

JV



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 5902
SWITCHBOARD 01-212 7676

From the
Minister of State

PS/Norman Lamont MP

Nicholas Huxtable Esq
Private Secretary to
The Rt Hon Francis Pym MC MP
Privy Council Office
Whitehall

*No - Brit
Shipbuilders are
offering pay increases
way beyond what they
can afford on these
figures. They can
only do it because we
are already paying them*

Prime Minister

The policy is in line
with the conclusions
of E. The
31 March 1982

statement is now scheduled
for Monday 19 April.
Agree to this? *MCS 1/4*

Dan

Nicholas

Following the decisions taken at E(NI) (82) 1st, I am attaching a draft oral statement on the Government's future support for shipbuilding, which we should like if possible to make before the Easter Recess. This will depend on approval from the European Commission for the proposals, which officials are currently seeking. We should be in a position on Friday to say whether the statement can go ahead.

You asked whether it was customary to make this type of statement orally. Previous oral statements on British Shipbuilders' (BS) Corporate Plans and finances were made in November 1980 and July 1979. No statement was made in 1981 because BS' present plan has been under consideration since May 1981 - that is why we are keen to make this statement as soon as possible.

I understand that no statement would be possible until Tuesday of next week at the earliest. I should be grateful for any comments you or copy recipients may have by mid-day on Monday 5 April. In the absence of comment by that time I shall assume agreement.

I am copying this letter and attachment to the private secretaries to members of E(NI), to Bernard Ingham, and the private secretaries to the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland and the Paymaster General.

*Yours,
John Alty*

JOHN ALTY
Private Secretary



FUTURE FINANCIAL SUPPORT FOR BS

With permission Mr Speaker, I shall make a statement on future financial support for British Shipbuilders.

2. The House will be aware that the performance of the industry in financial terms has shown some striking gains after the painful adjustments of the last two years. Losses have declined from £110m in 1979/80 to a target of £25m this year after Intervention Fund assistance. BS's cash needs have declined from £236m in 1979/80 to £150m this year. These gains are a tribute to the leadership of Mr Atkinson and the cooperative response of the Trade Unions.
3. BS's Corporate Plan sets out the conditions that have to be achieved to enable the Corporation to break even as a whole in 1983/84 and thereafter to move into profit without the aid of Intervention Fund assistance. This accords with our aim that BS should reduce its dependence upon the Exchequer and make progress towards viability.
4. However to secure their Corporate Plan objectives BS in the first place have to improve substantially on past performance. The elimination of the heavy losses in previous years owes much to the restructuring programme and improved order books, and further progress will now have to depend on real improvements in performance compared to pre-nationalisation levels and will be harder to achieve.
5. Secondly while the Ministry of Defence have placed orders this year with BS to the value of £460m, the volume of orders in future years is going to decline, and BS have to adjust for this reduced volume. Some 90% of warship capacity in recent years has been utilised for the Ministry of Defence and export markets now have to be regained. BS have already made a start/



on the adjustment by diversifying Cammell Laird and Scott Lithgow into offshore and have had a welcome success in securing orders, but substantial warship export orders are also essential.

6 Thirdly if BS are to move to a position where the Corporation cease to be dependent upon further Intervention Fund support, faster progress internationally is required on the reduction of crisis aids originally introduced to deal with the shipbuilding recession, and the EEC Commission and OECD will continue to have a valuable role; but in the meantime BS need further support through the Intervention Fund.

6557
7 For BS to secure their objectives there will also need to be a sustained increase in real prices but the prospects of this appear particularly unclear given the current depression in certain segments of the shipping market.

8 Against this background the Government have considered the question of financial support in respect of this year only and will review the position again next year. We are proposing to the European Commission a new tranche of Intervention Fund assistance from July 1982 to July 1983 from BS and the private sector of £40 million representing a £5 million reduction on the current tranche which expires this July. For 1982/83 we shall be setting a loss limit of £10 million after Intervention Fund assistance and an External Financing limit of £123 million which takes account of the Chancellor's decision on the National Insurance Surcharge.

