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PRIME MINISTER

BRITISH SHIPBUILDERS : CUNARD ORDER

The Ministerial Sub-Committee on Economic Affairs discussed this morning what response the Government should make to British Shipbuilders' request that they should be authorised to extend more than usually generous credit terms to Cunard - 'soft credit' to try and win the order for the container ship which will in effect replace the Atlantic Conveyor.

2 Without soft credit British Shipbuilders (BS) have no chance of winning the order. The lowest price they can offer Cunard is some \$20 million more than the Korean and Japanese tenders. Even with soft credit, however, BS could not hope to win the order if it is allocated on strictly commercial grounds. Figures which Cunard have given in confidence show that BS would still be asking some \$10 million more than their Far Eastern competitors.

3 We cannot completely exclude the possibility that, if BS can get their bid down to the equivalent of about \$60 million, which they could if they offered soft credit, Cunard would be prepared to pay a premium for being seen to be patriotic. But the Sub-Committee judged that a very unlikely outcome. Cunard would

Prime Minister
To be answered

Cunard
Dy. Clerk

MB.



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have to be prepared to incur not only the cost penalty of some \$10 million but also a delay in delivery of seven months as compared with a Korean yard and eleven months as compared with the Japanese. The discussions which the Minister of State, Department of Industry and I have held with Lord Matthews do not give firm grounds for believing that Cunard would be willing to go as far as that.

4 In any case, there are very strong arguments against authorising soft credit. To do so would run counter to our general policy of reducing BS's subsidies and their dependence on the Exchequer. Soft credit, taken together with maximum assistance from the Shipbuilding Intervention Fund, the normal Shipbuilders Relief, and the Home Credit Scheme, would push the total effective subsidy given to Cunard up to about 38 per cent of the contract price, and bring the offer down to \$60 million. The use of the maximum Intervention Fund Assistance (£6.9m) on this one order would amount to about 17 per cent of the £40 million allocated to the Fund for both BS and the private sector for the year from July 1982, and increase the difficulties of staying within that figure.

5 To agree to soft credit would also cause considerable difficulties so far as the European Community is concerned if it leaked, as it would. The Commission might then rule that in this case (where other shipyards in the Community are actual or



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potential competitors) soft credit was incompatible with the Treaty of Rome; they would be likely at least to attach conditions. And our attempts to negotiate the Commission's approval for the 1982-83 Intervention Fund arrangements would be endangered.

6 The Sub-Committee was in no doubt about the strength of the criticism which we shall face if the Cunard order goes to the Far East. It will be said that compensation of £9.2 million is going straight to foreign shipyards; and that, in failing to find some way of ensuring that the order goes to British Shipbuilders, the Government is putting at risk the jobs of up to 1,500 men at Swan Hunter on Tyneside who worked round the clock during the Falklands crisis to get HMS Illustrious ready ahead of schedule. Our critics are also likely to contrast unfavourably a Far Eastern order by Cunard with the orders which Cunard's Swedish and French partners in the Atlantic Containers Line consortium are likely to place with Swedish and French yards (the Swedes offer exceptionally generous credit terms; the nationalised French shipping company concerned is likely to be pressed by the Government to buy French).

7 The Sub-Committee concluded that notwithstanding these political arguments, the case against soft credit was so strong that BS should not be authorised to offer it to Cunard. We shall clearly need to present such a conclusion with great care.



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9 I am copying this minute to members of E(EA), to the Minister of State, Department of Industry (Norman Lamont), the Minister of State, Foreign and Commonwealth Office (Douglas Hurd), the Parliamentary Under Secretary of State for Defence Procurement (Geoffrey Pattie), The Chief Whip, John Sparrow and Sir Robert Armstrong.

J. P. Spencer

M P J

14 July 1982

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

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

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Nat ind

10 DOWNING STREET

From the Private Secretary

16 July, 1982.

British Shipbuilders: Cunard Order

As I mentioned on the telephone yesterday, the Prime Minister has seen and noted without comment your Secretary of State's minute of 14 July, recording the conclusions of the Ministerial Sub-committee on Economic Affairs (E(EA)) about British Shipbuilders' request that they should be authorised to extend unusually generous terms to Cunard for the Atlantic Conveyor "replacement".

I am sending copies of this letter to Peter Mason (Department of Industry), Stephen Lamport (Foreign and Commonwealth Office), Nigel Fuller (Ministry of Defence), Murdo Maclean (Chief Whip's Office), Gerry Spence (CPRS), and David Wright (Cabinet Office).

M. C. SCHOLAR

Ms. Caroline Varley,
Department of Industry.

