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From: J B UNWIN

1 May 1986

*NGBN.*

MR NORCROVE - NO 10

cc Sir R Armstrong  
Mr Wiggins

**BRITISH SHIPBUILDERS AND THE NORTH EAST**

You may recall that in his minute of 14 April to the Prime Minister prior to the second E(A) discussion of the AOR order, the Secretary of State for Trade & Industry warned of the serious problems facing British Shipbuilders (BS) and the possibility of a statement on 14 May about future closures and redundancies.

*at HoP.*

2. Although the Cabinet Office were instructed to conduct a strategic review of the merchant and warship building industries, there was no specific discussion of Mr Channon's report and no clearance was sought or given.

3 I now understand both from BS themselves (Professor Griffiths and I talked yesterday afternoon to both Graham Day and his successor, Phillip Hares) and from DTI officials that the statement planned for 14 May is likely to be more specific than Mr Channon's letter indicated. I do not know all the details (Phillip Hares is about to write to Mr Channon setting these out) but the statement is likely to reveal plans for redundancies of nearly 4,000 between now and April 1987 (reducing the work force from the present 9,927 to 6,192), distributed as follows:-

- closure of Smith's docks (Middlesbrough): 1,534 jobs;
- closure of Ferguson-Ailsa's yard at Troon: 311 jobs;
- closure of Wallsend Engine Works: 340 jobs;
- the balance from various reductions elsewhere, mainly in the North East, to achieve a "core level" labour force.

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4. The occasion for this statement is a meeting on 14 May with the unions to begin wage negotiations; BS believe that it will strengthen their negotiating hand.

5. Although these decisions will anticipate the new BS corporate plan due to be brought to E(A) before the summer recess (in practice they will be the corporate plan, at least in the shorter term), there seems little alternative to them if BS are to be kept afloat within the broad financial framework already laid down for them. Mr Hares' estimate is that at the trading level (ie excluding some £30 million of redundancy costs), the proposals will enable BS to live within their 1986-87 EFL of £73 million. However, the statement will obviously be extremely controversial, and I have told the DTI that in my view, the Secretary of State should report the position to the Prime Minister and colleagues on E(A) as quickly as possible (preferably before the weekend), so that comments can be invited and a discussion arranged if necessary after the Prime Minister returns from Tokyo. The Prime Minister and other Ministers concerned must have an opportunity to consider the implications of the proposed announcement before the point of no return is reached.

6. DTI officials accept this and are so advising Mr Channon. I hope, therefore, that you will get a report tomorrow.

7. I send this minute to you so that you are aware of the above developments and can alert the Prime Minister if you think it necessary to do so. No further immediate action is necessary, but I will contact you again if there are problems.

J B UNWIN

Cabinet Office

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