
INTRA-GROUP	(3,791)	(6,248)	(5,163)
OTHER	(600)	(400)	(400)
PROVISIONS	(1,950)	(1,525)	(1,730)
	(3,340)	(1,368)	(1,152)
CAPITAL EMPLOYED			
	26,919	28908	25,554
	=====	=====	=====
	26,919	28,900	25,554

DISCUSSION

There is a case for enhanced support in the transitional circumstances of this case, although we would like to discuss the arguments with you. Temporary agreement would be necessary. A draft letter to the Chief Secretary is attached.

TIMES

Urgent. The purchaser plans to place a contract by the end of the calendar year and needs a commitment in principle on financing terms by 14 December.

BACKGROUND

The background is set out in the draft letter. You may wish to discuss this matter at a meeting with you. The proposition is that the loan, envisaged by the Department to finance the building of the vessel should be paid in advance, rather than only when used to cover programme payments, thus enabling the vessel to be added to the shipyard.

To: cc PS/Secretary of State
PS/Sir Peter Gregson
Mr Lane
Mr Nieduszynski BTF2
Mr Pownall DTI/NW
Mr O'Shea FRM1
Mr Lello DTI/NW (L)
Mrs Taylor IDA1
Dr Bentley FRM1C
Mr Whitehead BTF2/5A
Mr Sutherwood INF
Mr Mayhew Sp Adviser

1 **PUSS FOR INDUSTRY
AND CONSUMER AFFAIRS**

2 SECRETARY OF STATE

From: *PS/85*
Mr Leigh
is carbon
UP/12

MIKE SUTTON
BTF2/5
Room 606A
Ashdown House
215 6729

6 December 1990

CAMMELL LAIRD**ISSUE**

Whether to assist Cammell Laird (CL) in their bid to win their first merchant vessel order since before privatisation by enhanced support under the Home Shipbuilding Credit Guarantee Scheme (HCS) at a possible cost to the Department.

RECOMMENDATION

There is a case for enhanced support in the exceptional circumstances of this order, although we would like to discuss the arguments with you. Treasury agreement would be necessary. A draft letter to the Chief Secretary is attached.

TIMING

Urgent. The purchaser plans to place a contract by the end of the calendar year and needs a commitment in principle on financing terms by 14 December.

BACKGROUND

1 The background is set out in the draft letter. You may wish to discuss this somewhat unorthodox move. The proposition is that the loan, subsidised by the Department, to finance the building of the vessel should be paid in advance, rather than only when needed to cover progress payments, thus enabling the purchaser to earn interest on the balance.



Recycled Paper

recycling paper

2 The main arguments against offering assistance in this way concern value for money. It is difficult to justify departing from the normal terms of the Home Credit Scheme, especially since the reason for doing so would in effect be to provide a subsidy to the purchase price: this is normally done through the Intervention Fund for which Cammell Laird are ineligible. There is also a public expenditure difficulty: the budget for HCS is already tight and the extra commitment of up to £1.5m over the 22 month build period of the ship would increase the wish to having to find offsetting savings on other Departmental programmes.

3 On the other hand, enhanced assistance under the HCS has been given in similar circumstances, and with Treasury agreement, before, to Cable and Wireless in connection with an order at Swan Hunter in 1987. The circumstances which argue for special assistance in the Cammell Laird case are the need for a merchant ship workload to attract buyers, possible savings in the deferred consideration which VSEL pay to Government through British Shipbuilders, and a relief from political pressure in Merseyside.

4 You may wish to discuss. This submission has been cleared with FRM.

HM Sutton

MIKE SUTTON

FM4DDH.MS



DRAFTCONFIDENTIAL

Addressed to:

The Rt Hon David Melloe MP
 Chief Secretary to the Treasury
 Parliament Street
 London SW1P 3AG

File No.

Copies to:

PS/SOS
 PS/SPG
 Mr Lane
 Mr Nieduzynski BTF2
 Mr Pownall, DTI/NW
 Mr O'Shea, FRM1
 Mr Lello DTI/NW (L)
 Mrs Taylor, IDA
 Dr Bentley, FRM1C
 Mr Whitehead
 BTF2/SA

Mr Sutherland, INF
 Mr O'Shea,
 Special Adviser
 Dr Sutton, BTF2/5
 (on file)

Originated by:

(Initials and date)

HMS

05/12/90

Seen by:

(Initials and date)

Mr O'Shea, FRM1
 05/12/90

Type for signature of

MR LEIGH

.....
(Initials and date)

DEPARTMENT OF TRADE AND INDUSTRY

CAMELL LAIRD

1 You will know that the Cammell Laird yard in Birkenhead has recently been put up for sale by VSEL, the parent company. Traditionally a mixed yard building both merchant and naval ships, CL was designated as a warshipbuilding yard in 1985 and privatised as a subsidiary of VSEL in 1986. Since then it has built only warships, predominantly submarines. Even before the 'Options for Change' announcement, CL was running out of naval work. They had competed unsuccessfully for three batches of Type 23 frigates between 1986 and 1989 and no bids had been sought by MoD for further SSK diesel electric submarines in which CL had specialised. Confirmation in the 'Options for Change' statement that there would be no further SSK orders, beyond the three under construction at CL, for the foreseeable future led VSEL to conclude that the yard had no viable long term future as a warshipbuilder.

(CONTINUE TYPING HERE)

File No.

2

2 CL's ineligibility for Intervention Funding presents a significant competitive obstacle to a reversion to merchant shipbuilding. Notwithstanding, in October, VSEL put the yard up for sale, having concluded that the only prospects for a continuation of shipbuilding at Birkenhead lie in the merchant sector. Some 120 companies worldwide have been approached as potential purchasers. About 30 have responded with expressions of tentative initial interest and, so far, three have expressed further interest and a wish to visit the yard in coming weeks. None of them is yet prepared to be publicly identified.

3 In recent months CL have been actively seeking merchant orders to counteract the run-down in defence work and are currently bidding for a large dredger contract from a Belgian company with UK interests against competition from Dutch, German, Belgian and ^{Possibly} Far Eastern yards.

4 Unfortunately, CL's contract price for this dredger is greater than their nearest competitor by approximately £3m. It would be possible, however, to close the gap by extensive use of the Home Shipbuilding Credit Guarantee Scheme (HCS).

(CONTINUE TYPING HERE)

File No.

3

3

5 Under OECD terms the HCS is able to guarantee a loan to a UK entity covering 80% of the contract price of a vessel and repayable over 8½ years from delivery at a fixed rate of 7.5%. Through an agreement with the lending bank the Department makes up the difference between the fixed rate of 7.5% and the current commercial rate. It is at least theoretically possible to enhance this benefit, particularly during the build period. Normally drawdowns from the loan occur as each stage of build is completed. If, however, a large part or even the whole of the loan is advanced at the outset the customer could deposit the unused portion of the loan and earn interest. In this case, assuming a 23 month build period as indicated by CL, a contract price of £31m and an interest earning capacity of 12%, just over £1m could be earned by the customer. Such an enhancement would mean similar level of extra support costs for HCS. However, the enhancement would not be notifiable to the Commission as the fixed rate of interest is still paid by the borrower and it remains within OECD terms, which do not define the stages of build at which payments are made. (You may like to note that nearly £3m could be earned by the borrower if we also agreed to pay the fixed rate (i.e offer an interest free loan). That would cost us £4.3m extra in support costs and the arrangement would become notifiable being above or outside OECD terms. I do not suggest we do that.) At present the amounts are

(CONTINUE TYPING HERE)

File No.

4

4

indicative and we are awaiting more precise information on contract price, drawdown pattern and deposit interest rates.

6 A current merchant ship workload would make CL a more attractive buy and could avoid much of the overall costs to Government in regional aid and unemployment payments should the yard close. In addition, part of the sale price payable to British Shipbuilders (BS) by the Management and Employee Buy Out on the privatisation of VSEL was by deferred consideration related to accumulated profits in the six years to 31 March 1992. Complete closure of CL would inevitably impact heavily on VSEL's cumulative profits within the period and could, therefore, substantially reduce, or even eliminate, the deferred payment due to BS. We need to decide whether circumstances and the possible trade off against closure costs warrants our intervention on CL's behalf. A similar exercise was undertaken in 1987 to help Swan Hunter through a difficult period resulting in them obtaining an order from Cable and Wireless for the cable laying vessel "Sir Eric Sharp".

7 The picture being painted locally is one of the Government being unwilling either to give intervention funding or to press the Commission to relax the agreement on intervention funding made when the warship

(CONTINUE TYPING HERE)

File No.

5

5

yards were privatised in 1985. While a full range of regional assistance is available in the Merseyside area, local attention has been focused on the intervention fund issue, and the Department is under intense pressure. If CL were able to win this dredger order, it could give them and us valuable breathing space as well as making them more attractive to a buyer. If we were to allow them £1m by advancing the HCS payments, VSEL would still have to allow them to take the order at a loss of some £2m.

8 I look forward to your ^{early} reply.

DETAIL

3. Mr. Davies said that he was coming under a lot of pressure from local MPs and the Wirral Town Council not to give up on the possibility of Intervention Funding for Cammell Laird. He said that a claim was this week being put in to the Department for a dredger. He said that there were a small number of companies showing an interest in purchasing the yard at Cammell Laird but the chances of selling it would be significantly enhanced by Intervention Funding. Without such funding he thought it was very unlikely that the yard would be sold. Redundancies were put in train and would continue. He had a deadline of 31 March to find a buyer for the yard. He also said that the attitude of the workforce had been retreating and presented the Minister with the prospect that the workforce had put together.

3. Mr. Davies said that he had not put looked at any alternative in sale of the yard. He observed that to do so would undermine publicly the commitment to sell the yard and would be interpreted as giving up.

FM4DDI.MS

COMMERCIAL IN CONFIDENCE

To:	cc	Secretary of State	
		Sir Peter Gregson	
MIKE SUTTON		Mr Lane	
		Mr Nieduszynski	
		Mrs Taylor	IDA
		Mr Lello	DTI NW
From:		Mrs Jackson	IDA
		Mr Whitehead	BTF 2
KATE PHILIPPS		Mr Sutherland	Inf
PS/MR LEIGH		Mr Mayhew	SA
Room 806			
1-19 Victoria Street			
071 215 5147			

6 December 1990

MEETING WITH NOEL DAVIES: VSEL: 6 DECEMBER

You, Mr Lello, Mrs Taylor, Mrs Jackson and Mr Stone were present when the Minister met Noel Davies to discuss the situation at VSEL. Mr Davies concentrated on the need for Intervention Funding for Cammell Laird and the likely redundancies which would have to be made at Barrow. The Minister undertook to pursue an application for Intervention Funding for Cammell Laird with the Commission, to visit the Region soon and to see what could be done in anticipation of the Barrow redundancies.

Detail

2. Mr Davies said that he was coming under a lot of pressure from local MPs and the Wirral Trade Unions not to give up on the possibility of Intervention Funding for Cammell Laird. He said that a claim was this week being put in to the Department for a dredger. He said that there were a small handful of companies showing an interest in purchasing the yard at Cammell Laird but the chances of selling it would be significantly enhanced by Intervention Funding. Without such funding he thought it was very unlikely that the yard would be sold. Redundancies were set in train and would continue. He had a deadline of 31 March to find a buyer for the yard. He also said that the attitude of the workforce had been outstanding and presented the Minister with the prospectus that the workforce had put together.

3. Mr Davies said that he had not yet looked at any alternative to sale of the yard. He considered that to do so would undermine publicly the commitment to sell the yard and would be interpreted as giving up.

4. Mr Davies went on to discuss the situation at Barrow. He hinted (in strict confidence) that it might be necessary to reduce the workforce at Barrow by half. This was a huge restructuring programme. He felt that it was important that Barrow should not be left to run down completely as it was of importance to the MoD. The yard had the best facilities and could accommodate the whole range of work necessary to the MoD including nuclear work. Barrow had a population of 60,000 and the shipbuilding yard was by far the biggest employer with about 13,000 employees. It was important for diversification to take place in the area but the remoteness and over dependence on the Barrow yard made this difficult. Other options were being looked at eg the armaments business, waste treatment and power generation. Next year there was likely to be a reduction of between 1000 and 1,500 workers and a similar reduction would be necessary every year until a plateau was reached in 1994. Presuming new work was then brought in (the SSN 20 would not be begun until 1997) then he hoped further redundancies would be unnecessary. Work on the four Trident submarines would be finished by 1997.

5. He hoped the Minister would be able to visit the Region and would put his private plane at the Minister's disposal. The Minister agreed to undertake a visit and this office will arrange a date in January. Mr Davies also asked for advice and help in co-ordinating the local efforts. He wondered whether the NDC might be an appropriate body to carry the work forward. The Minister said that he was seeing Sir Ron Dearing next week (this has now been rearranged for 18 December). Mr Lello pointed out that INWARD were also involved in the Regional and it would be necessary to involve them as well. Noel Davies said it would not be possible for VSEL to find a similar amount of funds as BNFL had put in but that they would make a significant contribution.

6. In conclusion the Minister said that he would visit the Region, put forward an application for Intervention Funding for Cammell Laird and would talk to Ron Dearing.

Kate Philipps

KATE PHILIPPS

WH12.077

To:

MIKE SUTTON

From:

KATE PHILIPPS
PS/MR LEIGH
Room 806
1-19 Victoria Street
071 215 5147

cc Secretary of State
Sir Peter Gregson
Mr Williams
Mr Nieduszynski
Mr Corley
Mr Lello DTI NW
Mrs Taylor IDA
Mr Stone IDA
Mr O'Shea FRM
Mr Mayhew SA

Ms Bradley Waker (fax)

5 December 1990

CAMELL LAIRD: MEETING WITH LYNDA CHALKER MP: 4 DECEMBER

Lynda Chalker turned up unexpectedly to see the Minister on 4 December to discuss Cammell Laird.

2. She said that she had been very busy trying to find a buyer for the yard and very much hoped that it would not need to be closed. She had seen Sir Leon Brittan several times and gave the Minister the attached letter she had received from Sir Leon. Although she appreciated that the yard would not get Intervention Funding, the yard themselves were not convinced that this was the case. They would shortly be putting forward a bid for intervention Funding for a dredger. She considered that it would be much better for the funding request to be turned down by Sir Leon Brittan than for the Government not to put it forward. She therefore very much hoped that the Minister would forward this request.

3. I pointed out that we had already had, and had acknowledged, a letter from Sir Leon Brittan saying that no Intervention Funding would be possible for the yard. It would also be necessary to get the Secretary of State's and Treasury approval to any Intervention Funding. The Minister said he appreciated Mrs Chalker's position and said that he would see what could be done.

4. Mrs Chalker said VSEL would have to bear the burden of redundancies and more would be necessary at Barrow. She had spoken to Alan Chalfont. The yard was already running down but she thought she might be able to find a buyer if redundancies were made, but that she needed time. Meanwhile, she was trying to get work into the yard.

5. I said that it was important not to have a re-run of Sunderland. Mrs Chalker agreed with this and said that if a buyer could not be found she would accept that the yard would have to close and hoped that a suitable package would be able to be put together.

Kate Philipps
KATE PHILIPPS

WH12.044

dti

the department for Enterprise

Prime Minister

Minister

CCP ①

PRIME MINISTER

Thank!

Mr Hilley is taking forward
the issue of IF assistance for
Cammell L. - but it is clearly
uneasy Sir Leon B. will agree.
Mr Hilley advised that you do not
speak to Sir Leon at this stage.

flw + BHP 2/1

CAMMELL LAIRD

You saw Frank Field and Lynda Chalker on 11 December to discuss
the sale of the Cammell Laird Yard at Birkenhead. They asked you
to intercede with Sir Leon Brittan to see intervention funding
("IF") for the yard. Your Private Secretary's letter of 11
December asked for my advice.

The Background is in Annex A.

Sir Leon Brittan has very recently modified his position. He now
suggests that the 1985 ("No IF") agreement referred to in Annex A
should have a time limit. Such a time limit would not allow
restoration of IF until 1995 (if, indeed, the scheme still exists
then). Until then the existing embargo on IF still stands and
any application for a derogation from it would have to be made to
the Commission with the support of HMG. Sir Leon as the
responsible Commissioner would be bound to advise them to turn it
down.

Although any application to restore IF for merchant shipbuilding
contracts at Cammell Laird would be most unlikely to succeed it
would serve a very useful purpose in making it clear that it was
the Commission who are ultimately responsible for not giving
Cammell Laird a chance to compete fairly for merchant ship work.
This would be very useful to Lynda Chalker and her colleagues.

My advice, therefore, is that you should not speak to Sir Leon at
this point. My officials will ask him to clarify his changed



Minister



the department for Enterprise

stance and the legal basis for it. I think we shall find that he has put a great many road blocks in the way - an application would probably incur procedures under Article 93 of the Treaty, involving time consuming consultations with member states, and we would still end up with a flat "no".