9 With the agreement of BS and Harland and Wolff we are going to ask consultants to look into the question of marine engine capacity at BS and Harland and Wolff to see whether the total capacity is excessive or could be more effectively deployed. We have also been mindful that private sector engine manufacturers have over a long period complained about unfair competition when

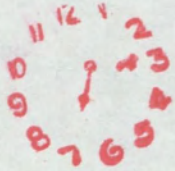


BS and Harland and Wolff have secured land market orders. We have also put to Mr Atkinson the concern of the private sector shiprepairers on unfair competition from British Shipbuilders which was highlighted by the recent report on the Industry and Trade Committee, and I know that Mr Atkinson regards the performance of this sector as unsatisfactory and unless there are firm prospects of rapid improvement further remedial measures may be needed.

10 On the question of privatisation it remains the Government's firm intention - time permitting - to take power of Parliament to facilitate the introduction of private capital for British Shipbuilders. I recognise the impatience of Hon Friends for the Government to make progress in this area.

11 There is little doubt that BS face a task of considerable magnitude in securing the further improvements which are required, and the Government has recognised this by providing the Corporation with substantial support, which is justified by the record so far. But Government support by itself cannot buy viability or security of employment, and it is for the industry to demonstrate by its performance in the coming year that the scale of this support can be regarded as temporary and diminishing.

31 MAR 1982



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cy as below
+ Mr Ingham
Mr Venetov

10 DOWNING STREET

From the Private Secretary

5 April 1982

Dear Caroline,

Draft Statement on the Future Support for British
Shipbuilders

The Prime Minister has seen a copy of John Alty's letter of 31 March to Nicholas Huxtable to which was attached a draft oral statement on the Government's future support for British Shipbuilders.

The Prime Minister does not agree that a statement on these lines should be made. She recognises that the statement follows closely the conclusions at E(NI). But she considers that British Shipbuilders are offering pay increases well beyond what they can afford on the basis of the figures set out in the draft statement; and that they can do this only because the Government is already giving them financial support at too generous a level.

I am sending copies of this letter, with attachment, to John Alty in Mr. Lamont's office; and to the Private Secretaries to members of E(NI), the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland and the Paymaster General.

Yours sincerely,

Michael Scholar

Ms Caroline Varley
Department of Industry.

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From the
Minister of State

PS/Norman Lamont MP

Nicholas Huxtable Esq
Private Secretary to
The Rt Hon John Biffen MP
Privy Council Office
Whitehall

23 April 1982

Dear Nicholas

SHIPBUILDING STATEMENT

Following the Prime Minister's intervention we postponed the shipbuilding statement from its planned date of 19 April.

Although we await the Prime Minister's response to my Secretary of State's minute of 19 April, I am circulating a shortened and somewhat revised version of the statement for provisional agreement. We are anxious to make a statement as early as possible, in particular because we are due to reply to the Trade and Industry Select Committee by May 4, one of whose complaints was the length of time the Department was taking to consider BS's Corporate Plan. It would be most undesirable not to have made a statement on the Corporate Plan before replying to the Committee's report.

I understand that next Thursday seems the most suitable day for a statement. Subject to the prior agreement of the Prime Minister that the statement can go ahead, I should be grateful for your and copy recipients' agreement to the attached draft by midday on Wednesday. In the absence of comment by then I shall assume agreement.

I am copying this letter and attachment to the private secretaries to members of E(NI), to Bernard Ingham, and the private secretaries to the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland, the Secretary of State for Defence, the Secretary of State for Foreign and Commonwealth Affairs, and the Paymaster General.

Yours,
John

JOHN ALTY
Private Secretary

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FUTURE FINANCIAL SUPPORT FOR BS

With permission Mr Speaker, I shall make a statement on future financial support for British Shipbuilders.

2 The House will be aware that the industry's financial performance has shown some striking gains after the painful adjustments of the last two years. Losses have declined from £110 million in 1979/80 to a target of £25 million *in 1981/2* ~~this year~~ after Intervention Fund assistance. BS's cash needs have declined from £236 million in 1979/80 to £150 million *in 1981/2* ~~this year~~. These gains are a tribute to the leadership of Mr Atkinson and the cooperative response of the ^{employees and} Trade Unions.

