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Secretary of State for Trade and Industry

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2 May 1986

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The Rt Hon Viscount Whitelaw CH MC  
Lord President of the Council  
Privy Council Office  
Whitehall  
LONDON  
SW1

To keep for E(A) on  
Thursday

Dear Lord President,

**BRITISH SHIPBUILDERS: THE NEXT STEPS**

I am writing to you in the Prime Minister's absence about developments affecting British Shipbuilders since I minuted the Prime Minister on 14 April.

BS have been looking carefully at various scenarios for the current year. While each scenario has its own financial and employment consequences, BS believe that the chief determinant is the extent to which they succeed in winning new work I warned in my earlier minute that even with a reasonable degree of success in winning new orders they believed that they would have to close their Wallsend engine works (400 jobs), Smith's Dock (1500 jobs) and Ferguson-Ailsa's yard at Troon (400 jobs), bringing total redundancies this year (including the effect of 'core level' labour) to about 3,500 of which some 2,500 will be in the North East. I also said that BS would wish to announce these redundancies together with their plan to go to a core labour force when they meet the unions to discuss their wage claim on 14 May. As I explained in my earlier minute, economic manning means employing only the numbers and skills essential in each yard that cannot be organised on a temporary basis, for instance by transfer or sub-contractor.

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Mr Hares came to see me yesterday and reported two main developments. First, the BS Board, strongly influenced by their non-executive directors, felt that given the present order position even the scenario described above was optimistic and that a less optimistic scenario including the additional closure of Austin and Pickersgill at Sunderland (1250 jobs) and the Ferguson yard at Port Glasgow (400 jobs), was the more likely eventual outcome.

The Board therefore believed that their actions from now on should be aimed at enabling them to move towards this possible outcome in the least costly manner. However, they recognised the practical difficulties of moving immediately onto such a course given the need to complete the workload already in the yards. The Board therefore agreed that BS should adopt their preferred scenario, but that progress should be monitored regularly over the next few months and that BS should be prepared for even further restructuring should the value of new orders be insufficient to utilise the remaining yards' capacity. If such further restructuring were necessary BS would wish to act as quickly as possible to enable them to prevent costs getting out of hand.

Second, the BS Board feels very strongly that they should take immediate steps to implement their preferred scenario (bringing them down from 10,000 to some 6,200 employees by the end of the year) and that they should brief the unions clearly and unambiguously on 14 May, publicly announcing both the closures and the other major changes in employment practices when they open their negotiations on pay. They say that a delay in implementing these changes would result in severe under-utilisation of their facilities and consequent cash costs which would be unacceptable. They also take the view that a failure to make a clear statement of intent at this stage, which would inevitably mean further painful announcements within a very few months, would seriously undermine the BS management's credibility and prejudice the cost effective management of the business.

I endorse that view. The changes they propose seem the minimum necessary to give the industry any chance of survival except at exorbitant cost. They do not prejudge the outcome of the study by officials being undertaken by MISC 127 since no shipyard can be closed until it completes its present workload (in the Autumn at Troon and by the end of the year at Smith's Dock). BS would find it difficult to delay the 14 May meeting without revealing that this was because the Government was still reflecting on their proposals.

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In my previous minute I reported that I had told Mr Hares that he should take whatever steps he could to bring BS back within or close to their EFL. BS have now done this. They report that against an EFL of £73m set on the basis of what must now be seen as the optimistic market forecasts in their 1985 plan, BS's cash needs in 1986/87 would be £72m at the trading level together with restructuring costs of a further £29m. This calculation assumes that BS is successful in securing an order for 5 Chinese container ships, Cuban ships to follow-on the present order at Austin and Pickersgill and 9 Danish small ferries. This mix of orders would cost some £79m in 1986/87 Contract Support Limit (CSL) terms against a CSL of some £53m after making use of the main flexibility provisions. A good part of the excess derives from the assumption that the 5 ships from China would all require use of the Aid and Trade Provision (we have so far only agreed that this should cover 2 ships) at a cost of £24m which would be charged against the CSL. However, other orders could materialise which would be less expensive in CSL terms than the ships for China. Officials will need to review the figures with BS but I am clear both that they are doing what they can and that any more radical restructuring would be even more expensive in the short term.

... BS also want to put their proposals for "economic manning levels" to their unions on 14 May. This is an integral part of their proposals for pay and productivity. The details of their past productivity and economic manning level proposals are attached and I would be grateful for the Chief Secretary's confirmation that they are acceptable.

Although the announcement by BS on 14 May of impending closures is unwelcome, I do not think it can be avoided. We will need to think separately about what we should say publicly. We will almost certainly face a PNQ. It would be most helpful in answering this if David Young was by then in a position to announce at least some measures resulting from the exercise commissioned by Cabinet on 24 April to consider the scope for targetting Government job creation initiatives on the work-hit areas of the North East.

As far as BS is concerned, my main anxiety is that they may not be able to secure the orders necessary to maintain their main scenario. BS themselves place considerable emphasis on their Fleet Support King 20/20, a fleet Auxiliary Vessel that BS have designed which they see as a cheaper, less sophisticated complement to the AORs. But I am aware of the difficulties for MoD. This should however be explored fully in MISC 127 - as should the possibility and timing of other public sector orders.

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If you and colleagues agree, I propose to tell BS that they go ahead on 14 May as they propose.

BS would like to know by the middle of next week whether we will allow them to make their announcement on 14 May. I think we must. But if you or colleagues have difficulties with this, I would be grateful if you would let me know by 8 May.

I am copying this minuter to the Prime Minister, other members of E(A), Geoffrey Howe, George Younger, and Sir Robert Armstrong.