When we have received this clarification, I will write to you again. If the advice we get from Brussels is of the kind I have outlined, you may wish to check it yourself with Sir Leon before telling Cammell Laird and their supporters that we can pursue this no further. If the advice is different, then there may be other avenues to pursue. But for the moment, I suggest we carry on with our enquiries, based on a specific order for which the yard might otherwise be eligible for IF.

P B L

2 December 1990

January 1991?

DEPARTMENT OF TRADE AND INDUSTRY

PE12189



Minister

ANNEX A

Vickers Shipbuilding and Engineering Ltd (VSEL), the holding company, have decided to put the Cammell Laird yard up for sale. Their decision is based on their assessment of the future in view of the early intimations of the MoD's "Options for Change Exercise". This indicates a moratorium on submarine orders, and since they were unsuccessful in the last two competitions for frigates, they feel they have little chance of attracting other warship orders to Birkenhead.

They have not won a warship order for any craft, submarine or other, since 1986.

The remaining submarine work will continue for the time being, but as it runs down there will be redundancies of around 500 workers every six months. VSEL hope to dispose of the yard as a merchant shipbuilding facility but the drawback here for any potential purchasers is the lack of access to the Shipbuilders Intervention Fund (IF). Depending on what arrangements can be made with any new owner, a point may be reached where remaining submarine work has to be transferred to their other yard at Barrow. An alternative use could be merchant shipbuilding.

Cammell Laird was privatised in 1985 along with other British Shipbuilders' yards with mainly warshipbuilding interests. Two of those yards (Cammell Laird and Swan Hunter) had traditionally also built merchant ships. An agreement was made between the Government and the European Commission that the privatised warship yards would not be eligible for IF. They would, however, be able to bid for merchant ship work appropriate to their skills and expertise. In fact, Swan Hunter have been successful in obtaining two orders for highly specialised ships since privatisation; Cammell Laird have obtained no such orders.

Dismissed

In the letters exchanged between Norman Lamont and Peter Sutherland (15 May and 6 June 1985, copies of relevant papers attached) setting out the terms of the agreement, the Government said that it did not expect the question of the provision of IF support for the warship yards to arise. If for exceptional reasons related to the maintenance of defence capacity on application was made, the Government undertook to seek the prior approval of the Commission before granting aid. The Commission in its reply acknowledged this undertaking "in order to meet the Commission's concern that these privatised facilities will not be further used for merchant shipbuilding". The gist of this exchange formed the basis of Norman Lamont's statement in the House on 5 July 1985. (Copy Annex B). There is no indication in these letters of any further undertaking by the Government to prevent merchant shipbuilding in warship yards.

Douglas Hogg wrote to Sir Leon Brittan on 26 October seeking confirmation that the Cammell Laird facilities could be used for merchant shipbuilding, albeit without access to IF, under the terms of the 1985 agreement. Sir Leon's reply is at Annex C. He stated clearly that "the Commission could not oppose a resumption of merchant shipbuilding, conversion and repair, provided that there is no element of state aid in the sale price and no subsequent access to contract related production aid" (i.e. intervention funding). Edward Leigh wrote to Sir Leon on 22 November thanking him for his very clear statement, but pointing out that in spite of his dismissal in the penultimate paragraph of his letter of any defence related argument for a resumption of IF to warship yards, the 1985 argument still stands and we might want to invoke it in extreme circumstances. There the correspondence rests.

Since the sale was announced on 17 October, we have come under increasing pressure to allow the Cammell Laird yard access to IF. Local MPs (Lynda Chalker, David Hunt and Frank Field), the local press, the company, the unions, and supporters such as the

Minister

Bishop of Chester (in the Lords) have turned decisively on access to IF as the essential pre-requisite of a successful sale. There is considerable determination that the issue should be vigorously pursued and, at a recent public meeting in the town hall, trade union speakers expressed their intention to press the case on the grounds that circumstances are now very different from those of 1985. There is resentment that former GDR yards will be allowed aid under the Shipbuilding Directive, and that the UK has cut its shipbuilding work force by a greater extent than other EC Member States. This resentment surfaced in the House on 5 December during Parliamentary Questions, when Edward Leigh felt it right to indicate that he would approach the Commission again, although he emphasised that he held out no hope of success. He indicated that an approach would need to be associated with a specific order. Cammell Laird are tendering for orders and will insist on sending an application to us for IF.

The extra cost to the public purse of including all the warship yards in the IF net could be as much as £20m to £30m a year, at least half as much again as the present budget. Extending it to Cammell Laird alone might cost £10m to £15m. (Indeed, one of the orders they are chasing at the moment is for a £150m contract to build 8 passenger and vehicle carrying, aluminium catamarans, which would swallow up around £20m from that one contract, since the IF aid ceiling for large ships will be 13% in 1991). We should therefore have to consider our position very carefully if by some miracle the Commission were to say "Yes". We have gone through a painful restructuring over the last few years in shipbuilding, and we face further problems as reductions in warship expenditure start to bite.

I have consulted the Chief Secretary, whose advice is clearly that we should not give IF to Cammell Laird. Even if Sir Leon Brittan changes his mind, Treasury would expect our existing policy to be maintained. But if this proved impossible, they would look for the imposition of strict criteria and a



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ANNEX A(i)

Extract: Lamont (HMG) To Sutherland (Commission)
- 15/05/85

The measures on restructuring described below will result in a 40% reduction in British Shipbuilders' physical capacity by 31 December 1986. As order intake declines there will be further corresponding reductions in physical capacity.

Consequences for restructuring by British Shipbuilders

The Commission have already been provided with a detailed outline of the Corporation's past record and future plans for restructuring in the letters to Mr Noel dated 17 April 1984 and to Mr Sunnen dated 30 July 1984. As regards the past, the Commission's figures show that over the period 1976 to 1983 the UK shipbuilding industry reduced capacity, employment and completions very substantially - considerably more than any other member state's industry. Future restructuring in the industry, particularly by British Shipbuilders, will continue at an intensified rate.

British Shipbuilders have been instructed to withdraw by 31 March 1986 from all activities other than merchant shipbuilding. Disposal of the warship yards engaged in both merchant and warshipbuilding will lead to the removal from British Shipbuilders of around 25% of total merchant shipbuilding capacity. As these yards are being privatised as warship yards the Government do not expect the question of the provision of IF support to arise. If however for exceptional reasons related to the maintenance of defence capacity an application was made, the Government would seek the prior approval of the Commission.

Merchant shipbuilding remaining, British Shipbuilders will decline. As regards physical capacity British Shipbuilders has been instructed to sell or close unused facilities as soon as possible after they have become surplus to requirements. A major reduction here will be the sale or closure by December 1986 of the Hebburn Dock and Walker Shipyards which together represent some 64,000 cgrt of new building capacity. Other significant reductions which will together amount to at least 15,000 cgrt are arising from BS's regionalisation programme; details are set out in the annex. For operational, industrial and social reasons, which I have explained to you and which I am sure you understand, it is not possible for the location of other employment and physical capacity reductions to be identified now. Details will be made available to the Commission as soon as possible. An overall review will be provided to the Commission at the end of the financial year 1985/86. As regards employment, a 30% reduction is envisaged by 31 December 1986.

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ANNEX A(ii)

Extract: Reply by Sutherland (Commission)
To Lamont (HMG) - 06/06/85

- The instruction to withdraw by 31 March 1986 from all activities other than merchant shipbuilding. Since some warship yards are engaged in both merchant and warshipbuilding, this policy will entail the removal of around 25 % of total merchant shipbuilding capacity. In order to meet the Commission's concern that these privatized facilities will not further be used for merchant shipbuilding, your Government indicates that it does not intend to give the access to the Intervention Fund except for exceptional reasons related to the maintenance of defense capacity and, in any event, after prior approval of the Commission.

- A regionalisation programme aiming at rationalizing the present facilities around two major poles - one in Scotland and one in the North-East - which should provide an additional reduction of capacity of at least 15,000 cgrt.

In view of these commitments concerning the restructuring of your shipyards and of the formal commitment of your Government to provide the Commission, as soon as possible and in any case before the end of the financial year 1985/86, with precise details of the restructuring measures planned, and having regard to the operational, industrial and social reasons you have explained to me, I intend to propose to the Commission not to raise further objections to the proposed aids as hereafter described.

First, I note the decision of your Government to introduce strict limits for offsetting losses incurred by public sector shipyards. It is planned that no finance (other than through the Intervention Fund) of significant importance (say of the order of £ 10 million) will be provided to British Shipbuilders for their activity in merchant shipbuilding over the two years 1985-1986 and 1986-1987.

I also take note of the fact that your Government will, prior to any award, notify to the Commission the amount at stake and give details of the losses to be compensated.

A global budget of £140 million (£ 100 million for British Shipbuilders and £ 40 million for Harland and Wolff) is set aside for awarding productive aids. The rate of such aids will amount to a maximum of 20.5 % (plus 2 % of Shipbuilders' Relief) of the contract price of the ships to be built by British Shipbuilders, Harland and Wolff and the private sector. An additional 5 % can be granted to Harland and Wolff when it builds ships of 70,000 dwt or more.

.../3

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but that they should consult their environmental health department about removing large amounts of asbestos materials.

Company Liquidations

Mr. Hancock asked the Secretary of State for Trade and Industry what was the number of company liquidations (a) between 1974 and 1979 and (b) from 1980 until the latest available date.

Mr. Fletcher: The number of company liquidations in England and Wales was:

1974 to 1979 inclusive 30,511

1980 to May 1985 inclusive 61,190

Source: British business.

Water Reed

Mr. Speller asked the Secretary of State for Trade and Industry what representations he has received from producers of water reed about the effects on the thatching industry of the growth of equivalent subsidised imports; and if he will make a statement.

Mr. Fletcher: My right hon. Friend the Minister for Trade has received one letter from the hon. Member for North Devon. We have received no evidence that the imported thatching reed is subsidised. Supplies of cheaper (and apparently good quality) reed appear to be in the interests of British thatchers and their customers.

Shipbuilding (Intervention Fund)

Mr. Malone asked the Secretary of State for Trade and Industry whether he has concluded negotiations with the European Commission on a new intervention fund regime for shipbuilding.

Mr. Norman Lamont: Yes. The new arrangements, which apply to orders taken from July 1984 and last until December 1986, permit an increased rate of up to 20½ per cent. intervention fund plus 2 per cent. shipbuilders relief. For vessels over 70,000 dead weight tonnes built in Northern Ireland, the maximum may be increased to 25½ per cent. plus 2 per cent. shipbuilders relief. The Commission has indicated also that it will be prepared to consider payments above these levels on a case by case basis particularly for orders where there is no EC competition.

I believe these new, more generous arrangements provide a satisfactory basis for the industry until the end of next year. The United Kingdom industry must use the opportunity offered by these measures to continue to improve its competitive position, so that in the future it may survive with steadily reducing levels of assistance.

Intervention fund assistance is essentially intended as a temporary aid to merchant shipbuilding and it is provided only for contracts taken on a non-profit basis. Aid of this kind will thus not normally be appropriate for, nor provided to, yards which have been or are to be privatised by British shipbuilders. The Commission has, however, agreed to consider any case where exceptionally, for reasons related to the maintenance of defence capacity, intervention fund support might be given.

ENVIRONMENT

Wild Birds (Habitat Protection)

Dr. Cunningham asked the Secretary of State for the Environment what response has been provided to the European Commission in reply to its letter dated 10 September 1984 concerning the protection of Duich Moss (Islay), a site of international importance for wild birds; and if he will reproduce in the *Official Report* the letter from the European Commission dated 10 September 1984 on this subject.

Mr. Patrick Jenkin: The following is the text of the letter of 10 September 1984 received from the European Commission:

"The Royal Society for the Protection of Birds has filed a complaint against the British Government alleging non-observance of requirements of the directive on the conservation of wild birds (79/409/EEC) with respect to the protection of an important bird area on the Scottish Island of Islay.

The area concerned is described on the information sheet enclosed. It is also listed in the report of the Commission entitled: 'Aperçu des zones de grand intérêt pour la conservation des oiseaux sauvages'.

Considering that the area is clearly of Community importance for bird preservation, may I ask your Government to take the necessary steps to protect the area in accordance with the provisions of article 4 paragraph 4 of the directive 79/409/EEC and to add this area to the UK list of special protection areas.

I would be most grateful for an early reply."

The reply of 1 July was as follows:

"DIRECTIVE 79/409

I must regret the delay in replying to a series of letters from Mr. Andreopoulos about the application of the wild birds protection to an area of the Scottish island of Islay. You reminded us of this correspondence in a telex of 21 May to Sir Michael Butler.

You will be pleased to hear that the area of Islay in question, Duich Moss, was designated as a site of special scientific interest on 19 July 1984 under the Wildlife and Countryside Act 1981. This is an essential first step before Duich Moss can be considered for designation as a special protection area under article 4 of the directive. The necessary consultations to prepare for this designation are beginning in September.

Meanwhile the whole of the site of which Duich Moss is a part, which extends to some 1,419 acres, is receiving the protection appropriate to its status as a site of special scientific interest. The effect of this protection is to impose certain restrictions on particularly operations which would, in the opinion of the nature conservancy council, be detrimental to the scientific interests of the site.

However, these protective provisions do not preclude the carrying out on the land of any operation which has been authorised by the granting of planning permission, with any attendant conditions. Such permission has been given by the Secretary of State for Scotland for the digging of peat from an area of some 150 acres within the site of special scientific interest, the first phase being confined to an area of 44 acres. The background to the decision is set out in an annex to this letter. You will see that the strict conditions which have been set for the planning permission are designed to minimise disturbances to the Greenland white-fronted geese which roost on Duich Moss over the winter, and to ensure that the general nature conservation interest of the Moss is not adversely affected."

Local Government Finance

Dr. Cunningham asked the Secretary of State for the Environment if he will list those items of expenditure for which a disregard has been requested under section 8(4) of the Local Government Finance Act 1982 in respect of 1985-86 expenditure.

Mr. Patrick Jenkin: I shall write to the hon. Member.

THE RIGHT HONOURABLE
SIR LEON BRITTAN, GC
VICE-PRESIDENT OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES

RUE DE LA LOI, 200
1049 BRUSSELS - TEL. 235.
235.

ANNEX C

30 October 1990

Mr D Hogg QC MP
Minister for Industry and Enterprise
Department of Trade and Industry
1-19 Victoria Street
GB-LONDON SW1E 0ET

Dear Douglas,

You wrote to me on 26 October to seek confirmation of your view that a potential purchaser of VSEL's Cammell Laird shipyard at Birkenhead would be able, under Community rules, to engage in merchant shipbuilding, conversion and repair.

Your letter recalls the decisions adopted by the Commission in respect of aid to British shipbuilding under the Fifth Directive for the period 1984 to 1986. Part of that decision involved a substantial reduction in British Shipbuilders' physical capacity and one of the measures designed by the UK authorities to achieve the target set was withdrawal from all activities other than merchant shipbuilding by 31 March 1986. The sale of warship yards also involved in merchant shipbuilding contributed to the agreed reduction in capacity. In that context the British Government gave an undertaking that warship yards, such as Cammell Laird, once privatised, would no longer be eligible for Intervention Fund support. In a letter dated 6 June 1985 setting out the terms of the agreement between the Commission and the British Government, my predecessor Peter Sutherland indicated:

"In order to meet the Commission's concern that these privatised facilities will not further be used for merchant shipbuilding, your Government indicates that it does not intend to give them access to the Intervention Fund except for exceptional reasons related to the maintenance of defence capacity and, in any event, after prior approval of the Commission."

In the light of the forgoing, I conclude that, although the Commission authorised the original sale of Cammell

Laird as part of a rescue package for British Shipbuilders, on the basis that merchant shipbuilding should cease in this and other such mixed yards, considering at the time that lack of access to the Intervention Fund would ensure that the yards could not win orders, thus bringing about the objective of a reduction in merchant shipbuilding in the UK, the Commission's decision only specifically prohibited the granting of aid for merchant shipbuilding and not the activity of merchant shipbuilding itself. Therefore, if the yard was now to be sold, the Commission could not oppose a resumption of merchant shipbuilding, conversion and repair, provided there is no element of state aid in the sale price and no subsequent access to contract-related production aid.

Assuming that any future sale of the yard would be for merchant shipbuilding rather than defence purposes, the proviso on "exceptional circumstances related to the maintenance of defence capacity" would become redundant and, with it, the possibility of applying to the Commission for prior authorisation of aid for merchant orders would disappear.

I hope that the above clarifies the matter fully. If you have any further I would be happy to meet with you at a mutually convenient moment.

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[EARL FERRERS]

politics the reverse seems to be the case. When the music stops one has to hold the parcel, or at least a parcel.

I am glad that my noble friend Lord Belstead, who has held such distinguished office, will still be a member of the Government. As noble Lords have so rightly said, he has tried to do his best for all parties in the House. The House only runs on co-operation by all parties. I should like to thank noble Lords not only on this side of the House but also on the other side for the help they gave my noble friend when he was Leader of the House.

Cammell Laird Shipbuilders

3.15 p.m.