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27 JUL 1982



PS/JF 1144
Secretary of State for Industry

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

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

13 July 1982

T Flesher Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Tim,

CUNARD ORDER

I attach a draft reply for the Prime Minister's signature to the telegram sent by Mr Bill Sirs, which asks the Prime Minister to instruct Cunard to buy British.

2 My Secretary of State wrote to the Prime Minister on 6 July to explain the background to this order. This explained that BS are not competitive on price or delivery with European or Far Eastern yards. Negotiations between BS and Cunard are not yet completed but Lord Matthews has made it very plain publicly that unless BS can make a competitive bid the order will have to go abroad. It seems likely that Cunard will wish to announce their final decision on the order about mid-July though timing is as yet uncertain.

3 As you know, however, there have been further developments since my Secretary of State wrote on 6 July, of which we shall keep you informed.

Yours ever

Caroline Varley

CAROLINE VARLEY
Private Secretary

JF1145



*Pl type for PM
ms 13/7*

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

W Sirs Esq
General Secretary
Iron and Steel Trades Confederation
324 Grays Inn Road
LONDON
WC1

Thank you for your telegram of 25 June 1982 in which you urged me to instruct Cunard to purchase a British built ship to replace the lost Atlantic Conveyor.

I should first explain that the loss of the Atlantic Conveyor is not really related to the proposed new order. Before the Falklands conflict, Cunard together with their fellow shareholders in Atlantic Container Line comprising Swedish, Dutch and French shipowners, ^{was} ~~has been~~ considering a modernisation plan which would replace six ships of which Atlantic Conveyor was one, with five more efficient ships. This order would certainly have been placed even without the loss of the Atlantic Conveyor in the Falklands.

Naturally, like you, I prefer a situation where British shipowners feel able to buy British ships. But it would be quite wrong for me to instruct any UK shipowner to "buy British" and I

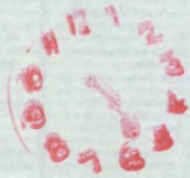


have no powers to do so. British shipping itself is a very important industry and unless it can buy where it chooses, it will lose its competitive edge. Of course we have taken a close interest in this order but for the reasons I have given these matters must in the last analysis be for the commercial judgement of Cunard.

I share your hope that the shipbuilding industry will be able to secure some part of the ACL orders. I appreciate very much the benefit shipbuilding orders bring to the steel industry. The Government provides very substantial help to the shipbuilding industry through the Intervention Fund and the general financing of British Shipbuilders. This support certainly compares favourably with what other countries have been doing to support their industry. Since coming into office approaching £600 million has been provided through Public Dividend Capital, the Intervention Fund and the Shipbuilding Redundancy Payments Scheme to British Shipbuilders. I am glad to say that BS have made very substantial progress in cutting losses and reducing their dependence upon Exchequer support.

I am sure too that Cunard would prefer to buy British but they have to take into account their need to be competitive and to secure the order British Shipbuilders will need to offer a competitive price and delivery.

13 JUL 1982



COMPTON

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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

Norman Lamont MP

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria St
London SW1

CWR
+1

MS

Prime Minister

2

To see that the Dept. of
Industry are moving towards
no more subsidy
12 July 1982 for the Atlantic
Conveyor substitute.

MUS 12/7

Dear Secretary of State

You know that there has been much public concern over the likelihood that Cunard will order from the Far East a prestigious third generation container ship which BS have tendered for. This order is Cunard's contribution to the ACL consortium. The other shareholders are French, Dutch and Swedish. Cunard's own presentation of the order has heightened public concern because it has given the impression that the order only arises because of the loss of the Atlantic Conveyor and that the compensation paid of £9.2 million will go straight to finance a Far Eastern purchase. The actual position is that Cunard and their partners in ACL were contemplating well before the Falklands conflict replacing six ships; of which the Atlantic Conveyor was one, with five more efficient ships.

BS themselves have fanned the controversy by asserting without justification that their price is the cheapest in Europe. If as seems likely the French shareholders will order one ship in a national yard, and the Swedish shareholders three ships in Swedish yards, BS will use this as an argument that we should give even more support to the shipbuilding industry.