*Yours sincerely,*

*Michael Cillerton*

PAUL CHANNON

*[Approved by the Secretary of State  
and signed in his absence]*

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## BS - PAY AND PRODUCTIVITY PROPOSALS

BS intend their 'economic manning levels' concept to lead to a reduction in overheads and in the number of the direct employees by 15-20 per cent. Any shortages would be catered for by the introduction of sub-contractors, transferees, and employment on short contract. For reasons of cost, BS would attempt to work with sub-contractors and short contracts rather than transferees, but the measure of advantage will depend on how successful they are in prevailing against their trade unions who are already arguing that supplementary labour should receive all the benefits of regular employment, particularly holiday entitlement. BS are still considering how radically this policy could be implemented. At present they see a programme of some 1500-1800 redundancies beginning in July on a voluntary basis, and to be completed by the end of next March with compulsory redundancies from this October.

On productivity and pay, the basic message they plan to spell out is that the closures, moves to economic manning levels, and productivity proposals are all essential if the industry is to have any cost of future, but that they are prepared to pay for the results by sharing savings 50-50 from productivity and economic manning levels in pay. Against the union claim for an unspecified "considerable increase" in 1985/86, they propose to make no general increase this year. All items in the programme would be negotiated at the local level before October, with the increased payments coming



through in October, January and April 1987 dependent on the extent of implementation in the interval. The new rates would then apply throughout 1987/88 avoiding a pay round next year.

BS' present figuring suggests rates of £165 for a 39 hour week for all craftsmen at all yards, fully consolidating allowances. This represents an increase of between £7 and about £20 per man depending on the yard. BS strongly believe an incentive of this order will be necessary to achieve the programme and provide an incentive, for instance, for core labour to co-operate with a sub-contractor.

NAT. IND - Shipbuilding Pt. 10





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*Princie Minister*

My ref:

Your ref:

*Mr Baker proposes an  
extra £13m of spending in the  
NE, to be financed from the  
Reserve.*

7 May 1986

*Jim Smith,*

*DBV  
7/5.*

#### BRITISH SHIPBUILDERS: NEXT STEPS

E(A) is to discuss Paul Channon's letter of 2 May on Thursday. I will not be able to attend because of the Royal Opening of the Stoke Garden Festival and my commitments on local government election day. John Patten will come in my place.

I wholly agree with Paul that it would be helpful if any difficult announcement by British Shipbuilders on 14 May could be offset by positive steps to support job creation in the North East. I have looked carefully at how my Department's programmes could help, given additional resources, and I have concluded that the Derelict Land and Urban Programmes would be the right channels and could provide extremely useful support.

#### Derelict Land

In 1986/7 we are planning to spend £13.5m on derelict land reclamation in the North East. It would be very useful if we could improve the rate of derelict land reclamation by allocating an additional £6m this year. £1m of that would go on private sector-led reclamation projects; and £5m on local authority projects already in the pipe-line, which are consistent with our objectives to recycle land for development after-use.

#### Urban Programme

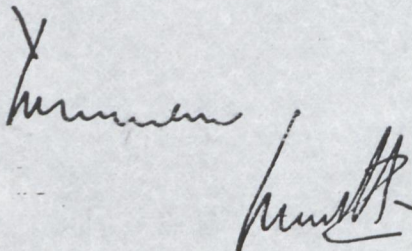
The North East UP allocation for 1986/7 is <sup>£35m</sup> £25m. If I were able to allocate an extra £7m on top of that, I could support a variety of useful projects directly related to economic regeneration in the region. I attach at Annex A a short list of examples of projects to which additional support would be given, under both programmes.

With only £13m additional resources, therefore, I should be able to direct help where it is most needed in the region, in a way which fosters much-needed private sector development. Under both the derelict land and urban programmes, there would of course be no relaxation in the substantially strengthened arrangements which I am making to achieve good targetting and value for money. But I



should stress that this additional support for the North East must be additional, since I cannot realistically propose extra help for the area within my Department's existing expenditure totals.

I am copying this letter to the Prime Minister, other E(A) colleagues and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Kenneth Baker', with a stylized flourish at the end.

KENNETH BAKER

EXAMPLES OF URBAN PROGRAMME AND DERELICT LAND RECLAMATION PROJECTS.

1. Urban Programme

- (i) Burton's Design Works (Gateshead) - conversion of redundant Burton's factory into exhibition space, workshops, offices to create a centre of design excellence;
- (ii) Shell UK site (S. Tyneside) - site preparation works for new factory for Stewart Crystal;
- (iii) Boldon Business Park (South Tyneside) - infrastructure for new commercial development area adjacent to Nissan factory;
- (iv) Youth Enterprise Centre (Sunderland) - managed workshops with strong emphasis on 18-25 age groups;
- (v) Southlands School (Middlesbrough) conversion of redundant school into starter workshops, office units and some community facilities;
- (vi) Old Post Office (Langbaugh) - conversion of former post office into small managed workshop.
- (vii) Youth Enterprise Centre (Middlesbrough/Stockton) - managed workshops ( 2 sites ) for start-up businesses (18-25 age groups).

2. Derelict Land

- (i) Hebburn Shipyard (S. Tyneside) - reclamation of 50 acres for private housing and light industry;
- (ii) North Sands Shipyard (Sunderland) - reclamation of 20 acres for industrial use - Nissan are negotiating to use the reclaimed site.
- (iii) Cargo Fleet Wharf (Middlesbrough) - reclamation of 8 acres for port related industry near to Smiths Dock.

(iv) Yarm Road (Stockton) - private sector reclamation  
for retail trading estate.

(v) Middle Dock (S. Tyneside) - private sector reclamation  
for offshore related industry.

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