3 Under their Corporate Plan, BS aim to break even in 1983/84 and thereafter to move into profit without Intervention Fund assistance. But for BS to achieve their target will require continued substantial improvements in performance. Productivity still has to surpass prenationalisation levels.

4 Moreover, BS's plans assume a sustained increase in real prices for ships. However, in present market conditions it would be wrong to place any great reliance on this happening. This makes it all the more important for BS to control costs tightly and become more competitive.

5 While ~~the~~ volume of Ministry of Defence orders will remain substantial - last year orders were placed to the value of £460 million including associated weapons - BS seem likely to need to make adjustments and to regain export markets. BS have already made a start on the adjustment process by diversifying Cammell Laird and Scott Lithgow, and have had a welcome success in securing off-shore orders.



6 Against this background the Government has considered the question of financial support for ~~this year~~^{1982/3} only and will review the position again later. For 1982/83 an external financing limit has already been announced of £123 million which takes account of my Rt Hon and learned Friend the Chancellor's decision on the National Insurance Surcharge. For the same year we are setting a trading loss limit of £10 million after Intervention Fund assistance. The present tranche of the Intervention Fund expires in July this year and BS have sought further Intervention Fund support. The Commission are currently considering the general question of aids to shipbuilding and how best to ensure that where these are given they foster progress towards viability. I will report later to the House on the progress of consultation with them.

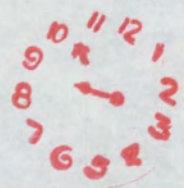
7 With the agreement of BS and Harland and Wolff we are going to ask consultants to look into the question of marine engine capacity at BS and Harland and Wolff to see whether the total capacity could be more effectively deployed. We have also been mindful that private sector engine manufacturers have over a long period complained about unfair competition from BS and Harland and Wolff in the land market. We have also put to Mr Atkinson the concern of the private sector shiprepairers on unfair competition from British Shipbuilders which was highlighted by the recent report on the Select Committee on Industry and Trade. I know that Mr Atkinson regards the performance of this sector as unsatisfactory and unless there are firm prospects of rapid improvement further remedial measures will be needed.

8 On the question of privatisation it remains the Government's firm intention - time permitting - to take powers to facilitate the introduction of private capital for British Shipbuilders. I recognise the impatience of Hon Friends for the Government to make progress in this area.



9 Very substantial support has been given by the Government to British Shipbuilders but BS still face a task of considerable magnitude in obtaining a firm prospect of viability. The Government is determined that aid to British Shipbuilders will be temporary and diminishing. Government support by itself cannot buy viability or security of employment. The need to improve performance remains urgent. The fuller order books this year represent an opportunity for the industry to prove itself.

26 APR 1982



PRIME MINISTER

(2) *noted*

Statement on British Shipbuilders

Norman Lamont made his Statement to a pretty empty House. It was a low key occasion, and one which went off without any difficulty for the Government.

John Cunningham argued that this was an inappropriate time to make the Statement, since the postponement of the Defence White Paper meant that British Shipbuilders could not be sure of the Government's naval shipbuilding plans. He opposed the reduction in the EFL and loss limit, argued that we should not reduce support to the industry during the Falklands crisis, and drew attention to the statutory obligation of the BS Board to maintain a ship repairing capability. James Molyneaux expressed anxieties about the impact of the review of marine engineering on Harland and Wolff. Neville Trotter worried about the impact of British Shipbuilders' continued ship repairing losses on the private sector ship repairers, and lamented the industry's failure to secure naval export business. Michael Grylls complained about British Shipbuilders' recent pay settlement: why had they increased their offer from 3% to over 7%? A number of Opposition MPs feared that the reduced EFL would mean further redundancies (Norman Lamont said that these would be no more than 2-3,000 over 4 years), and complained about the uncertainty which would be introduced by the Government's privatisation plans. Robin Maxwell-Hyslop argued powerfully that British Shipbuilders and the Department of Industry had failed to control BS's ship repairing losses, and suggested that no further public funds should be made available to BS unless these losses were brought to an end. Michael Morris said that the lack of progress on privatisation was a major disappointment, and several other Backbenchers on our side worried about the effects on the private sector of continued losses in BS's ship repairing function.

