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

E(79)66

21 November 1979 COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

GOVAN SHIPBUILDERS

Note by the Central Policy Review Staff

1. The Ministerial Committee on Economic Strategy (E) is to discuss the proposal that British Shipbuilders be authorised to accept an order to build two ships for Liberty Maritime Agency Limited at the Fairfield yard of Govan Shipbuilders. The Liberty Maritime order is described in some detail in E(EA)(79)64, and the views of E(EA) in favour of acceptance are set out in the Secretary of State for Industry's minute to the Prime Minister of 16 November.

2. The arguments for financing the Liberty Maritime order are two: (a) to help cushion the painful process of running down shipbuilding on the Clyde at a time when there have been several large factory closures in the area; (b) to secure the release of eight Polish ships which might be locked in by the Govan workforce if new orders are not forthcoming, and to avoid the risk of wider industrial disruption in the shipbuilding industry. Both arguments need examination.

Cushioning the rundown of employment on Clydeside

3. Ministers in E(EA) accepted that in all probability neither yard at Govan Shipbuilders, Scotstoun nor Fairfield, is viable long-term. The CPRS fully shares this view. Although the Fairfield yard has recently been modernised, their experience is limited to building small to medium sized bulk carriers of low added value. Even when the world demand for shipping recovers, South Korea, Japan, the Eastern Bloc and many Newly Industrialised Countries will be able to build these simple classes of ship at a much lower cost. It seems unlikely that the yard could ever compete internationally without subsidy.

4. British Shipbuilders plan to stop merchant shipbuilding at the smaller Scotstoun yard early next year, but no date has been put on Fairfield. To keep Fairfield occupied, even with the much reduced workforce mentioned in the E(EA) paper, requires five to six new orders a year. The Liberty Maritime order is for two ships and will buy a little time only. British Shipbuilders will be under constant pressure to secure further orders. How many more orders is it assumed will be taken for Fairfield before it closes? Will it ever be any less difficult than it is today to decide on a closure date?

5. The proposed order has two features which might excite public comment: the nature of Liberty Maritime, and the terms of the contract -

(i) Liberty Martime Agency Limited. As Sir Keith Joseph's minute makes clear, Liberty Maritime is a virtually unknown firm of Greek shipbrokers with almost no declared assets. Its latest accounts showing assets of only £12,000 were filed in 1976. The company is thus in default under the Companies Act.

(ii) Contract Terms. Under the terms of the various contracts between British Shipbuilders, Hambros, and Liberty Maritime, British Shipbuilders and the taxpayer bear all but nearly £½m. of the financial risk on the £21m. construction cost. Hambros carry no financial risk but stand to gain from fees; their presence is necessary to bring into play loans available under Section 10 of the Industry Act. Liberty Maritime can pull out at negligible cost to themselves at any time during construction, and can be expected to do so if the shipping market does not recover sufficiently to make it worth while their completing the deal.

For Liberty Maritime, the deal is a cheap option. But, for British Shipbuilders is there not a risk that an order on these terms could be viewed publicly (e.g. by the EEC) as a cloak for a speculative build?

6. Further, since British shipowners show no interest in placing orders for the standard vessels built at Govan, what is the likelihood that any successor orders to keep the Fairfield yard open would be on similar terms and would involve companies similar to Liberty Maritime?

Securing the release of the Polish ships

7. The second main strand in the argument for the Liberty Maritime order is that it is a cheap means (i) of securing the release of the eight Polish ships still in the Govan yards, and (ii) of preventing more widespread industrial action. In arithmetic terms, the Liberty Maritime order will mean a contingent liability to HMG of up to £21m. i.e. the full cost of construction. Against this, the Department of Industry has speculated on £100m. of losses to British Shipbuilders because of industrial action if the Liberty Maritime order is turned down. But -

The Liberty Maritime order alone may not be enough to extract all the Polish ships. If additional orders are accepted to keep the workforce satisfied, the contingent liability is increased proportionately. Are we not replacing Polish ships with others costing over £20m. which may too need to be 'extracted'?

The £100m. figure of possible losses assumes industrial trouble right across British Shipbuilders. However, if industrial action were contained within Govan, the maximum amount currently at risk to HMG is the £30m. due to British Shipbuilders on delivery of the eight remaining Polish ships less whatever would be saved by not completing them (perhaps £5m. or more) or by their eventual sale if they were ever completed and released. And this £30m. figure would fall as ships were released - of the nine mentioned in E(EA) paper, one had already gone by the time of the discussion in E(EA).

8. This 'trade-off' between buying orders (£20m.) and losing the co-operation of the workforce (£100m.) depends crucially on a judgement that by not accepting the Liberty Maritime order there could be industrial action resulting in three months' slippage throughout the shipbuilding industry. It also seems to depend on the assumption that the contingent liability on work at Govan will decrease, i.e. that there will be no further order for Govan. But if British Shipbuilders closed Govan soon after the last Polish ship has been delivered (which at the present rate of slippage could be the middle of next year) would this lead to a claim of bad faith by British Shipbuilders and the widespread industrial action that the Liberty Maritime proposal was intended to avoid?

Conclusion

9. The immediate employment position on Clydeside may create a political imperative to accept the Liberty Maritime order even if taken alone it buys only a few months' peace at Govan. But in coming to that decision, Ministers may wish to bear in mind -

(i) if, as indicated in the Secretary of State's minute, Fairfield does not have a long-term future, when is it thought that the yard will close? Will it be easier and less costly to close later rather than sooner?

(ii) How many orders, and at what total cost to HMG, will be needed to provide work between now and whatever closure date is envisaged for the labour force set out in E(EA)(79)64?

(iii) Will the Liberty Maritime order be enough to secure release of all eight Polish ships? Is their delivery schedule set out in the E(EA) paper still realisable?

(iv) When the terms of the order and the status of Liberty Maritime become known, will the order be criticised as a thin cloak for a speculative build? Will British Shipbuilders be entitled to look for further orders on a similar basis and perhaps for yards other than Fairfield?

(v) On the programme envisaged can British Shipbuilders still be expected to keep within their cash limits?

Cabinet Office
21 November 1979