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PRIME MINISTER

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FALKLANDS WHITE PAPER: SHIP REPLACEMENT ORDERS

In the Falklands White Paper which we shall be discussing in OD on Tuesday, I propose to announce immediate orders for four new Type 22 frigates. Of our existing ship designs, the Type 22 is a versatile ship with a strong anti-submarine warfare capability - the Royal Navy's principal task in the NATO area; the alternative - the Type 42 destroyer - is an older design and is optimised for air defence. The other option would be to wait for the new Type 23 frigate but this is still at the design stage and will not enter service until the 1990s - replacement ships are needed more quickly if naval force levels are to be maintained in the late 1980s.

2. Three of the new Type 22 ships will be replacements for Falklands losses and one part of the normal ship programme as already announced. The cost of these ships with their weapons is estimated at £471M. This, together with an imminent order for two minehunters worth £65M, will be the largest simultaneous warship order placed with British Shipbuilders by this Government.

3. In my consideration of the placing of these orders, my primary concern has been to restore the Royal Navy's front-line capability with all possible speed, as well as to enable industry to gain early benefit from new orders. At the same time we wish to incorporate as far as practicable in the design and fighting capability of new ships the lessons learned from the Falklands. Orders have yet to be placed for the last two ships of the Batch II design to be equipped with the OUTBOARD Communications intercept and direction



finding system. Thereafter, we propose a new Batch III version, within the hull dimensions of the Batch II, incorporating a 4.5" gun (all the losses were gunships) together with improved anti-submarine, anti-ship, air defence weaponry and communications.

4. In our tendering action we have sought the maximum benefit from competition between the yards opened up by the size of the prospective orders. We have, therefore, obtained tenders for two Batch II ships (22-09 and 22-10) (which will incorporate some "Falklands" improvement) from the five yards capable of building them (Yarrows, Vosper Thornycroft, Vickers, Cammell Laird and Swan Hunter). For the new Batch III ships we do not, however, have a similar choice because of the need to employ Yarrows, the parent yard for the Type 22 class of frigate, to make the design changes and, in the interests of speed and for other practical considerations, to build the first two ships (22-11 and 22-12) in the new version. I attach at Annex a note of the capacities of the various yards.

5. For ships 22-09 and 22-10 as a pair, Swan Hunter's bid is by far the lowest. For the first of the Batch III ships (22-11 and 22-12) we have negotiated a very tight price with Yarrows, again for a pair.

6. I have given much thought to whether it would be possible to spread the orders more widely to include Cammell Laird and/or Vosper Thornycroft. But this could be done in the case of the Batch II ships only at severe cost penalty (in the range of £14-23M), which I would not regard as an acceptable burden for the defence budget. As for the Batch III ships there is, for the reasons I have explained, no alternative to giving the first of these ships to Yarrows who are designing it. If we decided to put the second of these ships (22-12) to another yard there would be a delay of at least six months before the order could be placed and almost certainly an immediate price penalty for the loss of Yarrow's



offer for a pair of ships. However, Vosper Thornycroft are also likely to receive very soon, as a result of a keenly fought competition with Yarrow, an order for two new minehunters costing some £65M.

7. This leaves the question of a fourth replacement ship for the Falklands losses for which tenders cannot be invited before early next year since the drawings will not be available to put out to yards other than Yarrows until then. If we announced an order now for the fourth replacement, we could not specify a yard. I will explain the options surrounding the last replacement ship more fully at our meeting.

8. In summary, I propose to announce on the publication of the Falklands White Paper on December 14th the placing of orders as follows:

- a. two Type 22 Batch II frigates at a cost of £222M, at Swan Hunter;
- b. two Type 22 Batch III frigates at a cost of £249M, at Yarrow Shipbuilders;
- c. two minehunters at a cost of £65M at Vosper Thornycroft.

9. I invite my colleagues to note these proposals.

10. I am copying this to OD colleagues, the Secretaries of State for Industry, the Environment and Scotland, and Sir Robert Armstrong.

Ministry of Defence
6th December 1982

Rummm
Approved by Mr Nott
& signed in his absence

INDUSTRIAL CAPACITY OF BRITISH SHIPBUILDERSYARROWS (CLYDE)

5,400 on roll, all engaged on RN work.

Currently building four Type 22 frigates (05, 06 07 and 08) and two Minehunters (MCMVs) (04 and 06).

Yarrows need another two Type 22 orders to bridge the gap until production of the new Type 23 frigate. There are no redundancies in prospect at Yarrows - there will probably be a need for modest recruitment up to 1985.