The Lord Bishop of Chester asked Her Majesty's Government:

Whether they will support an application on behalf of Cammell Laird Shipbuilders to change its status to a merchant shipbuilder and to allow it to receive intervention funding.

The Minister of State, Department of Trade and Industry (Lord Hesketh): My Lords, the 1985 agreement between Her Majesty's Government and the European Commission on the restructuring of British Shipbuilders and the proposed privatisation of the warship yards such as Cammell Laird does not preclude those yards from engaging in merchant shipbuilding on an unsubsidised basis.

The Lord Bishop of Chester: My Lords, I thank the Minister for that Answer. Is he aware of the enormous expectancy among the workforce at Cammell Laird and that Cammell Laird is very much the lifeblood of Birkenhead? Is he also aware of the back-to-work campaign in 1984, which at the time the Prime Minister called courageous, and the democratic co-operation of the workforce in Cammell Laird, the remarkable unanimity among the unions and the very high quality of work? The workforce expects some government intervention at this point to rescue the yard. Is it possible that the Government, having given the Answer about the EC ruling, are prepared themselves to intervene in this situation? I understand that the French company CMN of Cherbourg has received help from the French Government. Is the Minister aware that Cammell Laird seeks to build high speed catamarans for the cross-Channel service in direct competition with CMN of Cherbourg and that without government help the yard will not win the contract?

Lord Hesketh: My Lords, the agreement that the British Government reached in 1985 with regard to British Shipbuilders fell under the terms of the fifth directive on shipbuilding. On 1st January 1991 the seventh directive on shipbuilding comes into effect. The purpose of the directives is to reduce excessive merchant shipbuilding capacity in Europe. If the Government were to intervene that would be in direct

contravention of the agreement that we reached with Commissioner Sutherland regarding the fifth directive.

I should remind your Lordships' House that the reduction in employment in the merchant sector of the shipbuilding industry in Europe has not been confined to this country. In France it has fallen by 79 per cent., in the Netherlands by 83 per cent. and in the United Kingdom by 86 per cent. In Sweden employment has fallen by 98 per cent.

Lord Williams of Elvel: My Lords, do the Government recognise the gravity of the problem? Two thousand jobs will be lost directly if Cammell Laird closes down and a further 2,000 jobs will be lost among contractors. That spells economic disaster for Birkenhead and the Wirral. Can the Government think of a way to go back to the Community and renegotiate the deal they made over privatisation? After all, we put enough money into the Community. Could we not get some of our money back?

Lord Hesketh: My Lords, on a day when I read in the *Financial Times* of the Labour Party's uncontrolled endorsement of economic monetary union I find it surprising that the noble Lord, Lord Williams, asks us to fly in the face of the fifth shipbuilding directive, which was in force at the time the agreement was reached, and the seventh directive which will come into effect on 1st January.

Lord Dean of Beswick: My Lords, is the Minister not aware that the shipyard is in an area which is one of the highest unemployment rates in the United Kingdom and where there is very little prospect of anything to take its place? Will he give serious consideration to taking the matter to the new Prime Minister with the request that was put so well by the right reverend Prelate in his Question?

Lord Hesketh: My Lords, the right reverend Prelate specifically referred to an application to the Commission. I must point out to the noble Lord that there are many other examples throughout Europe. That is why I quoted the percentages involved in the reduction in numbers employed in merchant shipbuilding and why we cannot go for a reapplication.

Lord Orr-Ewing: My Lords, can my noble friend explain why the French have found a way to subsidise a rival firm but we in this country do not seem to be able to find a way round the regulations? Perhaps a copy of their regulations as they apply can be put in the Library. For the convenience of some noble Lords they may be translated into English. Does he believe that we can contrive to do exactly the same as the French have done in so many other ways to preserve what they believe to be in the best interests of their country?

Lord Hesketh: My Lords, the fact of the matter is that under the 1985 agreement with the Commission Cammell Laird was a warship yard. The CMN yard referred to is a commercial and warship yard.

Lord Bruce of Donington: My Lords, will the noble Lord confirm or deny the allegation that the French are subsidising that company and that it is in

competition with our yard? If he becomes aware that the French are effecting that kind of subsidy, will he completely reopen the whole question? Does he agree that it is very well known that in many cases the French obey only those Commission regulations with which it suits them to comply?

Lord Hesketh: My Lords, I can assure the noble Lord that we keep a close watching brief on our position and responsibilities in Europe in regard to both our own activities and those of others. It is important to understand that conditions of parallel existence do not pertain in these two cases. Cammell Laird came out as a warship yard under our arrangements with the Commission, and arrangements differ from country to country on the basis of what they consider to be their priorities. The CMN yard is a warship and commercial yard; at that time Cammell Laird was not a commercial yard.

Viscount Mersey: My Lords, does the Minister agree that Cammell Laird's problems arise simply because we are now building extremely few warships? Is he aware, for instance, that in a few years' time we shall have only four diesel-electric submarines? Can he tell the House of any period in British history since the reign of Henry VIII when the Royal Navy has been smaller?

Lord Hesketh: My Lords, I do not have numbers for the Royal Navy fleet in my hand or at my disposal. It may be worth pointing out to your Lordships' House that under the Commission's directive intervention is allowed in order to preserve warship capacity if it is seen to be necessary for the defence of the realm.

Lord Geddes: My Lords, with regard to the question put by my noble friend Lord Orr-Ewing, can my noble friend the Minister tell us whether we are playing by the same set of rules as the French?

Lord Hesketh: My Lords, I believe that we are. I produced the figure for the reduction of employment in merchant shipbuilding of some 79 per cent. in France to show that other countries also have had to take their share of the strain.

Baroness Phillips: My Lords, is the Minister aware that this is one of the many reasons why the British people are disenchanted with going into Europe?

Lord Hesketh: My Lords, in the light of my earlier remarks with regard to the Labour Party's commitment to EMU today, I am slightly surprised by the noble Baroness's question.

Lord Swinfen: My Lords, if we are playing by the same set of rules, can my noble friend tell me whether we are both obeying them?

Lord Hesketh: My Lords, I feel that I can go no further than I have already gone this afternoon when I said that I believe that we are.

Lord Mackie of Benshie: My Lords, can the Minister say—

Earl Ferrers: My Lords, I do not like to interrupt the noble Lord but we have been eight minutes on the first Question. After he has put his question, perhaps we might move on.

Lord Mackie of Benshie: My Lords, can the Minister say whether he is simply going to accept the massive rise in unemployment in Birkenhead or whether the Government have any plans to alleviate it?

Lord Hesketh: My Lords, the Government have many plans which revolve around all kinds of schemes such as for inner cities, deprivation and so on. However, the Question on the Order Paper refers specifically to an application to the Commission which would drive a coach and horses through a great European principle.

Disabled People and the Community Charge

3.24 p.m.

Baroness Hollis of Heigham asked Her Majesty's Government:

What action they are taking to assist disabled people who are disadvantaged by the community charge.

The Parliamentary Under-Secretary of State, Department of the Environment (Baroness Blatch): My Lords, severely mentally impaired people are exempt from the community charge, as are those with mental or physical disabilities who are resident in hospital as patients or resident in care homes, nursing homes and other hostels. For those disabled people living in the community there is additional help given over and above that given to people without disability through both the community charge benefit and transitional relief.

Baroness Hollis of Heigham: My Lords, I thank the Minister for her reply. But is it not the case that disabled people are hurt twice over by the poll tax? With low incomes and high outgoings they are hurt as are other poor people, but also under the poll tax disabled people have lost the rate relief on adapted buildings which 70 per cent. of them previously enjoyed. In other words, does she agree that disabled people are being penalised both for their poverty and their disability?

Baroness Blatch: My Lords, I seriously take issue with the noble Baroness on her second point. Rates paid on buildings no longer exist. That situation was abolished with the new system. As the new system operates, abatement is considered. It is even more generous than rate relief and the disabilities of individuals are taken into account as well.

Lord Winstanley: My Lords, has the noble Baroness any words of comfort for those who look after disabled people, in particular those who live and work in residential institutions for the disabled? Is she aware that the charities which run such organisations, such as the Calvert Trust and the Richmond Fellowship, find the community charge in respect of those employees a very heavy burden? Is it not consuming charitable donations which the donors intended to help the disabled and not merely to boost public funds?

McPatter

Thanks
BHT
20/11

Lynda Chalker has sent me this
after a brief chat I had with
her about Cammell Laird.

Confidential Report on work done and in hand to assist in a
successful sale of Cammell Lairds (CLs)

12 November 1990

1. Main contacts : Adrian Costain (CLs) 647 7080
Assisting : Geoff Cobb (M'side DTI)
: Barry Lello (DTI)

2. Contacts Completed

LC has sent personal letters and a copy of the Echo supplement on CLs to nearly 60 Ambassadors and Commercial Counsellors in the London Embassies and High Commissions of those countries who may have potential buyers/investors with an interest in acquiring the yard.

Inward have made a similar contact with the commercial officers in all British posts overseas where there may be interested purchasers. LC is in touch with the F.C.O. department who brief these commercial officers.

LC is also in touch with a number of ambassadors who are helping in following up leads overseas.

3. Presentation of Case

LC has suggested to Adrian Costain of CLs that the Morgan Grenfell brochure is not as good as it can and should be. There is obviously sympathy with this view and we should all press for it to be well rewritten by professionals.

In addition LC has strongly recommended that a VIDEO should be made to sell CLs, the Wirral and the support we have for CLs. This would be in support of the much improved brochure.

4. Japan, Korea & Hong Kong

David Hunt is en route and LC will send him details by confidential fax of companies worth following up at each point of call.

5. Other Overseas Interests

About 100 companies have been identified by Morgan Grenfell and CL. MG have had 34 initially interested responses, but there is an enormous amount still to be done for each positive enquiry.

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6. January Redundancies

As required by law CLs have just given notice of 300 redundancies from the end of January next. Volunteers will be accepted in some areas, but there will have to be compulsory redundancies too.

7. U.K Businessmen

Follow up calls need to be pursued as follows:-

Frank to Graham Day
Ken Griffin, perhaps and any other helpful
financier, banker or investor.

Lynda to all interested parties
& other Merchant Banks

8. Ministerial Meetings

LC's London Secretary will be seeking to arrange short but specific meetings with

Alan Clark	-	MOD
Peter Lilley	-	DTI
Michael Howard	-	DOEm

in week commencing 26th November.

9. Intervention Fund

It seems that there is only a very slim chance of getting this for CLs. However, it is clear that several potential buyers will stipulate it as a prerequisite. Far Eastern buyers may not be so concerned about this.

10. Meeting

I hope the 4 Wirral MPs may meet in the yard on 23 November and then at the ODA or the H/C in week beginning 26 November. Jane will try to arrange.



Lynda Chalker.



FILE
DSG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

15 October 1990

Dear Martin,

CAMMELL LAIRD SHIPYARD

The Prime Minister was grateful for your Secretary of State's minute of 12 October indicating that Vickers Shipbuilding and Engineering Limited (VSEL) will announce on Wednesday 17 October that they propose to sell the Cammell Laird shipyard at Birkenhead.

The Prime Minister has noted the proposed announcement and the line which your Secretary of State intends to take.

I am copying this letter to the Private Secretaries to the Lord President, the Secretaries of State for Defence, Energy, Employment, Environment, the Chief Whip and to Sir Robin Butler.

Yours ever,

Barry

Barry H. Potter

Martin Stanley, Esq.,
Department of Trade and Industry.

dg



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COMMERCIAL IN CONFIDENCE and MARKET SENSITIVE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 071-21 6632-8 (Direct Dialling)

071-21 89000 (Switchboard)

PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR DEFENCE PROCUREMENT

Prime Minister

To note. You were already
aware that Cammell Laird was vulnerable.

(2)

US of S(DP) 21/5

Decision (unless a purchaser 12 October 1990

See later,

appears) it to be announced on 17 October.

BTP 12/10

As Mr Carlisle told Mr Hogg yesterday, he visited VSEL in Barrow earlier this week. He was told in confidence by the Chief Executive, Noel Davies, that VSEL plans to announce on 17 October that it is to close its subsidiary yard, Cammell Laird at Birkenhead, unless a buyer can be found. VSEL intend to tell the local MPs the previous evening. You will, I am sure, treat this with the appropriate sensitivity.

Cammell Laird is working on three conventionally-powered submarines (SSKs) for the MoD, the first of which has been launched; the yard also does steelwork for Trident submarines under subcontract to VSEL at Barrow. VSEL will probably absorb the Trident steelwork within their workload at Barrow; as to the SSKs, we gather that VSEL plan to offer the Birkenhead workforce a bonus to take the boats to Barrow to be finished.

Defensive press briefing is being prepared here on the MoD implications of the announcement, but our view is that the future of Cammell Laird is a matter for the commercial judgment of the management concerned. Cammell Laird is not essential to the MoD in terms of strategic shipbuilding capacity, and we could not direct orders to the yard to keep it open.

Copies of this go to No 10, and to the Private Secretaries of the Lord President, the Secretaries of State for Energy, Employment and the Environment, the Chief Whip and of Sir Robin Butler.

Yours sincerely,

Barbara Holden

C R C HOLDERNESS
Private Secretary

Miss Kate Philipps
Private Secretary to:
The Hon Douglas Hogg MP
Minister of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

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the department for Enterprise

CONFIDENTIAL AND MARKET SENSITIVE

Prime Minister

To note: sale (ie possibly
eventual closure) of Cammell-
harriss by VSEL to
be announced on Wednesday.

PRIME MINISTER

PH

12/10

CAMMELL LAIRD SHIPYARD

I am writing to give you advance warning that Vickers Shipbuilding and Engineering Ltd (VSEL), parent company of the Cammell Laird (CL) shipyard, will be announcing at 9.00 am next Wednesday, 17 October their intention to sell the yard in Birkenhead.

VSEL hope to sell the yard as a going concern and the initial announcement will not mention redundancies. But at the end of the week the unions will be told there will be 500 immediate redundancies. If no buyer is in prospect by the end of the year, then a further 500 will have to go early next year. The current workforce stands at 2,200.

I have examined the possible impact of redundancies on Birkenhead and the surrounding area. There will indeed be very sizeable increases in unemployment in the nearby wards. But the area is already eligible for a wide range of Government support measures, including regional measures, and some further help (for example from EC structural funds) is in the pipeline. Factory space is available, new factory building is taking place, serviced sites are available and English Estates and the Merseyside Development Corporation have plans to bring more sites into use.

My conclusion is that there is no need for immediate action to introduce additional special measures, though some additional expenditure under existing programmes may be justified. Once VSEL have made their announcement, we will be in a position to discuss matters freely, both with the company and with local agencies and can then take this forward. The fact that the

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the department for Enterprise

CONFIDENTIAL AND MARKET SENSITIVE

company are not announcing a sudden death closure makes it easier to resist pressure for a special package. And of course we must hope that a buyer will be found quickly.

Following discussions in August about Cammell Laird you asked if we might seek to attract inward investment, perhaps in a market sector which has a high level of import penetration. I have looked at this carefully. If the yard does fail to find a buyer as a going concern and closes, the Invest in Britain Bureau will look for potential inward investors who might wish to use such facilities and/or the skilled labour.

My officials are to discuss VSEL's plans and their implications in more detail with the company next week.

The company have been nervous about giving us this information because of its market sensitivity. They are meeting local MPs on Tuesday evening. I am not therefore giving this minute wide circulation, but I am copying it to the Lord President, the Secretaries of State for Defence, Energy, Employment, and the Environment, the Chief Whip and Sir Robin Butler.

I attach the line I propose to take in response to next week's events.

Martin

P L

12 October 1990

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

DEPARTMENT OF TRADE AND INDUSTRY
JW10097

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CLSTMNT

REACTION TO THE ANNOUNCEMENT BY VSEL TO SELL THE CAMMELL LAIRD SHIPYARD IN BIRKENHEAD

Commercial decision for company. Shipbuilding business is constantly changing, and the company has to make its decisions in the light of current market expectations.

Naturally very concerned about the announcement. Aware of importance of CL for the area.

Hope VSEL will be successful in quickly finding a buyer. Availability of skilled workforce an attraction.

Government already doing a great deal to regenerate the Birkenhead and Liverpool areas. Scope and flexibility within existing measures to focus help more effectively, if that is needed.

Modern factory space is already available to let nearby, new units will be starting construction soon, serviced sites are available for developers and for inward investment projects. Regional assistance will be available towards new investment wherever the criteria are met.

Further help is already in the pipeline. In particular, an application for a RENAVAL programme in the Wirral and Sefton Boroughs, as well as support shortly to be available from the new TEC, when it becomes operational in January 1991.

Government departments and agencies concerned, will monitor the situation closely.