BS have now asked whether the Government would be prepared to authorise the use of soft credit. They have reduced their bid from \$89.7 million (£49.75 million) to \$81 million (£46.8 million) partly by increasing the Intervention Fund to the maximum permissible (£6.9 million) and by making some savings in materials costs (BSC have reduced their price for steel by £1 million). BS have suggested that they should offer 100% credit (compared to the 80% available under the Home Credit Scheme) and a two year moratorium on capital repayments. This would give a Present Day Value (PDV) for the BS bid of \$62 million (£35.8 million) which could well not be enough since Cunard are saying that BS must get down to a PDV of around \$55 million and it remains to be seen whether Japan and Korea will cut prices further. However if BS were authorised to give the soft credit



which they have requested, the total subsidy would total 24.5%, of contract price of which Intervention Fund and Shipbuilders Relief are 17% and the soft credit an extra 7.5%, on top of the 13.5% subsidy represented by the normal terms of the Home Credit Scheme. The subsidy cost of the soft credit in PDV terms may appear somewhat low but this reflects the long BS construction time of 29 months.

The industrial case which BS advance is that steel work at Swan Hunter is running down and the ship would safeguard 1,500 jobs. Mr Atkinson claims that the recent decision to make redundant 1,500 at the Tyne Ship Repair Group not far from Swan Hunter will cause severe difficulties for BS without adding to them through losing this order. They also maintain that there is no distortion of competition if aid is given to prevent an order going to the Far East.

I am very dubious about whether we should authorise soft credit in this case. If the issue of soft credit for UK shipowners came into the open with the Commission, it would imperil our current negotiations on the next tranche of Intervention Fund which are providing difficult. Moreover, the Commission could require us not to use soft credit and refer the matter to the European Court of Justice if we fail to comply. They could also require cancellation of commitments already entered into and the repayment of past aid. It is for this reason that we have restricted its use to where there is no European competition and where it can be used with discretion. In this case every European yard has been asked to tender, and there has been widespread publicity about the size of the gap between BS and the competition.

/to

However the fact is that according to figures given privately to us by Cunard, BS are not and never have been the cheapest bidder in Europe. As the attached table shows, Sweden and France are cheaper and the gap between BS's current bid and the Far East in PDV terms taking account of credit is of the order of \$20 million. BS are of course concerned at the very long credit being offered by the Swedes but the Swedes do not give production aids, and the subsidy value of the Swedish credit is around 10%.

Leaving aside the EEC complications it is very questionable whether we should contemplate subsidies of 24.5% on a ship. Our policy on British Shipbuilders is to reduce subsidies and their dependence upon the Exchequer, and if BS cannot get alternative orders to the Cunard ship with very much less subsidy than they are asking for now, it is questionable whether we can afford an industry of the present size. Moreover if we allow BS to use up on a single ship £6.9 million out of the proposed tranche of £40 million for BS and the private sector from July this year until July next, BS may come to us next year to say that there will be a precipitate collapse of the industry unless the Intervention Fund can be increased.



I am therefore inclined to the view that we should not authorise the soft credit, and that we should be prepared to defend ourselves in this case by the very generous support we give to the shipbuilding industry which compares favourably with that of other countries, and the fact that in this case BS are not able to match the delivery performance of their competitors. Since coming into office we have provided BS with approaching £600 million through the Intervention Fund, Public Dividend Capital and the Shipbuilding Redundancy Payments Scheme.

The situation is however still somewhat fluid, and I will report the latest developments at the E(EA) meeting on Wednesday. It is likely that it will be announced publicly on Friday that the Swedish yard Kockums have won three ships out of the five, and if we are to intervene in the Cunard order, it will be essential to tell British Shipbuilders on Thursday.

Copies of this letter go to the Prime Minister, to other members of E(EA) and to Douglas Hurd and Geoffrey Pattie.

Yours Sincerely

John Atky

NORMAN LAMONT

(Signed on Mr Lamont's behalf
in his absence)

	Price (Cash) - \$ Million	Price (Credit) \$ Million (PDV)	Delivery
BS	81	75 (Estimated)(a)	29 months
Korea	55 (approx)	50 (Estimated)	22 months
Japan	61 "	54 (approx)	18 months
Sweden	68 "	49	20.5 months
France	70 "	65	27 months

- Sweden: - No production aids
 - Home Credit aid for Swedish shipowners:
 - 10% of contract price over 15 years
 - No interest or amortisation for up to first 5 years

- France: - Production Aid up to 20% of contract price
 - Home Credit Scheme similar to UK's but not tied to orders in French yards
 - Investment incentives to shipowners

Note:

(a) The \$75 million PDV of BSC's bid would be reduced to \$62 million if BS were authorised to offer 100% credit with a 2 year moratorium.

11 2 JUL 1982



Nat Inq
Shipbuilding

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FILE

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Nat Ind

B/C: JV

10 DOWNING STREET

From the Private Secretary

7 July, 1982

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CUNARD

The Prime Minister has seen your Secretary of State's minute of 6 July.