MCS

27 April 1982



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From the
Minister of State

PS/Norman Lamont MP

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
Whitehall
London SW1

27 April 1982

Dear Michael

STATEMENT ON FUTURE FINANCIAL SUPPORT FOR BRITISH SHIPBUILDERS

... I enclose a copy of the final version of a statement on British Shipbuilders which my Minister will be making in the House today, 27 April.

I am copying this letter and its enclosure to the private secretaries to the Chancellor of the Duchy of Lancaster, the Leader of the House, the Chief Whip and Bernard Ingham.

Yours,
John

JOHN ALTY
Private Secretary



FUTURE FINANCIAL SUPPORT FOR BS

With permission Mr Speaker, I shall make a statement on future financial support for British Shipbuilders.

The House will be aware that the industry's financial performance has shown some striking gains after the painful adjustments of the last two years. Losses have declined from £110 million in 1979/80 to a target of £25 million in 1981/82 after Intervention Fund assistance. BS's cash needs have declined from £236 million in 1979/80 to £150 million in 1981/82. These gains are a tribute to the leadership of Mr Atkinson and the realistic response of the employees and trade unions.

Under their Corporate Plan, BS aim to break even in 1983/84 and thereafter to move into profit without Intervention Fund assistance. But for BS to achieve their target will require continued substantial improvements in performance.

Productivity still has to surpass prenationalisation levels.

Moreover, BS's plans assume a sustained increase in real prices for ships. However, in present market conditions it would be wrong to place any great reliance on this happening. This makes it all the more important for BS to control costs tightly and become more competitive.



While the volume of Ministry of Defence orders will remain substantial - last year orders were placed to the value of £460 million including associated weapons - BS seem likely to need to make adjustments and will need to regain export markets. BS have already made a start on the adjustment process by diversifying Cammell Laird and Scott Lithgow, and have had a welcome success in securing off-shore orders.

Against this background the Government has considered the question of financial support for 1982/83 only and will review the position later. For 1982/83 an external financing limit has already been announced of £123 million which takes account of my Rt Hon and learned Friend the Chancellor's decision on the National Insurance Surcharge. For the same year we are setting a trading loss limit of £10 million after Intervention Fund assistance. The present tranche of the Intervention Fund expires in July this year and BS have sought further Intervention Fund support. The Commission are currently considering the general question of aids to shipbuilding and how best to ensure that where these are given they foster progress towards viability. I will report later to the House on the progress of consultation with them.

With the agreement of BS and Harland and Wolff we are going to ask consultants to look into the question of marine engine capacity at BS and Harland and Wolff to see whether the total

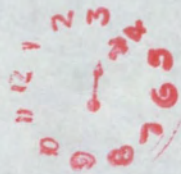


capacity could be more effectively deployed. We have also been mindful that private sector engine manufacturers have over a long period complained about unfair competition from BS and Harland and Wolff. My Rt Hon Friend will very shortly announce Government funding for Harland and Wolff for 1982/83. We have also put to Mr Atkinson the concern of the private sector shiprepairers on unfair competition from British Shipbuilders which was highlighted by the recent report on the Select Committee on Industry and Trade. I know that Mr Atkinson regards the performance of this sector as unsatisfactory and BS is reviewing the situation as a matter of urgency.

On the question of privatisation it remains the Government's firm intention - time permitting - to take powers to facilitate the introduction of private capital for British Shipbuilders. I recognise the impatience of Hon Friends for the Government to make progress in this area.

Very substantial support has been given by the Government to British Shipbuilders but BS still face a task of considerable magnitude in obtaining a firm prospect of viability. The Government is determined that aid to British Shipbuilders will be temporary and diminishing. Government support by itself cannot buy viability or security of employment. The need to improve performance remains urgent. The fuller order books this year represent an opportunity for the industry to prove itself.

27 APR 1982





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From the
Minister of State
Norman Lamont MP

John Corrie Esq MP
House of Commons
London
SW1A 0AA

28 June 1982

Dear John

Thank you for your letter of 9 June 1982 enclosing one from your constituent Mr Keith Murray about a shiprepair contract which Smiths' Shiprepairers lost to British Shipbuilders. I return Mr Murray's letter herewith.