CLFQA

CAMMELL LAIRD SHIPYARD - SALE ANNOUNCEMENT

Factsheet and question/answer brief

CL shipyard - basic facts

- Location: in Birkenhead, within the Wirral and Chester TTWA
- Unemployment: - 8.8% (20,557) in Wirral & Chester
(August) - 12.1% (61,242) in Liverpool
- but averaging 16.5% in wards surrounding the yard
- Constituency: Birkenhead (Frank Field MP, LAB)
- Other const-ituencies: - Wallasey (Linda Chalker MP, CON)
- Wirral West (David Hunt MP, CON)
- and other Liverpool constituencies
- Jobs lost: 2,200 directly employed by CL in the yard
- Yard: - CL is a subsidiary of Vickers Shipbuilding and Engineering Ltd (VSEL)
- VSEL also controls the Vickers shipyard in Barrow-in-Furness
- Recent history: - CL yard (& Barrow yard) sold to VSEL as part of the privatisation of British Shipbuilders in 1988
- yard entirely dependent on defence orders
- failed to win contracts from last two tendering rounds for type-23 frigates
- recent decisions on defence procurement cutbacks increase earlier doubts about the yard's viability
- terms of the privatisation sale to VSEL, which were cleared by EC, will not allow Shipbuilding Intervention Funds to be used to facilitate CL's entry into merchant market on a subsidised basis.

QUESTION AND ANSWER BRIEF

Q1 Government should intervene to prevent the sale or any contraction ?

A1 Cammell Laird and its parent company are private sector companies. Government can't interfere with their commercial decisions.

Q2 Future warship orders should be advanced, and given to CL ?

A2 This would not be a proper way to operate defence procurement, or support for industry in the regions.

Q3 Special help is needed (either for CL or for potential purchasers) to allow the yard to switch to merchant work, with Shipbuilding Intervention Funding ?

A3 The CL yard was purchased by VSEL in the full knowledge that SIF funding would no longer be available. The EC Commission, which agreed the terms under which the privatisation sale took place, is also unlikely to agree to further state subsidies for the yard - whoever is to operate it.

Q4 Extra help is needed for the area ?

A4 Our main hope must be that the company quickly find a buyer. In any event, Birkenhead and Liverpool both qualify for virtually the full range of geographically-targeted supports, in recognition of the areas' long-standing industrial and social problems. Measures include Assisted Area and Urban programme Area status; substantial EC regional funding; derelict land clearance grants; inner city task forces both in Toxteth and on the Wirral; an Enterprise Zone and freeport in Liverpool; the Merseyside Development Corporation in operation along the Wirral and Liverpool waterfronts; full range of training agency schemes; and employment service programmes.

Additional support already in the pipeline includes our application to the EC for a RENAVAL programme, and two new TECs in the Wirral and in Liverpool coming on-stream early in 1991. Factory space and serviced sites are available.

Q5 If a buyer is not found and closure seems likely, there needs to be a special package like Sunderland got when NESL closed ?

A5 Mustn't presume closure. In any event, the circumstances are different. NESL was a public-sector yard and Government had additional responsibilities as an employer. CL is a private sector company. Although don't underestimate the importance of CL locally.

Q6 Will there be more major closures amongst defence industry contractors ? There is a need for a defence industry conversion agency (Labour Party idea) ?

A6 Some contraction by defence contractors is inevitable as defence procurement expenditure declines. Cannot forecast how and where contraction might be. In any event, it will be for defence contractors themselves to determine their future plans, markets and employment. Calls for a defence conversion agency are unnecessary.

DTI
OCTOBER 1990



SG6-24



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
071-934 9000

Barry Potter Esq
Private Secretary
No.10 Downing Street
London SW1

Prime Minister
David Hunt indicated on Thursday
that Cammell Laird might secure
an important refit job from the
NERC.
I checked with DES. As
X1 makes clear, the Portuguese offer
is cheaper than C-haird. As 'y'
indicates, the Portuguese yard is not
in receipt of subsidy.
John McGregor understandably
concluded that the NERC order must
be allowed to go to Portugal. BHP

7 September 1990

7/9

Dear Barry

We spoke about Mr Hunt's concern that the contract for the refit of the Natural Environment Research Council (NERC) research vessel, the RRS Discovery, is likely to be placed at a Portuguese yard rather than at Cammell Laird, the cheapest UK tenderer.

In order to satisfy himself that the Council had given the Cammell Laird bid sympathetic consideration and had left no stone unturned in encouraging the yard to submit a competitive tender, my Secretary of State has spoken to professor Knill, the Chairman of NERC.

Professor Knill explained that even after detailed negotiations, involving the Council's Director of Scientific Services, the Cammell Laird tender was still some 24% more expensive than that from the Portuguese yard; and that the Chairman of Cammell Laird had indicated within the last day or so that a further increase in price would be required. In the Council's view both yards are more than capable of undertaking this refit to the required quality - they have had recent and happy experience of both - and there are no technical arguments that could justify overlooking a price differential of this magnitude.

On the question of whether the tender exercise has been conducted on a level playing field, DTI have checked with the Commission that the Portuguese yard was not receiving a subsidy, and as part of the subsequent action by the Commission have themselves had to confirm that Cammell Laird has not received a subsidy.

My Secretary of State is therefore satisfied that NERC has no option but to undertake final negotiations with the Portuguese

yard with a view to placing a contract with them. The NERC plan to inform Cammell Laird on Tuesday.

While it is little comfort to Cammell Laird, it is relevant to point out that at least £6m (nearly 50%) of the Portuguese contract would return to the UK on sub-contracts, including the new propulsion system. Also that last year, during the tender negotiations for the construction of the new research and logistics vessel for the British Antarctic Survey, the RRS James Clark Ross, NERC was able to negotiate a competitive tender from Swan Hunter and place the contract with that yard. This was despite fierce competition from a Finnish yard with considerable experience of constructing ice strengthened vessels.

I am copying this letter to Martin Stanley (DTI).

John Smalley

Stephen Crowne

STEPHEN CROWNE
Private Secretary

2

Re Cammell Lairds you should know
there is an important order for NERC
- "Discovery" refit - Where the last
2 are C.L. + a Portuguese Yard (in
receipt of intervention?) There the order
may well go to Portugal. Lynda + I
have made John MacGregor aware +
I attach copy letter for your information.
Decision shortly

2

from the Director

31 August 1990

13 SEP 1990

Rt Hon Lynda Chalker MP
House of Commons
London
SW1A 0AA



Natural
Environment
Research
Council

Scientific Services

DIRECTOR Brian J. Hinde

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Telephone Swindon (0793) 411500
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Facsimile (0793) 411501 GTN 1434

Dear Mrs Chalker

Thank you for your letter of 23 August regarding the forthcoming major refit of the Royal Research Ship Discovery. As you are already aware, I and various colleagues visited the Cammell Laird yard last Wednesday and I very much agree with your view that this is an excellent yard which possesses facilities which are more than adequate to undertake this difficult refit.

As a government funded Research Council, we undertake all exercises of this type by competitive tender against the background of a fixed project budget provided to us by DES on the advice of the Advisory Board for Research Councils. We sought interest both from within the UK and from the rest of Europe and received valid tenders from six yards (four UK and one each from Italy and Portugal). Our initial shortlisting has reduced this number to two, namely Cammell Laird and a Portuguese yard. However, both of these tenders are still above our budget and we have been exploring with both yards ways in which the cost may be reduced, mainly by the omission of certain optional items in the refit.

We have a duty to obtain best value for money and, therefore, eventually to negotiate a contract with the yard that meets this objective. In a similar exercise carried out last year for the replacement of RRS John Biscoe, we had a similar situation with one UK yard and a Finnish firm, and in that case the order was placed with the UK yard, Swan Hunters of Wallsend.

I am still awaiting replies to some of the points discussed at my meeting with Cammell Laird but we have to reach an early decision based on the information that they provide.

Yours sincerely

BRIAN HINDE

SECRET



OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH

Telephone 071-273 0409

3

From the Private Secretary

24 August 1990

Barry H Potter Esq
10 Downing Street
LONDON SW1A 2AA

Dear Mr Potter

CAMMELL LAIRD

Thank you for the copy of your letter of 21 August to Lawrence Conway at the Welsh Office. Mrs Chalker asked me to draw your attention to the fact that the VSEL Board will be meeting on 27 September not 27 August as implied in sub para 3 on page 2 of your letter.

I am copying this letter to Lawrence Conway (Welsh Office) and Martin Stanley (Department of Trade and Industry).

Yours sincerely
Sarah Gillett

Sarah Gillett
Private Secretary

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NAT IND: Shipbuilding R16



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me SLH

SUBJECT CC MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 August 1990

Dear Mr. Field,

PRIME MINISTER'S MEETING WITH FRANK FIELD MP

The Prime Minister met Mr. Frank Field today to discuss the position at Cammell Laird.

Mr. Field said the Prime Minister was already aware that the highly skilled workforce at Cammell Laird had shown their loyalty and flexibility to VSEL. But desirable changes in defence policy meant that VSEL had concluded there was no future for the Cammell Laird yard. There were three ways in which the Government might now help.

First, VSEL had made it clear they might be prepared to give a dowry to any potential purchaser. The Government had to build on that to make an attractive package available to would-be investors.

Secondly, the Government should do the maximum possible to allocate Government resources that would encourage new investment. He was aware that regional selective assistance and UDC assistance would be available. But there were attractions in also designating the area as an Enterprise Zone, as had happened at Sunderland when the shipyard closed.

Thirdly, while shipbuilding was not necessarily the right future for Cammell Laird, it was unfair that other European countries had access to EC Intervention Fund (IF) money while no UK shipyards would, in future, be eligible. Any recovery in shipbuilding prospects would still not bring work to the shipyard, as long as EC competitors had an effective 17 per cent advantage. The Government should pursue, with the EC, future access to IF support.

The Prime Minister said that your Secretary of State and Mrs. Chalker had made her well aware of the difficulties. She agreed with Mr. Field that the future for Cammell Laird almost certainly lay in diversification out of shipbuilding and repair. It would not be easy to find a new investor who could make the best of the assets available at Cammell Laird including the loyal and highly-skilled workforce. But your Secretary of State, in co-operation with the Industry Secretary, were looking at the possibilities.

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The Prime Minister also indicated that there would be EC rather than just Treasury objections to the creation of a further Enterprise Zone: it would be better to work with the existing range of incentives to see how they could be combined to the maximum advantage to the incoming investor.

Mr. Field agreed with the Prime Minister that bringing a major new investor to Cammell Laird was the best way forward and indicated he would be in touch with your Secretary of State and Mrs. Chalker about the next steps.

I am copying this letter to Martin Stanley (Department of Trade and Industry) and Eamonn Taylor (Minister for Overseas Development).

Yours,

Barry

BARRY H. POTTER

Lawrence Conway, Esq.,
Welsh Office

CONFIDENTIAL

PRIME MINISTER

MEETING WITH FRANK FIELD MP

You are meeting Frank Field MP at 6.00 p.m. today to discuss developments at Cammell Laird.

As you know, Mr. Field wrote to you on 2 August seeking the meeting. The main points in his letter (attached) are:

- acceptance of the need for Cammell Laird to diversify out of shipbuilding and repair;
- all Wirral MPs agree on the need to find alternative work for a loyal, highly skilled and stable workforce;
- the Government needs to take an active role, in order to demonstrate how the "peace dividend" will be used to sustain employment in areas of high defence spending.

In broad terms you can support Mr. Field's first two propositions but not, of course, the last.

The main points you might make at the meeting are as follows:

- (i) agree it is now desirable for Cammell Laird to diversify;
- (ii) already a wide range of measures in place to encourage new investment in the area - including UDC status, Regional Selective Assistance and access to certain EC funds;
- (iii) other Wirral MPs - Mr. Hunt and Mrs. Chalker - saw you yesterday: you agreed that they should probe further what possible new investment might be attracted into an area with a highly skilled and loyal engineering workforce;

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- (iv) Mr. Field might find it useful to have further discussions with Mr. Hunt and Mrs. Chalker about how efforts to realise the potential at Cammell Laird can best be pursued.

Mr. Field may suggest the idea of an Enterprise Zone. You can say that has already been suggested; but you are not persuaded this is the right approach. You might refer to the Sunderland case: following the closure of the Sunderland shipyard and creation of an Enterprise Zone there, it was in fact small businesses and the establishment of a major overseas investor (Nissan) which led to recovery.

As background, I attach the record of yesterday's meeting with Mr. Hunt, Mr. Lilley and Mrs. Chalker.

BHP

Barry H. Potter

22 August 1990

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 August 1990

Dear Lawrence,

CAMMELL LAIRD

The Prime Minister met your Secretary of State, the Secretary of State for Trade and Industry and the Minister for Overseas Development today to discuss developments at the Cammell Laird shipyard.

I should be grateful if you and copy recipients would ensure that this letter is seen only by those with a strict need to know.

Your Secretary of State said that Wirral MPs, including Mr Barry Porter and Mr Frank Field as well as Mrs Lynda Chalker and himself, were increasingly concerned that VSEL Limited would soon close Cammell Laird - if the yard could not be sold. In discussion with local MPs, VSEL had argued that the recent Defence Statement had brought forward the need for closure. The last three diesel submarines were now being built at the yard; and the revised MOD proposals on SSK submarines meant that no new submarine contracts would now come to Cammell Laird. However, in practice, VSEL had already been planning to close Cammell Laird. There were indications that their other site at Barrow had not been performing as well as expected. One means of boosting productivity there would be to transfer work, earlier sub-contracted to Cammell Laird, back to Barrow. VSEL were rapidly reaching the view that the Cammell Laird shipyard had no long-term future.

He and the Minister for Overseas Development considered that Cammell Laird would have to diversify out of warship construction and repair. (The prospect of purchase by another shipbuilder could not be absolutely ruled out: there were some indications that the merchant shipbuilding market might well improve in the next few years. But there might be EC objections if the yard were to seek a future in that direction.) There was a substantial concentration of skills, particularly engineering skills including an engineering school on the site. A co-operative work force where the militants had been weeded out was available: many were Conservative Trade Unionists. How could the potential of the site, capital assets and workforce at Cammell Laird best be realised by diversifying from warship building and repair?

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subject cc MASTER
meeting record

The following were the main points made in discussion.

- (i) The Cammell Laird business was within the Merseyside Urban Development Corporation (MDC). Resources were already being channelled to Cammell Laird from MDC. But all MDC resources (£25 million per annum over the next few years) were already committed to projects.
- (ii) One approach might be the creation of an Enterprise Zone: this would give particular advantages to incoming investors, in terms of an ability to write off capital expenditure to maximum tax advantage and no business rates for 10 years. An extension or annex to the existing Enterprise Zone at Speke might be a possibility. But the Government had indicated there would be no further Enterprise Zones: indeed the Enterprise Zone recently created at Sunderland had not, in practice, been instrumental in the recovery in that area. (That had been led by new small business investment and work at the Nissan factory.) Although an Enterprise Zone should not be wholly ruled out, the Government should give no indication that it was a realistic option.
- (iii) It would be particularly important to give no hints of Government assistance or support for Cammell Laird and its workforce to VSEL. That would only encourage the company to minimise efforts to sell the yard and look after their workforce. The VSEL board was meeting next ~~week~~ ^{month} to consider the future of Cammell Laird: but a decision might be postponed pending developments in the Gulf.
- (iv) The most promising way forward was to find a means of utilising the engineering skills available and diversifying the business at Cammell Laird. Potential buyers of the site, and some of the physical assets included German, United States, Japanese, Swedish and Swiss firms. There were local vertical links available to the car industry at Toyota, Vauxhall and Ford. Moreover there was a general problem of inadequate engineering capacity in the UK. It would be sensible to consider where in the engineering and building industries import penetration was particularly high: there might be opportunities to market abroad various import substitution projects.
- (v) More specifically, there were possible investors in AMEC (gas platforms) and P&O (cross-Channel catamarans). Both were highly confidential proposals at this stage.

Summing up the discussion the Prime Minister said it seemed unlikely that VSEL would keep the Cammell Laird facility going for much longer. The business had important assets: a very large site; the covered hall available for refits; and a highly motivated, well skilled and co-operative work force. It would be

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necessary to consider imaginative means of marketing the business and the assets in due course. The Secretary of State for Trade and Industry, in consultation with your Secretary of State and the Minister for Overseas Development, should consider the list of engineering and building imports where import penetration was particularly high with a view to identifying possible areas where new investors might be attracted to a UK production facility. In considering how such investors might be interested in the site, any package of measures should build on the range already available including the Urban Development Corporation incentives and Regional Selective Assistance. Although the idea of an Enterprise Zone should not be ruled out, the Government had announced that there would be no further such zones. The package of measures should therefore aim to make very imaginative use of existing measures. The Prime Minister would also see Mr. Frank Field MP shortly and make him aware, in very broad terms, that the Government saw the future of Cammell Laird in diversification into new areas; and there could be no question of attempting to sustain shipbuilding capacity by use of the EC Intervention Fund, etc.

I am copying this letter to Martin Stanley (Department of Trade and Industry) and Eamonn Taylor (Overseas Development Administration).

Yours,
Barry

BARRY H. POTTER

Lawrence Conway, Esq.,
Welsh Office

SECRET



10 DOWNING STREET - -
LONDON SW1A 2AA

THE PRIME MINISTER

Amanda

*fixed for
Friday 24
Aug 10.00 am*

20 August 1990

Dear Mr. Field,

Thank you for your letter of 2 August about the future of the Cammell Laird shipyard.

