

PRIME MINISTER

FLEET SUPPORT KING 20/20

You were sceptical of the proposition that the Royal Navy should be supplied from a small number of large, armed and very expensive ships. You declined to reply to a letter from Mr Hares arguing the case of the Fleet Support King 20/20 until you saw the MOD case argued more fully.

I attach a letter from the MOD setting out the arguments for their decision in favour of the AOR one-stop support ship. They say, however, that they have not ruled out a mixed fleet of armed and unarmed replenishment ships for the 1990s.

I find it difficult to judge the arguments. Commonsense would suggest that the one-stop AOR puts a lot of eggs in one expensive basket. If it is destroyed, you are in trouble. But I can't see much future for re-opening the decision this time round. The time to challenge the concept is when a decision has to be taken on further orders of support ships for the mid-1990s. You could give notice now that you will want a full interdepartmental discussion then, before MOD Ministers reach their decision. Agree?

Agree now to sign the letter to Mr Hares?

Yes

C.D.P.

Charles Powell

22 May 1986



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-930 7022

MO 26/3/1L

21st May 1986

Dear David,

Thank you for your letter of 8th May requesting further information for the Prime Minister before she responds to the letter from Philip Hares (British Shipbuilders) about the FSK 20/20.

The Royal Navy is currently replenished at sea by a fleet of 21 specialised ships - tankers for fuel, and a variety of store ships for ammunition, food and spares. In order to remain operational in war a warship would need to meet up every few days with each kind of replenishment vessel. Each task group of Anti-Submarine Warfare carrier, destroyers and frigates is usually supported by about 3 of these ships. This has a number of disadvantages:

- a. Loss of a single type of support vessel (eg ammunition) could jeopardise the operational capability of the whole task group.
- b. The warships spend considerable periods of time being replenished by each support vessel during which they are vulnerable to attack and not available for operations.
- c. To exploit towed array sonars which can now detect submarines at much greater distances, frigates need to be deployed well forward of the main task group; replenishment ships will be particularly vulnerable when circulating round these outlying frigates. Since the current support ships have no capability to defend themselves, frigates have to be deployed specifically to protect them when they are away from the main force.

To meet this new operating environment, the Royal Navy completely reassessed its replenishment concept when considering how to replace the current ships which will come to the end of

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their life from the late 1980s onwards. Extensive battle modelling pointed clearly to the "one-stop" support ships which could replenish warships with fuel, stores and ammunition simultaneously. These would both reduce the vulnerable time spent on replenishment at sea and give greater operational availability. Since each task group could be supported by 2 such ships, the loss of one of these, though damaging, would not immediately threaten the operational effectiveness of the whole task force since the other could supply the whole range of support required until a replenishment arrived from the UK base. Because the one-stop concept allowed a reduction in the number of ships, and because their operational role would put them at greater risk of attack, it was both prudent and affordable to give the new class a self-defence capability. This consists of both the Sea Wolf missiles (capable of dealing with all known Warsaw Pact aircraft and missiles) and a robust design so that the ship has a greater chance of surviving a hit. These features add about £30M to the capital cost but this is good value compared to the cost of the cargo which can be worth up to £150M.

The move to a one-stop ship also suggested a review of the amount of maintenance capability (particularly for helicopters) carried on frigates themselves, requiring expensive on-board support equipment. Studies showed that there were useful economies to be made by transferring much of this to the support ship. This has contributed to making the Type 23 frigate some 25 per cent (£35M) cheaper than its predecessor, the Type 22, and with a crew of only two thirds the size. Since the one-stop ship already needed to be able to operate a helicopter for replenishment purposes, the increase in capital cost was only some £10M.

All these factors were considered together in an extensive review by Defence Ministers in 1983. Other options considered included an even larger and more capable AOR, continuation of the traditional concept of specialised support ship, and 2 types of smaller, unarmed, one-stop ships based on commercially available designs. A summary of the investment appraisal undertaken is shown at Annex for the first six ships and, as you will see, the option A adopted was in the middle of the band. Although cheaper, the smaller one-stop ships were assessed to give poorer value for money overall when account was taken of their lack of self-defence capability and vulnerability if hit.

Nevertheless, the Department is keeping an open mind. Following E(A) decisions on AOR 01 and 02, we do not plan to order any more support ships before the end of the decade but there will be a natural opportunity to review the current Type 23/AOR approach as we move towards the second batch of Type 23s current due for introduction in the mid 1990s. The studies which I referred to in my letter of 7th May, therefore, look further at the possibility of a mixed fleet of armed and unarmed



replenishment vessels. The balance of helicopter support facilities between the support ship and the warship will also be reviewed, although any change here would require a compensating change in the Type 23 frigate.