We have received several other allegations that British Shipbuilders have taken shiprepair contracts at prices which do not adequately cover overheads. I have passed yours on to BS, as I have done the others. I am not in a position myself to make a judgement because individual tenders are often not directly comparable. But, as I said in the House on 27 April, I am concerned at the continuing losses of British Shipbuilders' shiprepair division and would not want to see the private sector undermined by loss making contracts taken by the public sector shiprepairers.

As I told the House, British Shipbuilders' Chairman is equally concerned at the unsatisfactory performance of the Corporation's shiprepair operations and he is reviewing the position with a view to seeing what action can be taken.

NORMAN LAMONT

*Yours
Norman*

Silvercraigs,
St Cuthbert's Road,
Kirkcudbright,
S.W.Scotland.

Dear *John*

Further to our meeting I give you the full details of figures involved in the shiprepair job which I mentioned to you.

SMITH'S SHIPREPAIRERS NORTH SHIELDS LTD.

£ 345,660

BRITISH SHIPBUILDERS

Came in with a figure of £176,000 less, and got the work.

Result is now with no work at Yard and 400 men at Smith's have been paid off.

Kind regards,

Yours sincerely,

Wish *Thurray*

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From the
Minister of State
Norman Lamont MP

Ian Gow Esq MP
10 Downing Street
Whitehall
London SW1

28 May 1982

Dear Ian

Thank you for your letter of 6 May 1982 enclosing a copy of a letter from Christopher Bailey to the Clerk of the Commons Select Committee on Industry and Trade which reported on British Shipbuilders in March. Bristol Channel Shiprepairers also wrote to me.

BS have been asked to comment on the case in so far as it can be identified, but it is very difficult to decide on the basis of individual cases whether competition is fair or unfair. It is often the practice of shiprepairers both public and private to quote at a price which does not cover fully overheads, in the expectation that the eventual outcome of the contract taking into account additional work at the shipowners' request will compensate for this.

The main thrust of the allegations by the private sector that BS competes unfairly lies in BS's losses on shiprepair. We are very concerned at the large losses the shiprepair division of BS is making. We have made it very clear to BS that we wish to see an end to losses in shiprepair and that we cannot accept a situation where private sector jobs are undermined by losses in the public sector. You will know that BS's financial target this year has been reduced to £10 million after Intervention Fund assistance, and this will put financial pressure as well on BS to tackle their shiprepair problems quickly.

BS do accept that the present situation is unsatisfactory, and are reviewing it as a matter of urgency. Since Vesting Day they have reduced employment on shiprepair by over half from 9,000 to around 3,500 at the present day. They are currently considering plans which will reduce employment by around another 1,000. They have however with my agreement delayed discussing these plans with the trade unions because of the fear that labour unrest might hold up the completion of HMS Illustrious at Swan Hunter which may be required for the Task Force. The reductions will however take place and will be mainly concentrated at the Tyne Shiprepair Group where most of BS's problems lie.

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Under current legislation we have no powers to intervene in shiprepair. Indeed the Nationalisation Act places a statutory duty on BS to promote the efficient and economical repair of ships. However we intend - time permitting - to introduce legislation next session which will remove this statutory duty on shiprepair, and give us powers to direct BS to dispose or to discontinue or restrict any of their activities. We shall certainly consider using this range of powers in shiprepair if BS have not made satisfactory progress by then. We also need to pursue our objective of returning BS's shiprepair to the private sector as soon as possible. I can assure you that we shall continue to watch the situation very closely.

I would be most grateful if you would treat the information in this letter as confidential. The information about BS's future plans on shiprepair is very sensitive.

NORMAN LAMONT

*Yours
Norman*

CONFIDENTIAL

6th May, 1982

Bristol Channel Ship Repairers
Limited

I am enclosing a copy of a letter dated 23rd April, which was sent by Mr. Christopher Bailey to the Clerk to the Industry & Trade Committee.

Are the facts as stated by Mr. Bailey, in the second paragraph of his letter, really true?

LAN GOW

Norman Lamont, Esq. M.P.
Minister of State,
Department of Industry,
123 Victoria Street,
London SW1