I will be pleased to meet you to discuss the situation and my Diary Secretary will be in touch with you shortly to arrange a convenient date.

Yours sincerely

Amanda Shalton

Frank Field, Esq., M.P.

PRIME MINISTER

CAMMELL LAIRD

You will recall that Lynda Chalker and David Hunt asked to see you, as constituency MPs, to discuss the grave situation faced by Cammell Laird. Frank Field has also asked for a meeting on the same subject, but it has been agreed that he will come in to see you later this week, giving you a chance to see Mrs. Chalker and Mr. Hunt separately.

DTI assess that the closure of Cammell Laird looks inevitable with job losses for the 2,000 + employees over the next two years. A brief from DTI is at Flag A. One solution seen by Mrs. Chalker is to find another owner for the shipyard: I attach a letter from her at Flag B. Frank Field has a number of further suggestions to make and these are set out at Flag C in a letter and paper. The DTI brief covers the main points and although you may like to read his letter, I do not think you need to dip into the paper attached to it.

Mr. Lilley will be present at your meeting and will be able to cover any detailed points which may arise. The DTI brief suggests that you should avoid making commitments to any new major initiatives but can point to the scope for action under existing and some new measures, as follows:

- the area has Development Area status, with roughly £10 million a year of regional selective assistance going into Liverpool, the Wirral and the Chester travel to work areas;
- the area also benefits from the European Regional Development Fund;
- the Merseyside Development Corporation's area of activity has recently been extended to cover the area of the yard and DTI will wish to consider what can be done through this route;

- a new Wirral Inner City Task Force will be opening in October;
- there is the prospect of enlarging the programme of support under the European Community's RENAVAL programme for shipyard closure areas;
- the local Training and Enterprise Council can also help with training and counselling needs.

Further details on these points are at Flag D. Barry Potter will be back tomorrow and available for the meeting.

CAS

CAROLINE SLOCOCK

20 August 1990

c:\home\cammell (kk)

dti

the department for Enterprise

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Dominic Morris Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON SW1

Direct line
Our ref
Your ref
Date

071 215 5623
PB4ASV

17 August 1990

Department of
Trade and Industry

1-19 Victoria Street
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071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Carlin
Yr kindly agreed
to take on the
frk for the PM
meeting with
Mrs Chalker + Mr Hunt.
D

Dear Dominic
at last

CAMMELL LAIRD

You copied to me your letter of 10 August to
Rupert Holderness.

My Secretary of State rather than Mr Carlisle, will now be
attending the meeting with Mrs Chalker and Mr Hunt. I attach
a brief. If there is anything further you need, please let me
know.

I am copying this letter to PS/Mr Carlisle.

Yours
Rosalind Cole

ROSALIND COLE
Private Secretary



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BRIEF FOR PRIME MINISTER'S MEETING WITH MRS LYNDA CHALKER AND MR DAVID HUNT, 21 AUGUST, TO DISCUSS FUTURE OF CAMMELL LAIRD SHIPYARD, BIRKENHEAD.

Purpose of Meeting:

Mrs Chalker has asked to see you, together with David Hunt, to discuss the serious position of Cammell Laird at Birkenhead. You will be seeing Frank Field MP on this issue shortly.

Objectives:

- to discuss frankly the bleak position of Cammell Laird.
- to set out the considerable scope for action under existing measures and some possible new ones.
- to avoid commitment to any new major initiative.

Officials are currently preparing papers for DTI Ministers on the impact of the Cammell Laird closure locally.

Points to make:

- 1) Aware of the very serious position facing Cammell Laird. Chief Executive saw Mr Hogg at the end of July and officials are regularly in touch with the company. The latest information is that closure looks inevitable with job losses for the 2,000+ employees over next 2 years.
- 2) What is Mrs Chalker's/Mr Hunt's view of the situation? What was their view of the action VSEL management proposed for the yard? Frank Field had mentioned in the letter that VSEL might pay someone to take over the yard. This is not something that has been put to Government - officials are investigating. Were they thinking of selling the whole site with equipment and buildings? Certainly all prospects of sale must be vigorously explored.
- 3) Closure, obviously, a major blow to the area. Cammell Laird the major employer in this area which already has a weak economy, high unemployment and other problems. Also the loss of job opportunities for future employment - understand the yard has over 100 craft apprentices in an area where such opportunities are scarce. Don't at all underestimate the impact and officials are currently looking into this.
- 4) Important to recognise though that a great deal of help is already available through existing measures. Considerable scope for additional action within the existing framework. The area has Development Area status and around £9/10 million

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a year of Regional Selective Assistance has gone into Liverpool, Wirral and Chester Travel-to-Work areas. It also benefits from the European Regional Development fund. New measures have recently been put into place which will be helpful in dealing with future position of Cammell Laird - the Merseyside Development Corporation's area of activity has recently been extended to cover the area of the yard and we will need to consider what could be done through this route. A new Inner City Task Force will be opening in October. There is also the prospect of enlarging the programme of support under the European Community's RENAVAL programme for shipyard closure areas, assuming the European Commission approves our basic application. Enlargement could produce an extra £4m or so of European money over the next four years. It will also be important to look at training and counselling needs in conjunction with the local Training and Enterprise Councils.

5) Obviously want to see the various skills of the workforce effectively deployed. But the job of industrial restructuring in the wake of Options for Change must primarily be for industry itself. Don't see any mileage in the Defence Conversion Agency idea from the Opposition - Government can't back winners, doesn't have the depth of industrial knowledge to decide which areas are worth diversifying into. This must be a matter of commercial judgement for existing companies or companies coming new into the area. Early announcement of Options for Change designed to give companies forewarning of likely cuts. Regional support available, to assist diversification, for new companies or expansion of existing companies which meet the eligibility criteria [not available for merchantshipbuilding].

6) Officials looking at all this will see that Mrs Chalker and Mr Hunt are kept in touch with the work.

Defensive Points:

a) Access to intervention fund/help for new shipbuilding ventures

Afraid no prospect of persuading the Commission that Cammell Laird should be given access to Intervention Fund support to enable it to get into the merchantshipbuilding market again. Future ineligibility for Intervention Fund was made clear to all prospective purchasers of the warship yards and the financial terms on which they were privatised reflected that position.

Not clear even that Commission would even allow unsubsidised shipbuilding on the site. EC sectoral restrictions apply to projects in merchant shipbuilding: assistance toward such projects is therefore very doubtful.

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b) MoD should provide estimates of employment impact of defence cuts (point in Mr Field's paper) 11

The level of employment in the defence industry must be a matter for the companies concerned. The Ministry of Defence can't provide employment impact statements on any defence changes since the impact on employment will depend on how the firms affected respond.

c) Government should set up a redeployment unit for the area (further point from Mr Field's paper)

(Mr Field has heard that MoD has just set up a redeployment unit for its staff effected by the cuts: he asks for similar help for Cammell Laird. Similar measures were set up following the Sunderland closure through a British Shipbuilding subsidiary.)

No such MoD Redeployment Unit has been set up. MoD of course mindful of changes resulting from Options study but too early to consider setting up such a Unit.

Existing services of Training Agency and Employment Service will be available to help with redeployment in Birkenhead. Many private sector employers faced with major redundancies often set up redeployment units - might VSEL do something like this?

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BACKGROUND

- Flag A - Letter from Mrs Chalker requesting a meeting
- Flag B - Paper from Frank Field on unemployment consequences of Options for Change (forwarded by Mrs Chalker)
- Flag C - Letter from Mr Field
- Flag D - Measures of Assistance available in Wirral
- Flag E - Details of special measures for Sunderland shipyard closure.
- Flag F - Other areas likely to be affected by defence cuts and U/E rates.
- Flag G - General constituency background briefing

Cammell Laird is owned by Vickers Shipbuilding and Engineering Ltd who also own the Vickers yard at Barrow. Cammell Laird is almost entirely dependent on defence orders. It failed to win contracts from the last two tendering rounds for Type 23 frigates and following the announcements of the Options for Change study it looks certain to close. It has no prospects of military export sales and is unlikely the yard could re-enter the civilian market (it used to be a mixed warship/merchant ship building yard) since access to Intervention Fund assistance would be blocked by the European Commission.

Cammell Laird made 300 people redundant earlier in the year. The latest information we have from the company is that the remaining 2,200 jobs at the yard are likely to be shed over the next 2 years. A further 100 or so jobs are likely to go by end-December and a further 100 by the end of the year if there is no further work of significance. A further 600 would then go up to October 1991. The company have made the point that the yard ceases to be viable once employment falls much below 2,000 and that the costs of a phased rundown could be higher than a sudden-death shutdown and transfer of remaining work to Barrow. They may therefore opt for an accelerated closure at some point in the run-down.

Mr Hogg met Mr Noel Davies the Chief Executive of VSEL at the end of July. He asked officials to examine urgently the impact of the closure of Cammell Laird on the area and to consider what help might be appropriate, keeping very much in mind the implications for defence cuts elsewhere. A paper will be put to DTI Ministers next month.

The area will undoubtedly be hard hit by the loss of such a

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major employer. Local unemployment rates could rise (from 8.8% in Wirral currently) by a maximum of around 1-1.5 percentage points in the short term (very unsophisticated calculation, assuming total job losses added to unemployment allowance for supplier and support jobs - more considered calculation will be done for the Ministerial paper). Cammell Laird will undoubtedly be a major casualty of the Options for Change study but other shipyards are likely to face significant cutbacks as Mr Field's paper points out - Swan Hunter (Newcastle), Yarrow (Clydeside), Vickers (Barrow) - all in areas of high unemployment (see Flag F).

Available measures already provide a very wide range of support available in the area - Flag D. Within the existing framework we would be looking for increased support for re-training and counselling through the local TEC, additional support through the Merseyside Development Corporation - either through rephrasing of expenditure or new money. New initiatives will be an extension of the applied-for RENAVAL programme for shipyard closure areas and the new Task Force opening in October. (There are, however, serious difficulties getting the original RENAVAL programme off the ground and these would apply to its extension too. The problem is that local authorities do not have "additional" cover in their capital allowances to enable them to spend on measures in the proposed programme. Without this local authority element we are unable to get a programme agreed with the Commission and trigger European Regional Development Fund receipts. The Department is pursuing this issue, which extends beyond Birkenhead, with DoE.)

Precedents

Mrs Chalker or Mr Hunt may try to draw a parallel between closure of Cammell Laird and the closure last year of British Shipbuilders' Sunderland Shipyard on Wearside with similar job losses. Then Government announced a remedial package of £45M. Most of this £45M was the calculated loss of rates and tax receipts from the Enterprise Zone. In fact, because of designation difficulties the Enterprise Zone has hardly got of the ground and it has been the training and counselling measures which seem to have been most effective in getting those made redundant into alternative work. A close parallel with Sunderland is, however, inappropriate as closure there was the direct result of Government decision about the future of the yard. Closure of Cammell Laird will be a private sector response to changes in defence procurement. The company were given no assurances about future defence orders when they bought the yard - although circumstances have changed very considerably since that time in a way which could hardly have been foreseen.

Mr Field's letters and papers

In his paper, Mr Field makes the point that because of rigidities in cutting defence spending certain areas are

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likely to suffer disproportionately from the Options for Change exercise. This will hit hard the North East and North West regions where defence employment accounts for around for 7% of the total in manufacturing employment. He complains that there has been little Government research on the impact of defence cuts and asks that Government

- should publish employment impact statements of any defence changes;
- should establish redeployment units in each of the areas of high unemployment where high defence cuts are likely to occur;
- should establish joint Government/private industry initiatives which capitalise on the opportunities presented by the defence cuts.

In his letter Mr Field makes the point that a helpful response from Government to redeployment of skills at Cammell Laird into new industry would obviously gain considerable support locally but also help to ease the whole process of transition in the defence industry. The Government has, however, already made it very clear that it is industry's job to cope with the implications of defence cuts. DTI Ministers have firmly rejected the Opposition's call for a Defence Conversion Agency. Any special measures taken for Cammell Laird would obviously be seen as precedents when it comes to considering response to future closures/redundancies in the defence sector. (Even presentation of existing measures into an apparently targeted package of action could create an awkward precedent.)

Department of Trade and Industry
August 1990

(D)

BACKGROUND NOTE: MEASURES OF SUPPORT AVAILABLE IN THE WIRRAL

Status

The Wirral and Chester TTWA is a Development Area. As such, it qualifies for Regional Selective Assistance, higher rates of support under the Enterprise Initiative consultancies and Regional Enterprise Grant. It also benefits from an English Estates factory building programme. Within the TTWA, Wirral is an Urban Programme Area under the Inner Urban Areas Act and Birkenhead is a Shipbuilding Closure Area for non-quota European Regional Development Fund purposes.

Wirral Task Force

John Patten MP announced the creation of the Wirral Task Force when he launched Liverpool's Action for Cities event in February 1990. Among the major factors behind the area's selection were high levels of unemployment and Cammell Laird's uncertain future. The Task Force's budget for pump-priming initiatives in 1990-91 is £100,000. The figure for the following year has not yet been fixed, but should be around £800k- £1m. The Birkenhead based Task Force will work in partnership with the people of the area to identify the needs of the community in training, support to individual enterprise and in job creation. The new Task Force will then foster the development of projects to meet these needs. The Task Force will operate in Birkenhead, Tranmere, Bidston and Seacombe.

Urban Programme

The Cammell-Laird site falls within the area covered by Wirral MBC's Urban Programme (UP), which is 75% grant-aided by the DoE. The local authority is responsible for developing and managing its UP within the guidelines issued by the Department.

This year's approved expenditure allocation for Wirral's UP is £3.25m. UP funding is designed to support economic, social and environmental schemes in inner city areas. The principal emphasis is on economic regeneration. Rock Ferry/Tranmere is one of the local authority's priority areas for UP spend.

In the event of closure of Cammell Laird, the local authority may be in a position, within the UP resources available, to target some UP expenditure on appropriate regeneration projects.

European Structural Funds: RENAVAL

An application has been made to the EC for Wirral and Sefton Districts to be declared eligible under the RENAVAL initiative to assist conversion of areas affected by the decline in shipbuilding/repair. A programme application valued at £14 million, of which half would come from the ERDF (European Regional Development Fund), is due to be sent to

the Commission shortly. The amount reflects all jobs lost at Cammell Laird and smaller yards since 1984 and currently declared redundancies. It could be revised to include future job losses at about £2 million per 500 redundancies.

The application may bring out the question of "additionality". To satisfy the EC, the Government in consultation with local authorities has to propose measures additional to those already in operation. Local authorities may well press DoE for additional capital cover. The Government says that expected EC receipts are already reflected in the cover and public expenditure cannot be extended. GB-wide, the issue will not go away; but until the Government has assessed draft programme application with regard to PES provision and value for money, it cannot promise that any will be forwarded to the Commission.

European Community Funding: Integrated Operations Programme

The Merseyside Integrated Operation Programme, approved by the EC in December 1989, will provide grants of up to £51 million from the ERDF and £9 million from the European Social Fund towards the cost of specified infrastructure and small firms's measures and vocational training between 1-1-89 and 31-12-91. The grant rate is up to 50%. UK public expenditure will provide most of the rest within a total programme of £202 million.

Merseyside Development Corporation

The Merseyside Development Corporation (MDC) was set up in March 1981. Its area was extended in November 1988 to cover some 960 ha. of land in total in Liverpool, Birkenhead, New Brighton and Bootle. Cammell Laird falls within the MDC area.

The MDC is grant-aided by the DoE (up to 1990-91, over £200m, with a PES baseline running at some £25m for subsequent years. The purpose is to regenerate derelict and under-used inner city areas by stimulating private sector investment and enterprise.

MDC generally enjoys a good relationship with Cammell Laird and they have already a joint study of underutilized land in and around the Cammell Laird site. Redevelopment of these (mainly commercial/industrial) is included in the MDC's overall strategy, but not at present as a first priority.

Depending on circumstances (eg, the closure of Cammell Laird), it would be open to the MDC, in discussion with the DoE, to re-order its priorities, both in terms of timescale and resources, within its agreed spending programme.

MDC also funds places on training and skills courses at the Monks Ferry Training Trust (within the Trainmere area). MDC may be in a position to increase its level of support for training places, but the attitude and strategy of the local TEC towards training provision would be crucial to any decision of that kind.

TEC

Chester, Ellesmere Port and Wirral Training and Enterprise Council (CEWTEC) is currently in its development phase (with £127,000 development funding) and expects to be fully operational in January.

Training Agency

Mainstream Training Agency and Employment Service programmes - such as Youth Training, Employment Training, Jobclubs, Restart and the Enterprise Allowance Scheme - operate on the Wirral. In addition, though, there are a number of other locally targetted initiatives:

- a Training Agency Development Manager has been appointed in the Wirral to liaise with the Task Force and local authority, and to support economic development via training programmes;

- the TA is giving support to establishment by Wimpey of a training centre for the extensive redevelopment of Birkenhead's "Twelve Quays" area;

- the TA has made funds available to develop Customised Training in Rock Ferry, Birkenhead, in support of Task Force initiatives to regenerate the area.