She agrees with him that there is no prospect of intervening to influence Cunard to buy British.

I am sending a copy of this letter to Mike Hopkins (Northern Ireland Office) and John Rhodes (Department of Trade).

M. C. SCHOLAR

J Spencer, Esq.,
Department of Industry

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PRIME MINISTER

- copied to Argentina, June '82
 Prime Minister ① Compensation payable in Relation to Falkland Id.
 Content that ~~there~~
 there should be no intervention
 in this situation?

CJV ✓

Yes

MS

MCS 6/7

I think you should be aware that Cunard are likely to order from the Far East a prestigious third generation container ship which BS have tendered for. This order is Cunard's contribution to the ACL Consortium. The other shareholders are French, Dutch and Swedish.

2 There is likely to be a strong public reaction to this. Cunard have given the impression that the order only arises because of the loss of the Atlantic Conveyor and that the compensation (£9.27m) will go straight to finance a Far Eastern purchase. In fact, before the Falklands crisis Cunard had gone to tender for the order and were contemplating arrangements for the sale of the Atlantic Conveyor. The link between the order and the loss of the Conveyor is not therefore as close as portrayed publicly. However, the loss of a prestige order will also be used as an argument that we should give even more support to the shipbuilding industry. Since coming into Office we have provided nearly £600 million to British Shipbuilders. Even so we have the difficulty that the French and Swedish members of ACL will probably place their orders in their national yards.

3 We cannot see any way in which Cunard can be influenced to "buy British". The price gap between the Japanese and South Korean prices and BSC is of the order of \$30 million though some allowance has to be made for foreign currency risks and inferior



credit abroad which would reduce this gap somewhat. It would have been wrong to attempt to use the compensation paid for the Atlantic Conveyor to influence the Cunard decision. The Government is obliged in law to pay the value of the lost ship, and would be taken to arbitration if we failed to do so in full. We have on occasion authorised BS to use soft credit to win such UK orders but on legal grounds this is challengeable by the Commission and we have restricted its use to where there is no EC competition. In this case there is French and German competition. Moreover, at present the Commission are being rather difficult about our application for the further tranche of Intervention Fund for the shipbuilding industry agreed by Ministers in March. Even if we were to take the risk, it seems doubtful whether BS could accommodate the cost of credit within their loss limit for this year of £10m after Intervention Fund assistance.

4 I have carefully considered whether an intervention by you could secure this order but I see no chance of Lord Matthews moving unless he is promised substantial aid.

5 A copy of this letter goes to Jim Prior and Lord Cockfield.

PJ

PJ

6 July 1982

Department of Industry

12
5/7

Bill SIRs

Chased today - was told that
S/S was writing to PM. 6/7
received 6/7.

RM



10 DOWNING STREET

From the Private Secretary

25 June, 1982

I enclose a copy of a telegram the
Prime Minister has received from Mr Bill Sirs,
General Secretary of the ISTC.

I should be grateful if you could let
me have a draft reply for the Prime Minister's
signature by Wednesday, 5 July.

Monday

TF

Dr David Saunders
Department of Industry

Hll



RM

10 DOWNING STREET

From the Private Secretary

25 June, 1982

I am writing on behalf of the Prime Minister to thank you for your telegram received today.

This is receiving attention and you will be sent a reply as soon as possible.

TF

W Sirs, Esq., J.P.,

s dial the number
ur dialling instructions

British
TELECOM

for enquiries dial the number
shown in your dialling instructions

Telegram

for enquiries dial the number
shown in your dialling instructions



R25/6.

25 JUN 1982/0947
ZCZC TXE6095 MRE986 4521LOND
GBXX CO GBMR 066
DOUGLASISLEOFMAN 66/63 25 0915 PAGE1/50

PRIME MINISTER MRS MARGARET THATCHER
10 DOWNING ST
LONDONSW1

THE ANNUAL DELEGATE CONFERENCE OF THE IRON AND STEEL TRADES
CONFEDERATION MEETING AT DOUGLAS ISLE OF MAN HAS CONDEMNED PROPOSED
INTENTION ON CUNARD TO PLACE ORDER FOR ATLANTIC CONVEYOR REPLACEMENT
WITH JAPANESE OR KOREAN SHIPBUILDERS.
CONFERENCE ASKS YOU TO INSTRUCT CUNARD

COL 10 LONDONSW1

MRE986 4521LOND THATCHER PAGE2/13

TO PURCHASE BRITISH BUILT SHIP USING BRITISH STEEL.
BILL SIRS GENERAL SECRETARY I.S.T.C

NNNN
889113 PO SW G
SQ TRC TELEGRAM G

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