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*cc M. Dwyer*

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A0778

27th November, 1979

*Dear Tim*

Govan Shipbuilders Ltd.

Since Monday's meeting of E officials have investigated the possibilities of public sector orders for the Govan shipyard. I attach their report, which will be considered by E at its meeting after Cabinet tomorrow.

I am copying this letter to the Private Secretaries to members of E, the Secretaries of State for Defence, Scotland and Northern Ireland, the Lord Privy Seal and the Minister of Transport.

*Yours ever*

*Martin Vile*

(M. J. Vile)  
Private Secretary

T. P. Lankester, Esq.



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*Prime Minister*

*In the light of this, you may want to reconsider whether there should be any order for (Fairfields) Govan. Govan haven't made a profit since the early 1960's, and they have absorbed vast amounts of government money. But the social/political arguments, as always, go the other way.*

AN ORDER FOR GOVAN SHIPBUILDERS

Note by Officials

1. We were asked, following the meeting of E Committee on 26 November, to review the possibility of finding a public sector order or order for the Fairfield Yard at Govan Shipbuilders in place of the two ships for Liberty Maritime. This note has been prepared by officials of the Departments of Industry, Transport and Energy, the Ministries of Defence and of Agriculture, the Scottish Economic Planning Department, the Treasury and the Central Policy Review Staff (CPRS), under Cabinet Office Chairmanship.

*(See Mr Young's minute in his file)*

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2. Govan Shipbuilders employ 5,450, of whom 1,100 are at Scotstoun and 4,350 at Fairfield. Scotstoun is due to close by the end of this year. The workforce at Fairfield is due to be reduced by 1,150 to 3,200, by voluntary redundancies and by transfers to other yards on the Clyde. This planned rundown has already started and will be completed on the delivery of the last Polish ship, now expected in March 1980. The achievement of this rundown is itself dependent on an assurance now of further orders for the yard after the completion of the Polish order. And the completion of the Polish ships will also be in jeopardy if further orders are not forthcoming. As of now, the yard has no further work beyond the Polish ships. The Liberty Maritime order would employ part of this workforce, utilising the whole only for a brief period in the summer of 1980 and finishing completely in the Spring of 1981.

The Need

3. Ideally, any new order should provide comparable employment to the Liberty Maritime order. It should not involve a ship for which there was an urgent operational requirement, because of the risk that it might be 'locked-in' if the plan goes wrong. The additional cost should be within the limits of finance which the Department of Industry were prepared to make available for the Liberty Maritime order (see below). It should be suitable for the modern facilities at Fairfield, which is a general-purpose yard concentrating on medium/large merchant ships. It has available a range of designs for bulk carriers and general cargo ships of around 25,000 tons. With more notice, it could construct any other relatively sophisticated merchant ship or fleet

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auxiliary. Within the total numbers employed, it is particularly important to find work if possible for the 1,000 steelworkers at the yard, whose work comes first in the construction of any ship and is now diminishing. If the market recovers sufficiently (and there are some signs of recovery now), British Shipbuilders plan to secure orders for the yard for ships of higher added value such as ferries.

Available Finance

4. The proposed contribution from public funds (provided within the Department of Industry's and British Shipbuilders' PES allocation) for the Liberty Maritime deal was:

- i. £4.5 million grant from the Intervention Fund, spread over two years;
- ii. £0.7 million as an interest relief grant from British Shipbuilders (spread over the 15-year life of the ship);
- iii. £2.7 million grant element as Section 10 assistance (spread over 8 years).

5. The total direct public support was therefore £7.9 million. The figure of £21 million mentioned in the CPRS paper (E(79) 66) is the total cost of constructing the vessels. This would be lost only if the ships were completed and then locked-in permanently, without being re-sold. Given the other calls on Department of Industry shipbuilding funds, we understand that there is little prospect of providing further public assistance, beyond the £7.9 million, from this source.

6. We have considered a full list of potential public sector shipbuilding orders over the next few years. Only 7 of these are remotely suitable for Govan, and there are serious problems in each case.