Employment Service

The ES has commissioned a research project into the worst-hit areas of Birkenhead; a number of proposals for special initiatives are currently being considered.

Mersey Barrage

Energy Minister Tony Baldry MP has announced the availability of £1.5 million towards a third phase of feasibility studies for a tidal energy barrage across the river Mersey. The cost of a barrage has been estimated at £880 million; its electrical power output would be about 1500 gigawatt hours per annum (1 gigawatt equals 1 million watts). It has been estimated that 5000 jobs could be created during construction of the barrage.

Cammell Laird - Financial Assistance

The company was paid £2,280,000 under the Regional Development Grant scheme in 1988 for the provision of 760 jobs needed to complete a frigate order. Some of the grant may be recoverable if the current redundancies are still within the 3 year conditions period.

The company has not received any other form of assistance from DTI.

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August 1990

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REMEDIAL PACKAGE FOR SUNDERLAND FOLLOWING CLOSURE OF NORTH EAST SHIPBUILDERS LTD

A £45 million package of remedial measures was announced in December 1988 in response to the closure of NESL, with the loss of 2,000 jobs in the area.

The package, designed to create alternative employment in the area, is made up of the following elements:

Enterprise Zone

Designated in 1990. Between 3000 and 4000 new jobs are expected to be created on these EZ sites.

Sunderland Enterprise and Training Ltd (£5million)

This is the British Shipbuilders subsidiary charged with finding new work for (and retraining as appropriate) the ex-NESL employees. 1743 people have so far registered with SETL. Of these, 1,400 (80%) are currently in new "permanent" jobs; 105 (6%) are on training courses; and 238 are still looking for work. Of those in new jobs, 80% are either in Sunderland or within reasonable daily travelling distance.

The Wearside Opportunity (TWO)

£5.25 million is being provided by DTI to help promote and support small businesses in Sunderland. Already active through help for training centres, selective training grants and common services support.

Factory Programme

Enhanced £7 million factory building programme in Sunderland through English Estates.

DTI-NE
August 1990

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CONSTITUENCY BRIEFS: THE WIRRAL CONSTITUENCIES:

Frank Field: Birkenhead

Lynda Chalker: Wallasey

David Hunt: Wirral West

Barry Porter: Wirral South

Coverage

The constituencies are in the Wirral and Chester TTWA and the Metropolitan Borough Council of Wirral area.

Unemployment

TTWA	July 1988		July 1989		July 1990*	
	%	No.	%	No.	%	No.
Wirral & Chester	14.7	28,856	11.7	23,033	8.8	20,555
Liverpool	17.3	81,882	14.4	68,267	12.1	61,405

Constituency

Birkenhead	-	7,622	-	6,513	-	6,223
Wallasey	-	5,935	-	4,989	-	4,407
Wirral West	-	3,491	-	2,733	-	2,328
Wirral South	-	3,003	-	2,475	-	2,070

* Base denominators used for calculating u/e rates were revised in September 1989. Consequently, comparisons of rates before and after that date must be made cautiously.

GOOD NEWS (also see Flag D - Assistance available in Wirral)

Vacancies - Job Centres & Careers Offices

	June 89	Nov 89	June 90
Birkenhead	534	533	491
Chester	745	692	586
Ellesmere Port	192	206	259
Neston	105	84	96
Hoylake	127	111	100
Wallasey	227	200	216
TOTAL FOR TTWA	1930	1826	1748

Craigmillar Ltd

Craigmillar Ltd has announced an £18m investment in Bromborough which will create 42 jobs. The first phase of the programme, a £3m pastry production unit has been set up.

Mersey Ferries

A £4m scheme is underway to refurbish the Mountwood & Woodchurch ferries, set up a Ferries Centre and make major improvements to the terminals at Liverpool and Seacombe.

Hamilton Oil

US company Hamilton Oil has announced the discovery of significant gas reserves in the Mersey Estuary. If the field is developed there will be good opportunity for local firms with the prospect of jobs in the support services and other fields.

Vauxhall Motors

Vauxhall Motors Ltd Ellesmere Port was primarily an assembly plant. It now aims to return to being a major supplier to the automotive industry. Spare capacity in the new £162m engine manufacturing unit would thus be utilised to the maximum 300 workers are being transferred to the new unit and more will be recruited if demand grows.

BAD NEWS

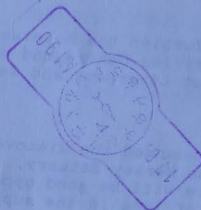
Cammell Laird

Cammell Laird announced the loss of 115 jobs as the second phase of a redundancy programme which originally earmarked 500 jobs to go. Losses were cut by 130 jobs after the company won a £2.75m MOD contract to build nine catamaran type berthings.

DTI-NW/MS
August 1990

NAT ind: Shipbuilding

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Various other items are mentioned in the text, including a reference to a 'Vandal Hotel' and a 'Vandal Hotel'.

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Various other items are mentioned in the text, including a reference to a 'Vandal Hotel' and a 'Vandal Hotel'.

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CONFIDENTIAL

POSSIBLE IMPLICATIONS OF DEFENCE CUTS

COMPANY	LOCATION	MAIN INDUSTRIES	JOB LOSSES	NOS. UNEMPLOYED	CURRENT UNEMPLOYMENT RATE - JUNE 90	POSSIBLE UNEMPLOY- MENT RATE IF ESTAB- LISHMENT CLOSES'*
<u>Sea Systems</u>						
Cammell-Laird Shipbuilders Ltd	Wirrall & Chester	1. Chemical Industry 2. Tourism 3. Engineering firms	1,200	19,850	9.7%	11.3%
Vickers Shipbuilding & Engineering Ltd	Barrow in Furness		Up to 4,000 local 2,000 casual by 1996	2,019	4.6%	18.3%
Yarrow Shipbuilding Ltd	Scotstown-Glasgow			66,610	11.1%	
Harland & Wolff Plc	Queens Island- Belfast			46,309	13.3%	
Swan Hunter Shipbuilders Ltd	Wallsend (NEWCASTLE TTWA)	Marine Engineering off-shore Engineering		33,413	9.2%	
<u>Land Systems</u>						
GKN	Telford	Electronics Companies (Japanese) Government Departments Light Engineering Firms	450	3,504	5.5%	6.6%
<u>Air Systems</u>						
BAe	Kingston (HEATHROW TTWA)		Up to 1,500	20,059	2.9%	3.2%
	Dunsford (GUILDFORD & ALDERSHOT TTWA) or Preston (TTWA)		(At one site or divided between 2 or 3)	3,582 8,308	1.9% 5.4%	3.1% 6.9%

* These figures are rough calculations, assuming total job losses added to a multiplier of 0.5.

RESTRICTED



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 August 1990

Sean Rupers

CAMMELL LAIRDS SHIPYARD

B41 We spoke last week. The meeting with Mrs Chalker and Mr Hunt has now been fixed for 21 August at 10 a.m. You kindly agreed to provide briefing for that meeting. You might find it helpful to have a copy of the attached letter and paper which Mrs Chalker has forwarded. Could the briefing be with us by Friday 17 August.

The Prime Minister would be grateful if your Minister would also attend the meeting.

The Prime Minister is also likely to see Frank Field M.P., though that would be a separate meeting and will take place a bit later.

You might wish to co-ordinate the briefing with the Department of Trade and Industry. I am therefore copying this letter to Rosalind Cole.

Yours

Dominic

DOMINIC MORRIS

Rupert Holderness, Esq.,
Ministry of Defence

RESTRICTED



CONFIDENTIAL

From: The Rt. Hon. Lynda Chalker, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA

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Dear Prime Minister,

CAMMELL LAIRDS SHIPYARD

I am most grateful to hear that you may be able to see David Hunt and me in a week or so about the major looming challenge we face in Wirral. Frank Field has copied his letter of 2 August to me, and also hopes to see you with us, perhaps, if possible, after David and I have had a political word with you first. Frank has written a short personal paper about the "peace dividend", and I thought it might be helpful if you saw this before that meeting, so I enclose a copy.

When I visited the yard with David & Frank, I told the combined Shop Stewards Committee that we had to work now to gain new types of work for the area, that the yard would not remain a shipbuilder for ever, ^{that} we need to retain their skills so as to invest for the future and that only real flexibility in work patterns can bring the work they need. All this was before we had even seen Lord Chalfont. I am convinced there has to be a totally new ownership approach there and am in discussion with possible interested parties who could make good use of the men's skills and the site. Douglas Hogg has instructed his D.T.I.

Surgery appointments:

telephone 051 639 4195

or write to: 8 Rake Lane, Wallasey, Wirral, L45 5DF

From: The Rt. Hon. Lynda Chalker, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

officials to look at all aspects of a package for any of the likely scenarios and I hope by the end of September we will be at least broadly ready to give encouragement for new ideas for the area. I believe these will almost certainly be needed. VSEL just don't want Cammell Lairds. Others perhaps may be less blinkered about the skills of 2,000 people who now work in this relatively small area.

I hope this indicates that we are all working for successful diversification, for as peace, at least in East-West matters, can really bring us benefits, it must also be seen for the benefit of those formerly engaged in warship building.

Yours ever

Lynda

P/A

PRIME MINISTER

CAMMELL LAIRD

The Cammell Laird yard on the Wirral is in deep trouble. It is almost wholly dependent on defence orders. It's current MOD orders are due to be completed fairly shortly. It has failed to secure any work on the type 23 frigates and further possible work on submarines will not go ahead as a result of the defence options (although that is not yet public, Cammells can read the writing on the wall as well as anyone else). Linda Chalker and David Hunt have been in touch with the Political Office and would like to come in to see you as constituency MPs about the position of Cammell Laird. Similarly, Frank Field has recently written to you on the same subject, also seeking a meeting. Defence Ministers have agreed to see all three (though a separate meeting with Frank Field).

Would you also be prepared to see them?

On the grounds of propriety there would need to be two separate meetings, one with Mrs Chalker and Mr. Hunt the other with Frank Field. Your diary is clear for 21 August. Agree to see Mrs. Chalker and Mr. Hunt then and Frank Field later that week (after he has seen a Defence Minister)?

Would you want a Defence Minister present?


DOMINIC MORRIS

8 August 1990

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HOUSE OF COMMONS
LONDON SW1A 0AA

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

2nd August 1990

My Prime Minister

I was pleased to hear on the local radio your support for Cammell Lairds. As you know it has been vital in the past for its survival and, as Lynda will have told you on Friday, the yard is again in a perilous condition.

This time the threat comes, not from the local Militants, but from the Government's Defence Review. The Wirral MPs were in the yard on Friday and when we met the stewards and staff representatives, I made plain that none of us oppose what the Government was doing. We have a defence budget because of the defence requirements of this country. We do not have a defence budget for its beneficial effects on employment levels.

There are two reasons why Cammell Lairds is in a special position. There is the history about which you are well informed. Men and women working in the yard took on the most prized thugs in our area who were trying to prevent them getting in to work. For the yard to fold up without everything being done to find alternative work will be seen as an ultimate victory for the Militants.

But the yard is special too in another sense. We are likely to be the first casualty of what will undoubtedly be a continual defence review over the next few years. What happens to our yard is likely to be used by others on the likely short-term economic consequences of the so called 'peace dividend'.

I am therefore writing to ask whether I could come to see you to talk over what the Government might do. When the Wirral MPs met the Chairman and Managing Director of VSEL on Monday, they made it plain that they would be happy

.../

to pay someone to take the yard. The Wirral MPs are therefore trying to find a buyer for it. The aim must be to diversify beyond shipbuilding.

But I do believe the Government has a role as well. As the years go by there may be substantial defence savings to be made. I would hope, at this initial stage, that you would be prepared to consider using some of these savings, which are likely to accrue, to move towards a diversification of employment in the yard. I would be looking for a joint private/Government initiative here.

Given the VSEL's commitment to 'pay someone to take the yard', we would not be talking in large sums as far as Government expenditure goes. But a Government commitment to a successful diversification, in perhaps the first area affected by the Defence Review, would have very important political ramifications. It would help secure widespread support amongst those working in the defence trades. It would also show that the transition from military production can be made successfully. It would also show that the skills in the defence trade can be used successfully to strengthen further our manufacturing base, rather than end up being made idle.

Given your past record I know you will anyway be taking an interest in what happens at Lairds and the surrounding area. The Government will anyway be involved because of the 'golden share' which it holds in VSEL which demands that it shall be consulted on any closure, or partial closure, plans. As always Wirral MPs are working together across party lines for the good of the area, and I would be grateful if I could come and talk to you soon for half an hour about how the Government might respond. I fully realise that because we are in a new situation with the Defence Review that the Government's policy itself is in a state of evolution.

With best wishes.

Trin
Jun 1981

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THE PEACE DIVIDEND AND THE UNEMPLOYMENT EFFECT

Frank Field MP

21 July 1990

THE PEACE DIVIDEND AND THE UNEMPLOYMENT EFFECT

Summary

History looked like proving to be a poor guide to the impact of the Government's intended cuts in defence expenditure. Following World War Two a massive reduction in the defence budget - a fall of £50.000 million in today's prices in a twelve month period - occurred without any noticeable impact on unemployment levels. Today, the scope for defence cuts is much more limited yet, paradoxically, their impact could be very considerable, albeit in those areas dependent on defence contract work.

No studies have yet been commissioned on the likely impact of the defence review on the structure of British industry. This paper calls for three urgent actions by the Government:

- the publication of employment impact statements of any defence changes.
- the establishment of redeployment units in each of the areas of high unemployment where defence cuts are likely to occur
- the establishment of joint Government/private industry initiatives which capitalise on the opportunities presented by the defence cuts.

Size of the peace dividend

It is clear that the peace dividend available to the Government now is nothing like that available to the post war Labour administrations. In 1945/6, defence expenditure was equivalent to L77,699 million at 1989/90 prices. This was immediately reduced once hostilities had ended to L27,803 million the following year and L10,868 million by 1949/50, in constant prices. Another way of looking at this major fall is to set this expenditure as a percentage of GDP. In 1945/6 defence expenditure comprised 44.6% of GDP which was immediately scaled down to 16.1% in 1946/7 giving the Government a substantial amount of money to play with. By 1949/50 the defence budget had been reduced to 5.8% of GDP (see Table 1).

This substantial drop was followed by a gradual but consistent reduction in defence expenditure since the Second World War. This was interrupted by a slight upwards incline in the early 1950s due to mobilization for the Korean War, from L11,571 million at 1989/90 prices to L17,377 million a rise as a proportion of GDP from 6.0% to 8.6%. Thereafter the defence budget began to fall consistently until the mid 1980s.

In 1978/9 defence expenditure comprised 4.4% of GDP, a figure which had risen to 5.2% in 1984/5 in the immediate wake of the Falklands War. The longer term historical trend has, though, recently been resumed (see Table 2). Defence is no longer the burden it was on the British economy. It now comprises only 10% of government spending as a whole and fell recently below 4% of GDP for the first time since before the Second World War. So apart from defence expenditure being a smaller proportion of GNP than it has been at any time since the war, cuts in the level of expenditure have already been occurring over the last few years.

Restraints on the peace dividend

This is the background to any discussion on the likely size of the peace dividend. In addition there are at present real difficulties involved in cutting defence spending in the short term as money saved by defence cuts may have to be spent on restructuring the forces which remain. The cost of new barracks and helicopters, for example, could rule out a substantial peace dividend despite the shrinkage of the whole force.

A further problem is that economies of scale will be lost in areas like the research and development of new equipment. In addition, the irreducible burden of pension schemes will rise even faster if personnel are retired early. Already nearly 7% of the defence budget is spent on service pensions. The structural difficulties of translating cuts in the defence budget into budgetary savings is illustrated by the recent Pentagon proposal to cut US defence manpower by 25% which will result in a cut in defence spending of only 10%.

A further reason why the Ministry of Defence will have difficulty in delivering any peace dividend stems from the pressures that are currently on the defence budget. These pressures are such that cuts in parts of the programme are required anyway if the total defence budget is to stay within existing spending plans. The £600 million cut announced by Tom King recently is being made to prevent further over spending of the defence budget. It will not be a real saving, and there will be no bonus on this account. Indeed throughout the 1980s the British defence budget came under continuing pressure and it was only by pursuing greater economies in defence procurement that a more wide ranging budget review was avoided. Growing labour costs and the increased complexity of weapons are themselves leading to what Dr. Philip Sabin described as "structural disarmament" (Sunday Times, 24 June 1990).

It is for all these reasons that defence cuts will have to be very deep indeed if they are to produce substantial savings which can be transferred to the other Government programmes or finance further reductions in income tax. The defence budget would have to be cut drastically and in one fell swoop in order to continue the historic decline already noted while at the same time to provide a substantial bonus for a peace dividend.