A decision remains to be taken on whether Yarrows or Vosper Thornycroft will be the Lead Yard for the new design Single Role Minehunter. (SRMH).

VICKERS (BARROW)

8,000 on roll, all engaged on RN work.

Currently building:

Four nuclear-powered submarines (SSNs) (13, 14, 15 and 16)
PWR 02 (Pressurised Water Reactor)

Planned to order:

Three SSNs (17, 18 and 19)
New conventional submarine (SSK - 01)
to be followed by the Trident submarine programme.

In the short term there will be a modest rundown of labour at Vickers. This level of redundancy is deemed to be containable. This will be followed by a steady state until about 1987 when there will have to be substantial recruitment in order to meet the Trident programme.

Have been included in a tender programme for any replacement Type 22s but there are no over-riding industrial reasons why an order should be directed to Vickers.

VOSPER-THORNYCROFT (WOOLSTON)

3,600 on roll.

Currently building: Destroyer Type 42-09 and 42-12

MCMVs 05, 07, 09 and 11.

They have recently declared some redundancies and are faced with further redundancies in the short term although these will be offset to some extent by overseas sales orders in that they are taking a sub-contract landing ship logistic from Brooke Marine and there are prospects for corvette orders from Trinidad and Indonesia.

Their current performance on RN work is not good and they were the only Yard which was unable to accelerate Acceptance Dates of existing orders required in the Falklands emergency. Whether this was labour obduracy, inefficient management or recognition that the order book was running dry was not clear.

There are no current plans to place further steel surface warships in Vospers but they have successfully tendered for MCMVs 08 and 10 in competition with Yarrows.

Placing one or more of any additional Type 22 orders at Vospers would have a marked effect on the redundancy position in the short term. However, on current performance Vosper-Thornycroft would not be the choice of builder for the fastest or most cost-effecting build.

The outcome of the current MCMV exercise could be a pointer to the future for the SRMH programme. If the Yard were to be engaged in glass reinforced plastic construction only it would need dramatic restructuring and a significant reduction in total labour force.

SWAN HUNTER (TYNE)

9,000 on roll, of whom about 5,800 are engaged on RN work.

Remaining RN orders are the carrier (CAH-03) and the destroyer Type 42-14 (YORK).

Planned orders for Swan Hunter are the new support ship (AOR) programme starting in the mid-1980s. They are also likely to be one of the follow-on Type 23 builders.

There is a substantial gap between the completion of the current programme and the start of the AOR and Type 23 programme. If this is not filled by merchant ship work then there will be very heavy redundancies at Swan Hunter. The addition of one or two replacement Type 22s would go a long way to bridge this gap and would be most welcome at this yard. Their past record on both man-hours and cost has been excellent.

CAMMELL LAIRD (MERSEYSIDE)

3,600 on roll, of whom 1,100 are currently employed on RN work.

They have recently finished the destroyer Type 42-10 (LIVERPOOL) and the only orders in the Yard at present are Type 42-13 (EDINBURGH) and a Drilling Rig for Dome Petroleum. This rig is due to complete in June 1983 and at present there are no firm prospects of further offshore work - although they do have some tenders out. It is thus likely that there will be heavy redundancies in Cammell Laird from the middle of 1983 and if Type 42-13 is the sole order left in the Yard its completion by 9/84 becomes problematical.

There are no orders envisaged for Cammell Laird in the planned programme although there remains the prospect of their becoming the follow-on builder in 1985 for the new conventional submarine (SSK). They have excellent shipbuilding facilities and could rapidly divert into conventional submarine building at very little capital cost.

The cessation of surface RN work at Cammell Laird and their switch into the offshore division was agreed policy with BS. However the future prospects for offshore work are not good and a swing back to surface warship building would be welcomed by BS.

SCOTTS (CARTSBURN)

2,100 on roll, about 1,000 employed are on the SOV (Seabed Operations Vessel) which is due to complete about mid 1983. The future of the Carlsburn Yard beyond this date will be entirely dependent on their gaining commercial orders but the prospects do not seem good.

There are no MOD orders currently envisaged to be placed at Scotts but should they still be in existence in 1985 they could be considered for the build of the follow-on SSKs. However a large capital investment would be required to provide the necessary facilities.

The situation is such that all 2,100 could become redundant in 1983 - other than those who would transfer to the Lithgow Yard.

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Scotts do not have the facilities or the skills to build modern surface warships such as replacement Type 22s.

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