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PRIME MINISTER

GOVAN SHIPBUILDERS - LIBERTY MARITIME ORDER

Geoffrey Howe wrote to you on 12 December expressing the disquiet we all felt about this order.

I can certainly give the assurance he rightly seeks that no further orders of this type will be approved by my Department for BS. Further, BS have been firmly reminded that letters of intent are not to be publicised or used in future negotiations with the Unions, ahead of firm approval by my Department of any orders to which they refer.

BS are in no doubt about the "strength of purpose" behind our policy towards the shipbuilding industry, and I believe it is due to that strength of purpose which we have shown throughout, and which they have accepted, that progress towards the contraction of the industry has been achieved as satisfactorily as it has been with the cooperation of the Unions and the local workforces.

I would like to make two further points; one in regard to the Liberty Maritime order, the other on the future. In our policy of necessary contraction, it was recognised and established at an early stage - last summer - that a distinct element in our strategy was that a coincidence of the closure of both Govan yards should not occur, in order to avoid a confrontation.

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Accordingly, BS went ahead with efforts to find orders for Govan (Fairfield) to avoid closure there, while that at Govan (Scotstoun) took place.

The Liberty Maritime order was put to my Department as early as July - but BS were asked to try and find alternative orders from UK shipowners. As you are aware, no better alternatives could be found.

In regard to the use of the letter of intent for Govan, I understand that local management exceeded their authority from British Shipbuilders, in providing information to the workforce. British Shipbuilders had serious grounds for dissatisfaction with local management, and as my officials have told yours, BS dismissed the Chief Executive of the Govan yard when announcing the order, earlier this month. This action was of course entirely at their initiative.

As for the future of the Govan yards, Scotstoun will close for merchant shipbuilding by the end of March. Fairfield, which has modern facilities and is a yard which BS would retain as part of their 430,000 ton capacity plan, will only get further orders if they can be obtained competitively, and with genuine productivity improvements, within the normal terms for assistance agreed for other yards. If they cannot do so, BS will close the yard; but Fairfield must have a fair chance of winning orders, and they

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have been told that their chances depend on a greatly improved performance.

As far as British Shipbuilders as a whole is concerned, the level of Intervention Fund assistance has been reduced from 30% to 25%, and BS' loss and cash limits for next year are greatly restricted. BS' financial performance this year to date is in line with their target; whilst there are small but encouraging signs that the market is improving. It must still be doubtful, however, whether BS capacity target of 430,000 cgrt can be achieved on acceptable terms; if not, further contraction and redundancies beyond that already intended will have to take place.

I am copying this minute to other members of E Committee and to Sir Robert Armstrong.

KJ

K J
20 December 1979

Department of Industry
Ashdown House
123 Victoria Street
London SW1



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