Effect on employment

The position becomes more paradoxical still when the impact of any defence cuts are considered on unemployment levels. Substantial defence cuts are required now to stay within the trend of the existing defence budget yet these cuts are likely to result in changes of orders to a relatively small number of companies (see Table 3) with significant increases in unemployment in those areas heavily dependent on defence work. Most Naval shipbuilding yards are in areas of high unemployment.

For example, the unemployment rate in Newcastle-upon-Tyne, the location of the major Swan Hunter and Vickers plants, is 11.4% of the male workforce, some 25,927 men. In the Northern economic region as a whole 21,000 people are employed in defence industries. This is 7.2% of the total numbers working in manufacturing, the highest such rate in the country. The loss of work in this manufacturing sector would throw the local economy into disarray.

The North West will be similarly hard hit with 21,000 in defence related industries. 7.2% of the total manufacturing base in the North West. The North West has a male unemployment rate of 9.5%. 168,000 men. The possible loss of defence contracts to Ferranti and British Aerospace in Manchester, Bolton and Bury, Oldham and Preston will exacerbate male unemployment rates of almost 9% in these towns. In Birkenhead, where VSEL's Cammell Laird yard is situated, the unemployment rate is 8.5%.

In Belfast, the major site for both Harland and Wolff and Shorts, the male unemployment rate is 15.6% and the total unemployment rate for the whole workforce is 12.1%. The differential impact of defence changes on different localities is brought out clearly in Table 4.

Government action

So far the Government has taken no action to commission research into the possible long term effects of the peace dividend and the structure of employment in Great Britain (Hansard 12 June). As the debate on potential defence cuts gets underway it is crucial that the Government undertakes simultaneously three actions.

1. To accompany each major defence cut with an employment impact statement. This would entail the Government calculating the number of jobs which will be lost in the defence procurement industry. It would detail the skills of those likely to lose their jobs initially as a result of the changes, together with the numbers and the skill patterns of those whose jobs will be threatened by the knock to supply industries of the loss of the defence contract.

2. To establish a redeployment unit. Reports have already surfaced that the Defence Secretary is thinking of establishing a Personnel Unit within the Ministry of Defence to help those on his payroll who face redundancy. A similar redeployment unit should be established in those industries and localities likely to face unemployment as a direct consequence of the changes in the defence budget.

3. To establish joint initiatives with the private sector. These would be aimed at developing employment opportunities in those areas where employment is going to be shed as a result of the defence budget cuts. The Government's role here will be not only to suggest possible openings, but it ought to consider a joint investment in both plant and training facilities. Major changes in the defence budget should be viewed as an opportunity for strengthening the country's industrial base and competitive position in manufacturing industry.

746 General Government Expenditure by Function 1982-88

Per cent of GDP	1982	1983	1984	1985	1986	1987	1988
General Public Services	1.8%	1.7%	1.7%	1.6%	1.7%	1.6%	1.6%
Defence	5.2%	5.2%	5.3%	5.1%	5.0%	4.5%	4.3%
Law and Order	1.7%	1.7%	1.8%	1.7%	1.8%	1.8%	1.8%
Education	5.5%	5.4%	5.3%	4.9%	5.1%	5.0%	4.9%
Health	5.1%	5.2%	5.2%	5.0%	5.0%	5.0%	4.9%
Social Security	13.1%	12.9%	13.0%	13.1%	13.1%	12.5%	11.7%
Housing & Community	2.3%	2.4%	2.4%	2.0%	2.1%	2.1%	1.7%
Arts & recreation	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Agr, Forestry & Fishing	0.7%	0.8%	0.8%	0.7%	0.5%	0.5%	0.5%
Trade and Industry (a)	1.4%	1.2%	1.2%	1.0%	0.2%	-0.4%	-0.4%
Transport & communication	1.7%	1.6%	1.0%	1.1%	0.9%	0.9%	0.9%
Other economic affairs	1.0%	1.1%	1.3%	1.2%	1.1%	0.9%	0.8%
Other expenditure	6.1%	5.7%	5.8%	6.1%	5.4%	5.4%	4.9%
Total expenditure	46.2%	45.6%	45.4%	44.3%	42.6%	40.4%	38.2%
PSBR (b)	-1.8%	-3.8%	-3.2%	-2.1%	-0.7%	0.3%	2.5%

NOTES: (a) Influenced by privatisation programmes counted as negative expenditure

(b) Negative figures indicate public sector borrowing. Positive figures: debt repayment

SOURCE: United Kingdom National Accounts 1989 Edition

over £250 million		
British Aerospace plc	The Plessey Co plc	VSEL Consortium plc
General Electric Co plc	Rolls Royce plc	
100 - 250 million		
Boeing Aerospace Company	GKN plc	Vickers plc
Evonport Management Ltd	Hunting Associated Industries plc	Westland Group plc
Arranti plc	Thorn EMI plc	
ICI Babcock plc		
10 - 100 million		
Atix Ltd	Dowty Group plc	STC plc
British Petroleum Co plc	Racal Electronics plc	Swan Hunter Shipbuilders Ltd
British Telecommunications plc	Short Bros plc	
15 - 50 million		
British Airways plc	FR Group plc	Pilkington plc
British Railways Board	Harland & Wolff plc	Serco Ltd
BR plc	Lucas Industries plc	The "Shell" Transport
so UK plc	Marshall of Cambridge	& Trading Co plc
	(Engineering) Ltd	Singer Link Miles Ltd
	Philips UK Ltd	Smiths Industries plc
0 - 25 million		
Cossor Ltd	Cranfield Institute of Technology	NAAFI
Rospatiale SNI	Cray Electronics Holdings plc	Notchlook Ltd
on Rubber plc	Digital Equipment Co Ltd	Northern Engineering Industries plc
IT plc	DRG plc	SD Scicon plc
MAIRC	Hawker Siddeley Group plc	The Services Sound & Vision
British & Commonwealth	Hewlett Packard Ltd	Corporation
Holdings plc	Hilldown Holdings plc	Shell Nederland Raffinadrij BV
ble & Wireless plc	Hollandse Signaalapparaten EV	UK Universities
bridge Electronic	Honeywell Ltd	UK Atomic Energy Authority
ndustries plc	Inchcape plc	United Scientific Holdings plc
P Group plc	Initial Contract Services Ltd	Variety Holdings Ltd
il Aviation Authority	Meggitt Holdings plc	Vosper Thornycroft Holdings Ltd
ats Vijella plc	Mobil Holdings Ltd	William Cook plc
Computing Devices Co Ltd		
10 - 1 million		
P Appledore Tyne Ltd	Kodak Ltd	RHP Group plc
IP Petroli SPA	Leyland DAF Ltd	Rohde & Schwarz UK Ltd
amring Group plc	Logica plc	The RTZ Corporation plc
roco (UK) Ltd	Martin-Baker Aircraft Co Ltd	SAFT (UK) Ltd
rtaulds plc	McDonnell Douglas Corporation	Schlumberger Measurement &
OS (UK) Ltd	ML Holdings plc	Control (UK) Ltd
guson Industrial Holdings plc	Optical & Medical International plc	Siebe plc
Motor Co Ltd	Paccar UK Ltd	Thomson-Brandt Armements
er Nash Group Ltd	The Peninsular & Oriental	Thomson-Sintra ASM
eral Motors Ltd	Steam Navigation Company	Tracor Aerospace Inc
rge Blair plc	Petrofina (UK) Ltd	Trafalgar House plc
nd Metropolitan plc	Portsmouth Aviation Ltd	Trusthouse Forte plc
g Robinson plc	Readicut International plc	Turbomeca SA
ing Communication	Remploy Ltd	Wardle Storeys plc
chnology Ltd		The Weir Group plc
		Williams Holdings plc

Notes:
 Includes suppliers of food, fuels and services
 Within each financial bracket, contractors are listed in alphabetical order.
 The status of contractors in this list is that at 1 April 1989.

Table 4

Unemployment in Locality of Major Suppliers to the MoD

Company	Location of major plants	Best Fitting TTWAs	Male		Female		All	
			Numbers	Rate	Numbers	Rate	Numbers	Rate
Racal	London	Gr London (a)	148,600	5.9	52,700	2.8	199,300	4.5
Vosper Thornycroft	Southampton	Southampton	6,440	5.4	1,946	2.1	8,386	4.0
Lucas Aerospace	Birmingham, Solihull, Luton	Birmingham	41,703	8.9	14,295	4.3	55,998	7.0
		Watford and Luton	7,632	3.5	2,506	1.5	10,138	2.6
Swan Hunter	Newcastle upon Tyne	Newcastle-upon-Tyne	25,927	11.4	7,486	4.2	33,413	8.3
Dowty	London, Gloucester, Cheltenham	Gr London (a)	146,600	5.9	52,700	2.8	199,300	4.5
		Gloucester	1995	4.5	671	1.8	2666	3.3
		Cheltenham	1719	3.4	618	1.6	2337	2.7
Westland Aerospace	Isle of Wight	Isle of Wight	2,183	6.7	749	3.0	2,932	5.1
Thorn EMI	London, Bedfordshire, Stafford	Gr London	148,600	5.9	52,700	2.8	199,300	4.5
		Bedford	1,979	4.2	713	1.7	2,692	3.0
		Stafford	1534	3.7	604	1.6	2138	2.7
Ferranti	Manchester, North West,	Manchester	42,237	8.7	12,991	3.5	55,228	6.5
		Bolton and Bury	9,973	8.5	3,426	3.9	13,399	6.5
		Oldham	4,718	8.3	1,816	4.2	6,534	6.6
VSEL	Barrow in Furness	Barrow-in-Furness	1,371	4.3	648	3.7	2,019	4.1
Cammell Laird	Birkenhead	Wirral & Chester	14,927	11.5	4,923	4.7	19,850	8.5
Vickers	Newcastle and Leeds	Newcastle-upon-Tyne	25,927	11.4	7,486	4.2	33,413	8.3
		Leeds	15,497	7.3	4,849	3.1	20,346	5.6
Harland and Wolff	Northern Ireland	Belfast	34,469	15.6	11,840	7.4	46,309	12.1
Shorts	Northern Ireland	Belfast	34,469	15.6	11,840	7.4	46,309	12.1
Rolls Royce	Derby, Coventry, Bristol	Derby	5,924	5.8	2,112	2.9	8,036	4.6
		Coventry and Hinckley	11,189	7.2	4,576	4.2	15,765	5.9
		Bristol	11,601	5.5	4,453	2.7	16,054	4.3
Plessey	Poole, Portsmouth	Poole	1,671	3.8	562	1.8	2,233	3.0
		Portsmouth	6,005	6.1	1,923	2.5	7,928	4.5
British Aerospace	London, Bristol, North West	Gr London	148,600	5.9	52,700	2.8	199,300	4.5
	Hatfield, Stevenage	Bristol	11,601	5.5	4,453	2.7	16,054	4.3
		Preston	6176	5.9	2132	2.9	8308	4.7
		Bolton & Bury	9973	8.5	3426	3.9	13399	6.5
		Hertford & Harlow	4689	3.1	1875	1.7	6564	2.5
Hawker Siddley	Chippenham	Chippenham	594	2.8	323	2.1	917	2.5

NOTES: (a) Greater London is not a Travel to Work Area, but disaggregate statistics are not readily available for local areas within London

All unemployment figures refer to June 1990 and are not seasonally adjusted. rates are workforce based.

SOURCE: National On-line Manpower Information Service

Statement on the Defence Estimates, 1990. Volume 2 Cm 1022 II

Defence Expenditure (£ millions)

	Defence Expenditure		% GDP
	current prices	1989/90 prices	
1945/46	4,410	77,699	44.6%
1946/47	1,643	27,803	16.1%
1947/48	847	13,145	7.7%
1948/49	753	11,334	6.3%
1949/50	735	10,868	5.8%
1950/51	801	11,571	6.0%
1951/52	1,132	15,015	7.6%
1952/53	1,393	17,377	8.6%
1953/54	1,358	16,490	7.9%
1954/55	1,447	17,157	7.9%
1955/56	1,407	15,967	7.1%
1956/57	1,519	16,322	6.4%
1957/58	1,440	14,844	6.3%
1958/59	1,451	14,526	6.0%
1959/60	1,484	14,694	6.1%
1960/61	1,604	15,564	6.1%
1961/62	1,684	15,814	6.0%
1962/63	1,756	15,986	5.8%
1963/64	1,809	16,078	5.6%
1964/65	1,898	16,150	5.6%
1965/66	2,050	16,654	5.5%
1966/67	2,138	16,656	5.4%
1967/68	2,230	16,899	4.7%
1968/69	2,261	16,314	4.8%
1969/70	2,228	15,279	4.8%
1970/71	2,515	15,944	4.6%
1971/72	2,851	16,535	4.7%
1972/73	3,100	16,668	4.7%
1973/74	3,499	17,544	4.7%
1974/75	4,180	17,563	4.8%
1975/76	5,394	18,024	4.8%
1976/77	6,214	18,321	4.5%
1977/78	6,855	17,756	4.5%
1978/79	7,542	17,647	4.4%
1979/80	9,270	18,572	4.5%
1980/81	11,228	19,008	4.7%
1981/82	12,666	19,530	4.9%
1982/83	14,476	20,818	5.1%
1983/84	15,682	21,546	5.1%
1984/85	16,941	22,175	5.2%
1985/86	18,021	22,388	5.0%
1986/87	18,520	22,252	4.8%
1987/88	18,782	21,420	4.4%
1988/89	19,215	20,440	4.0%
1989/90	20,143	20,143	3.9%
1990/91	21,223	19,928	3.8%

Korean War

Suez

Falklands

Source: CSO Database Series DIAF, DIAJ

HC Deb 20/3/67 c197W

HC Deb 9/6/81 c119W

HC Deb 16/7/82 cc486-7W

HC Deb 11/3/87 cc249-50W

C.H. Feinstein

HC 495 (1987/88) p64

From: The Rt. Hon. Lynda Chalker, M.P.

R918

HOUSE OF COMMONS
LONDON SW1A 0AA



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30. vii. 90

(4)

Dear Prime Minister,

Just a very short personal note to thank you for coming to Merseyside on Friday, for travelling on the refurbished ferry and for speaking to everyone at Ellesmere Port so inspiringly.

(1)
Now
first for
21 August
Jm

As I mentioned on the ferry, we face major challenges over Cannock birds and in due course,

I shall very much value a discussion with you.

We are due to meet Lord Chalfont this afternoon in his role as VSEH Chairman, so then we may have more news.

Yours ever

Lynda

mt

Surgery appointments:

telephone 051 639 4195

or write to: 8 Rake Lane, Wallasey, Wirral, L45 5DF

File KK
bc P.U.



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 June 1990

Dear Stephen,

JAMES MACKIE AND SONS LIMITED

Thank you for your letter of 15 June which I submitted to the Prime Minister yesterday evening.

The Prime Minister has noted without comment that the arrangements are now in place for Mackie's to be sold to Lummus Industries of the United States.

I am copying this letter to the Private Secretaries of E(A) and Sonia Phippard (Cabinet Office).

*Yours,
Barry*

(BARRY H. POTTER)

Stephen Pope, Esq.,
Northern Ireland Office.

JP

From: THE PRIVATE SECRETARY



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Prime Minister,

Barry Potter Esq
Private Secretary to
The Prime Minister
10 Downing Street
Whitehall
London

*This reveals that arrangements - agreed with the
Treasury - are now in place for Mackies, the West
Belfast textile machinery manufacturer, to be sold
to Lummus Industries of the US. This involves the
Government guarantee on part of Mackies
borrowings to be withdrawn. 15 June 1990*

Dear Barry:

E(A) have considered, on a number of occasions, proposals for
securing the future of James Mackie and Sons Limited and Stephen
Leach wrote to Paul Gray on 22 March reporting progress.

Negotiations for the acquisition and redevelopment of Mackies by
Lummus Industries Inc have now been successfully completed. The
workforce, who had to be consulted on the acquisition under the
terms of the Trust deed, assented to the transfer of ownership
and all the parties accepted the terms of assistance from the
Northern Ireland Industrial Development Board in accordance with
terms approved by Ministers. The Government guarantee covering
part of the company's overdraft is now withdrawn. Officials have
agreed that this case need not be notified to the European
Commission.

I am copying this letter to the Private Secretaries of E(A)
members and to Sonia Phippard.

Yours sincerely

David Ferguson

pp. STEPHEN POPE

NAT. IND. shipbuilding price

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 March 1990

Dear Sir,

JAMES MACKIE & SONS LIMITED

Thank you for your letter of 22 March.
The Prime Minister was grateful for the
further report and has noted the plan to make
an announcement before Easter if possible.

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

Yours,
P.G.

PAUL GRAY

Stephen Leach, Esq.,
Northern Ireland Office.
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From: THE PRIVATE SECRETARY

ccps



NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ

Pine Mackie's

I asked NIO (letter below) to let you have
an update on this long-running saga.

Paul Gray Esq
10 Downing Street
LONDON SW1A 2AA

Content to note the plan now to
announce before Easter? 22 March 1990

REC 6

23/3

Yes not

Dear Paul,

JAMES MACKIE & SONS LIMITED

Thank you for your letter of 13 March.