- (i) Offshore Patrol Vessels (OPVs or Fishery Protection Vessels)

There is a requirement for 4 replacement vessels (at about £10 million each) for the Fisheries Departments and Ministry of Defence and for one smaller vessel at a cost of £5 million for the Department of Agriculture and Fisheries

*The rest would be financed by Hambros; but this would be guaranteed by the Government and would therefore fall to us if likely Maritime renege, or if the Govan fails to deliver.*

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for Scotland (DAFS). The Treasury has offered, in the context of the current Public Expenditure Survey discussions, to finance two of these. It would be possible to operate more than these two if the funds were available, but this would impose current costs as well as capital costs for which there is at present no provision. There is an established design for these ships, developed for Ministry of Defence by Hall Russell, a British Shipbuilders subsidiary in Aberdeen. The first two ships are being built in Aberdeen and the first will be launched in March. Any subsequent orders could be allocated to Fairfields but British Shipbuilders estimate that, because the facilities are less suitable, the shipbuilding cost could be 20/25 per cent higher than at Aberdeen, requiring still further extra funds. If all three extra ships were allocated, the work would occupy about 750 men at the peak.

ii. Fleet Support Tanker

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Ministry of Defence is now in the final stages of tendering for two fleet support tankers though it is currently reconsidering whether it can afford them at the present time. The design work has been done. The two would cost £54 million. Each ship would employ 1,000-1,500 men. Govan is not one of the yards tendering for this order. There has been great political pressure for these orders and lobbying by local Members of Parliament especially on behalf of Swan Hunter, Cammell Laird and Harland and Wolff. Any departure from normal tendering would therefore be controversial and might involve higher costs. Work could begin by the middle of 1980. These would be suitable ships for construction at Govan, and a delay in their completion could be tolerated.

iii. Conversion of HMS Tarbatness

This is a potential major reconstruction job, but does not involve much new steelwork. Ministry of Defence have no present PES funds and may drop it from their programme. Work on design has now stopped. The contract price would be over £30 million, of which a high part would be fitting-out of new equipment. Further design work at Cammells would be necessary and a start could not be made for some months.

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iv. Hydrographic Vessels

There is a requirement for three of these. They are small and complex vessels. The cost would be £24 million (for which PES provision has not yet finally been approved) for all three, and about 500 jobs per vessel would be involved. The detailed design work has still to be done, and no order seems possible before early 1981.

v. Train Ferry for British Rail (BR)

British Rail is considering ordering two new train ferries for the Harwich/Zeebrugge route at a cost of £13 million each. The viability of the operation depends on improved railway and Customs operations. The Government has not yet approved the order, for which there is no provision in BR's investment programme. There is pressure from Germany to improve the through rail freight service, and from Belgium for at least one of the orders. Some design work has already been done. British Shipbuilders, who have been involved, believe they could start in about six months. It is unlikely that British Rail would choose Govan.

vi. Cable Ship for Cable and Wireless

A decision in principle has been taken by Cable and Wireless to construct a new cable ship. But the design will not be finalised until the end of February, and there will be a tendering and negotiating process after that. Cable and Wireless believe they would not start until September 1980; the Department of Industry think it might be possible to start a month or two earlier. This will be a large job around £15 million or more. There will be political pressures to construct in the North East; Lord Glenamara is the Chairman of Cable and Wireless.

vii. A further Fleet Support Tanker for Ministry of Defence, to a basic commercial design with minimum modifications.

Provided extra funds could be made available, MOD could find a use for such a vessel which might cost up to £20 million and could be started quite quickly. This would avoid the need to divert existing orders from other yards but would involve additional running costs in due course. If MOD then decided to postpone the two specialist tanker vessels, there could be reactions at the other yards which might have expected the orders.



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7. Further options

There are two other possibilities which could be considered:

viii. Speculative building

The Liberty Maritime order itself could be regarded as a form of speculative building, with the purchaser laying out only £0.5 million for an option which he could later decide to cancel, leaving British Shipbuilders with the vessels. A straight speculative build financed by the Government would lead to pressure for comparable orders from other yards.

ix. Diverting work from other Ministry of Defence dockyards

There is little or no scope for this in the short term because the facilities and labour force at Fairfield are not suited for warship construction and refit.

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