We hope to be in a position to make an announcement on Mackies
before Easter.

Following the Chief Secretary's agreement to the terms proposed
by my Secretary of State for the acquisition and redevelopment of
the company, Industrial Development Board (IDB) officials have
been engaged in negotiations with Mackies' trustees, Lummas
Industries, the Northern Bank and the Overseas Private Investment
Corporation (OPIC). These revealed a number of difficult points,
but of these only one - collateral for IDB and the banks -
remains outstanding. This week the Northern Bank has signalled
acceptance of a solution, and it now remains for OPIC to accept
it. If OPIC can accept the proposed solution, then the deal will
be in line with that approved by the Chief Secretary and in
particular meet the stipulations in his letter of 2 January.

Mr Brooke's memorandum to E(A) ((89)37 of 15 December) argued
that the acquisition and regeneration of Mackies were essential
to our wider plans for West Belfast. The announcement about
Mackies - aimed for early April but clearly subject to early

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acceptance by OPIC - will provide the basis for announcement of our plans to redevelop the Springfield and Woodvale locality in which Mackies is situated. This comprehensive urban development opportunity will provide a spingboard for further significant measures for dealing with the major problems of both communities in West Belfast and will be linked to an announcement by the Secretary of State of wider measures to be taken under the Making Belfast Work programme. The Mackies announcement is therefore the essential foundation for a series of major announcements designed to demonstrate our commitment to constructive developments in the city, which are themselves a fundamental part of the Government's regeneration of the area and of its drive against Sinn Fein.

I am copying this letter to Private Secretaries to members of E(A) and to Sonia Phippard (Cabinet Office).

Yours, etc.

Stephen Leach

S J LEACH

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 March 1990

Dear Sir,

JAMES MACKIE AND SONS LIMITED

BFV
Shortly before Christmas your Secretary of State minuted the Prime Minister and E(A) colleagues with his proposals for Mackies. These were subsequently cleared following an exchange of correspondence between the Chief Secretary and your Secretary of State. But I understand that an announcement has yet to be made. I think the Prime Minister would find it helpful if your Secretary of State could arrange to let her have a further progress report setting out the latest timetable envisaged for an announcement.

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

Yan.
P-1
Paul Gray

Stephen Leach Esq
Northern Ireland Office

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KK

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CF
R. G. & L. N.
Dush / Jany
M. N. G.
N. G.

P 03642

From: R T J Wilson
12 March 1990

MR GRAY

JAMES MACKIE AND SONS LTD

1. You will recall that, following the cancellation of the meeting of E(A) scheduled for the week before Christmas, the Prime Minister asked the Secretary of State for Northern Ireland to agree the way forward on Mackies with the Chief Secretary and other colleagues in correspondence.

at fear
2. This was done. The Chief Secretary set out his conditions in a letter of 2 January, commenting that Mackies should now be brought speedily to a conclusion. The Secretary of State for Northern Ireland replied on 8 January, giving various assurances, including one that every effort would be made to bring this case to an early conclusion and that the necessary remaining work would be undertaken as a matter of urgency. Other colleagues were content. There has been no Ministerial correspondence since then.

3. We understand from Northern Ireland Office that they are expecting to make an announcement at the end of this month but they are not able to give any more precise indication than that.

4. The future of Mackies has, as you know, been under discussion in E(A) for two years now; and it is a year since Mr King said that he was determined that the matter should not be allowed to drift and that the negotiations should be brought to a conclusion as soon as possible. You may want to consider asking Mr Brooke's private office for a progress report and their latest timetable.

R.T.J.
R T J WILSON

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COMMERCIAL-IN-CONFIDENCE
Department of Employment
Caxton House, Tothill Street, London SW1H 9NF

Telephone 01-273 5802
Telex 915564 Fax 01-273 5821

Secretary of State

7.9
CGR

NBPM

226
4/1

The Rt Hon Peter Brooke MP
Secretary of State for Northern Ireland
Whitehall
LONDON
SW1A 2AZ

8th January 1990

Dear Peter

JAMES MACKIE AND SONS LTD

Play.

In your minute of 20 December to the Prime Minister, you invited colleagues to clear by correspondence your proposals to enable the sale of Mackies to go ahead.

In view of the social and political arguments in favour of your proposals, I am content with them.

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

y - end

Michael

MICHAEL HOWARD



RESTRICTED
COMMERCIAL-IN-CONFIDENCE
Employment Department Training Agency
Health and Safety Executive - ACAS

NAT IND
Shipbuilding pt 16.



cefu.
Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NBPM

Rec 6

9/1

8 January 1990

at flat
Dear Norman,

JAMES MACKIE AND SONS LTD

Thank you for your letter of 2 January in which you indicated your acceptance of the proposals for supporting the Lummus acquisition of Mackies, subject to assurances on certain points including the acceptance by E(A) colleagues of the social and political case set out in my memorandum E(A) (89)37.

I am grateful to you and E(A) colleagues, who all accepted the proposal, for their understanding of the social and political arguments for this exceptional package of assistance to secure the future of this company in West Belfast.

I can also confirm that no funds beyond those proposed will be committed to the rescue of Mackies and that the exceptional level of assistance will not constitute a precedent for any future project in Northern Ireland. I can assure you also that every effort will be made to bring this case to an early conclusion.

On the question of obtaining satisfactory terms for the reinvestment by the Mackies' Trustees of the consideration for their shares, my officials will consult with yours with a view to agreeing arrangements which are fair and acceptable to all concerned.



I fully agree that we must move quickly to deal with this outstanding point and bring the whole business of the Mackies' rescue to a conclusion. I will therefore wish to see the necessary remaining work undertaken as a matter of urgency and my officials will be in touch with yours about this. I will of course consult you if any variation on the conditions agreed proves necessary.

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

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even
Pm

PB

225 IND: Shipbuilding
A 16

096. 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

NOTE FOR THE RECORD

JAMES MACKIE AND SONS

The Northern Ireland Office (Simon Sparrow) rang me to say that the NIO had now cleared the proposals for Mackies set out in E(A)(89)37 with most other Departments. He asked whether the Prime Minister would wish to comment further.

I told him that, as long as the NIO had cleared their lines fully with all other interested Departments, they could proceed with the proposals and there was no need for further consultation with the Prime Minister.

Aug.

PAUL GRAY

5 January 1990

C:\WPDOCS\ECONOMIC\MACKIE\ECL

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COMMERCIAL IN CONFIDENCE



Mr Mackie
NIO Subject

Mc 6
21

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Brooke MP
Secretary of State for Northern Ireland
Northern Ireland Office
Whitehall
London
SW1A 3AZ

2 January 1990

Dear Secretary of State

JAMES MACKIE AND SONS LTD *at flat*

You copied your minute to the Prime Minister to me and other colleagues on EA.

2. As you acknowledge, the arguments for supporting Lummus acquisition of James Mackie are social and political ones. And you will meet the costs involved from your existing public expenditure provision.

3. If colleagues accept the social and political case then I would not oppose your proposals, subject to assurance on a number of points.

4. Firstly, as is implicit in your memorandum to EA, no funds beyond those you now propose should be committed to the rescue of Mackies.

5. Secondly, as your letter indicates may now have been secured, there should be reinvestment by Mackies trustees of the net consideration for their shares in the business and on satisfactory terms. My officials have asked yours for details on this critical point.

6. Thirdly, that you recognise that the exceptional aid intensity (64 per cent) is only acceptable given Mackies unique circumstances and in no way constitutes a precedent for any future project in Northern Ireland.

7. And, of course, matters should now be brought speedily to a conclusion (I note that you will consult me should any variation in the terms now on offer prove necessary).

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

Yours sincerely

Norman Lamont

NORMAN LAMONT

*Approved by the Chief Secretary and
signed in his absence.*



NIAT ins: Shipa 12/2/89
B16



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Note

Agreed in Chief
Secretary's office to wait
for his reactions - probably
after Christmas.

PRC 6
20/12

PRIME MINISTER

JAMES MACKIE & SONS LTD

1. We were to discuss my proposals for Mackies at E(A) yesterday morning on the basis of my memorandum E(A) (89) 37. That meeting did not proceed but I believe that there is merit in colleagues agreeing to my proposals now by correspondence.

2. Negotiations to bring us to the position described in the note accompanying my memorandum have been protracted and difficult. It was only in the last week that Lummus and the Trustees came to an agreement on the consideration for the shares involving, critically, reinvestment of the net proceeds in Mackies by the Trustees. Having established a structure which is acceptable to all the parties and which I believe represents a justified investment of public funds, I am loath to let this window of opportunity pass.

3. My memorandum makes clear that I believe the political and social arguments within Northern Ireland argue strongly for the proposals it put forward. I should be grateful to know that you and other colleagues are content with them. And, as my paper also made clear, if the detail of the terms finally agreed between the parties vary from my proposals, I would discuss those with the Chief Secretary.

4. I am copying this minute to the Lord President, Foreign Secretary, other E(A) colleagues and to Sir Robin Butler.

P.B.

PB

20 December 1989

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File *celth.*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 December 1989

Dear Alice,

E(A) DISCUSSION OF TRAINING AND JAMES MACKIE

Given diary difficulties, it will not be possible to rearrange before Christmas the meeting of E(A) that had to be cancelled yesterday. We will now be arranging a meeting in the New Year.

The Prime Minister has, however, made various comments on the two papers on training prepared by your Secretary of State and the Secretary of State for Education and Science. She feels that these papers raise some fundamental issues for the development of policy over the next few years, which need to be carefully considered; she thinks it important not to rush into quick decisions. As an aid to the decision-making process, she would like to hold a seminar at Number 10 to be attended by a number of outside experts. She has in mind the attendance being:

- Ministers plus one official each from the main Departments concerned;
- around six representatives from industry and the Training and Enterprise Councils;
- around six representatives from further education, specialist training organisations and others with particular expertise in the training field.

The Prime Minister would be grateful if your Secretary of State and the Secretary of State for Education and Science could advise by early January on possible names for invitation to the seminar. It would be helpful to have rather more possible names than the spaces available. We are tentatively planning for the seminar to be held on Friday 2 February.

On Mackies, the Prime Minister wonders whether it would be possible for the Secretary of State for Northern Ireland to agree the way forward with the Chief Secretary and other colleagues in correspondence.

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- 2 -

I am copying this letter to the Private Secretaries to members of E(A) and to Sir Robin Butler.

Yes,
Pc1

PAUL GRAY

Clive Norris, Esq.
Department of Employment

CONFIDENTIAL

A

PRIME MINISTER

P 03596

JAMES MACKIE AND SONS LIMITED

Memorandum by the Secretary of State for Northern Ireland

E(A) (89) 37

DECISIONS

Mr Brooke seeks agreement to the sale of Mackies to the American firm Lummus and the provision of £13m of further Government assistance.

2. Mr Brooke acknowledges that the financial case is weak and says (para 5) that "the choice is between closure and support for Lummus on social/political grounds". But on the financial arrangements you may wish to ensure :

i. that Mr Brooke's objectives for the terms of the sale of the trustees' shares to Lummus are achieved, in particular that the trustees do not get any undeserved benefit; and

ii. that the company is in future treated like any private sector company, if for example any further development is proposed.

3. Finally you may be content to accept that, subject to the discussion, Mr Brooke should be able to conclude the negotiations broadly along the lines he proposes without further reference back, subject to agreement with the Chief Secretary.

BACKGROUND

4. Mackies, the textile machinery manufacturer in West Belfast, have been in financial difficulties for some time and dependent on bank guarantees provided by the Government. E(A) discussed the company's affairs in March, April, July, October and December last year and March this year, and has already agreed that a

dowry should be given for a sale to the private sector (E(A)88 10th meeting).

5. Mr King reported in March that negotiations with Howdens had been going well until the Mackie trustees had unexpectedly accepted in principle an offer from the American firm, Lummus. He was determined that matters should not be allowed to drift and that negotiations should be brought to a head as soon as possible. Mr Brooke proposes that the shares, now held by trustees on behalf of the workforce, should be sold to Lummus and that the Government should provide £13m of grants to facilitate redevelopment.

ISSUES

The financial case

6. Mr Brooke's paper says that "the choice is between closure and support for Lummus on social/political grounds". He accepts that the financial case is weak. If you wished, however, you could explore the main weaknesses.

i. Lummus has a management, which, although impressive, has a short track record; it is highly geared; and the project would stretch its financial resources.

ii. The project is high risk, with breakeven before grants forecast only for year 4.

iii. There is likely to be substantial under-recovery of grants if the project collapses. Coopers and Lybrand warn that "some £10-11 million of public funds would be at risk".

7. If you wanted to explore the financial case further, you could ask:

i. what is Mackies recent record on sales and profits?

- ii. what exactly would the "project" consist of? Would there, for example be a new or improved product line?
- iii. what are the main assumptions about sales and prices made in the assessment of the project?

Position of the trustees

8. Mr King told E(A) last December that "one complication was that the trustees who held the existing shares of Mackies on behalf of the company's employees would have to agree that their shares were virtually worthless when the takeover went through". You may wish to check the position of the trustees if the proposed sale goes through. Formally, it is they who sell the shares, but Mr Brooke sets out (para 4 of covering paper) his objectives for the sale. On these you might ask:

- i. how confident is he of attaining these objectives? The need for the trustees to agree to sell their shares must give them some leverage.
- ii. Mr Brooke says that the trustees should not receive undeserved benefit. Will they get any benefit at all?
- iii. Another objective is that the company should continue in West Belfast. Is there any reason to think that it would not? The need to sustain employment there is the main argument for the package.
- iv. The last objective is that the trustees should share in the risks being taken by other investors. How would this be achieved? You may wish to ask whether they would retain any equity.

Further Government assistance

9. Para 6 of the Mr Brooke's covering note says that "if any

genuine plans for the future development of the company should subsequently be brought forward they would be treated as an entirely new project". This does not exclude the possibility of further Government help. You may want to ensure that if the sale takes place Mackies will thereafter be treated like any other private sector company.

E C dimension

10. The paper says that the FCO, DTI and Cabinet Office have been asked to confirm that the assistance does not need to be notified to the Commission. We understand that at official level they are satisfied about this, but you could ask the Secretary of State for Trade and Industry to confirm.

The alternatives

11. You may wish to probe the case for excluding the alternative of sale to Howdens. Mr King was earlier concentrating on sale to Howdens' and it was the trustees who, initially against his wishes, approached Lummus. The argument against Howdens on pages 11-12 of the detailed paper seems to be mainly that the trustees and workforce would not like it.

Next steps

12. Mr Brooke proposes that any variation in the terms of the sale of the trustees' shares should be left for agreement in correspondence with the Chief Secretary. You may be prepared to agree more generally that Mr Brooke should now be able to conclude the negotiations broadly along the lines he proposes, without further reference back, but subject to agreement with the Chief Secretary. You may also wish to press for early resolution of the problem, which first came to the Committee in March 1988.

HANDLING

13. You may wish to ask the Secretary of State for Northern Ireland to introduce his paper. The Chief Secretary, Treasury will be concerned with the financial terms of the transaction.

CONFIDENTIAL

The Secretary of State for Trade and Industry will have an interest in any comparison with assistance to industry in England, and the Secretary of State for Scotland in the alternative of sale to Howdens, if that is discussed.

R.T.J.

R T J WILSON

Cabinet Office

18 December 1989

CONFIDENTIAL

18 December 1989

THE SALE OF JAMES MACKIE AND SONS LIMITED

In July 1988, the then Secretary of State for Northern Ireland was authorised to offer a Government dowry to a private sector buyer of the James Mackie business. Mr Brooke now seeks agreement for a payment of £13 million to Lummus Industries Inc. of Georgia which proposes to invest a further £7.3 million in the takeover and reorganisation of James Mackie.

There is no alternative buyer. The only other option is the closure of James Mackie with social and political consequences which the Secretary of State wishes to avoid. But Lummus does seem to have the strength of management necessary to rationalise Mackie on these terms.

The package of £13 million is made up of £7.7 million grant for capital expenditure and £5.3 million employment grant for 500 jobs to be paid in four instalments over two years. Mr Brooke recognises that the Lummus venture is one of high risk but he proposes to treat it as "any other private sector company" and says that £13 million should be the "absolute maximum available" for the rescue. Any subsequent application for development grants would be treated on its own merits.

One aspect of the proposal does, however, beg a question. If the employment grant continues to be paid over two years, the Government will still seem to be involved in the venture and, if failure seems likely, it may be more difficult to hold the line at £13 million.

CONCLUSION

Would it not be better to capitalise the employment grant, make one lump sum payment at the outset (on terms made public about the number of jobs which it secures) and then stand right back from the reorganisation itself?

Howell Harris Hughes

HOWELL HARRIS HUGHES

PART 1. ends:-

CST

~~Ca.~~ to Min S / Def. Proc. 17.7.89

~~Harris Hughes to PM 18.12.89.~~

PART 2. begins:-

Harris Hughes to PM 18.12.89