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(RICHARD HATFIELD)

CONQUEROR

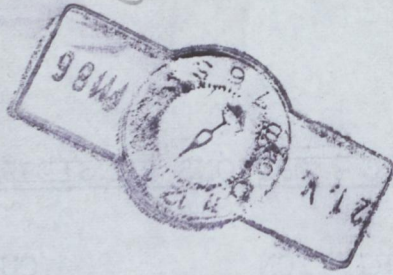
AOR - OPTIONS CONSIDERED

<u>OPTION</u>	<u>DESCRIPTION</u>	<u>CURRENT VALUE COSTS *</u> (£M Av 82/3 prices)	<u>DISCOUNTED VALUE COSTS *</u> £M
A	AOR to NSR 7012 (six ships)	1049.7	674.8
B	AOR to NSR 7012 with increased speed and complement (six ships)	1133.4	729.1
C	Single-commodity ship (6 tankers and 2 stores ships)	1166.4	742.3
D	One-stop commercial design vessel - STAT 32 (six ships)	826.3	532.4
E	One-stop commercial design vessel - STAFF 24 (six ships)	753.7	486.4

(* covers development, production and support for 6 ships
(or equivalent in the case of Option C) over the period
1983/4 to 2001/2)

Note 1. Option D and E fall far short of the requirement *and*
to be paid as all other capability

NAT. IND: Shipbuilding : Pt 10



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10 DOWNING STREET

THE PRIME MINISTER

23 May 1986

Dear Mr. Hares,

Thank you for your letter of 30 April about the Fleet Support King 20/20.

The navy at present has no approved requirement for a supply vessel of the FSK 20/20 type. However the possibility of a mixed fleet of armed and unarmed replenishment vessels has not been ruled out for the future, and the meeting to be held between British Shipbuilders and Ministry of Defence officials in June will allow a full discussion of your modified design.

But I fear that a requirement for a vessel similar to the FSK 20/20 is unlikely to emerge until the 1990s at the earliest. The MOD would of course want to mount a competition if and when the requirement arises, in which other shipbuilders would also have an opportunity to tender.

The Defence Sales Organisation will be very ready to help market your design overseas if you wish.

I am sorry that I cannot send a more encouraging reply. I very much admire the effort and skill which have gone into designing your alternative to the present AOR.

Yours sincerely
Margaret Thatcher

P.D.G. Hares, Esq., C.B.E.

Philip HARLES

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10 DOWNING STREET

From the Private Secretary

ack 1 May 1986

I attach a copy of a letter the Prime Minister has received from Mr. Phillip Hares, Deputy Chief Executive of British Shipbuilders.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, to reach me by Thursday 15 May.

(David Norgrove)

Richard Hatfield, Esq.,
Ministry of Defence.

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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





GR

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MO 26/3/1

7th May 1986

Prime Minister
I yield to none in scepticism about
MOD's procurement policies, but I
don't see much point in tackling them
about this now. They don't have the
money, we don't have the knowledge to tackle
them on the question of the need to stretch the
Type 23s, and there are bigger fish to fry.

Dear David

Your letter of 1st May sought advice and a draft reply to the letter which the Prime Minister had received from Mr Philip Hares of British Shipbuilders concerning the FSK 20/20. In view of tomorrow's E(A) discussion of British Shipbuilders I have, as requested, brought forward our reply.

As Mr Hares' letter recognises, the prospects for a naval order for the FSK are bound up with the AOR requirement which will provide essential support for the Type 23 frigate and replace the mixture of ageing specialist Royal Fleet Auxiliary ships. It will carry stores, ammunition and fuel, and be capable of simultaneous replenishment at sea of both liquids and solids, providing considerable operational advantages.

The FSK 20/20 design initially submitted by British Shipbuilders was for an unarmed fleet replenishment and support ship. It is a private venture, prepared by their merchant shipbuilding division and said to be aimed at the export market. Although it was not entered formally in the competition for the AOR, the MOD carried out a detailed technical assessment of the proposal. While the FSK offered about the same cargo capacity as the AOR at a price some 40% lower, the design fell short in a number of very important areas.

The FSK has no self-defence capability which is essential as the AOR will in essence be a front line ship operating alone in hostile waters and carrying supplies and embarked helicopters with a value of up to £150M. A second area in which the original FSK design fell short was that it could only replenish the Type 23 with fuel, as the positioning of its Replenishment At Sea rigs precludes replenishment of solids from alongside. In addition, the FSK lacked the essential EH101 helicopter support facilities which will be provided by the AOR.

D Norgrove Esq
10 Downing Street

*Letter for
your
signature
is below
DRS
8/5.*



British Shipbuilders were informed of these design shortfalls and the revised design referred to by Mr Hares has now been received by the MOD and responds to these points - although the price of £65-75M quoted by Mr Hares is viewed with some scepticism when compared with a quote of £65M for the original design.

It is intended that the first batch of AORs will consist of 6 ships, but the possibility of a mixed fleet of armed and unarmed vessels cannot be ruled out and we are studying the potential for such a fleet. This would, however, necessitate stretching the batch 2 Type 23 to give them their own helicopter support facilities and greater ammunition storage. This would, of course, increase the cost of the frigates and this would need to be assessed against any savings from the procurement of a cheaper support vessel. The meeting to be held with British Shipbuilders in June will be an opportunity for the MOD to discuss their design further, without commitment. If there was to be a requirement in the future for an unarmed support vessel to complement the armed AOR, it would, of course, still be necessary to put the order out to competitive tender.

I attach a draft reply which the Prime Minister may care to send to Mr Hares.

I am sending copies of this letter and the draft reply to John Mogg at the Department of Trade and Industry.

(RICHARD HATFIELD)

MO 26/3/1

do
I've much admire the effort and
skill which have gone into preparing
designing this alternative to ~~the~~ ^{the present} AOR
~~design.~~

DRAFT REPLY FROM THE PRIME MINISTER TO MR PHILIP HARES, BRITISH
SHIPBUILDERS

Thank you for your letter dated 30th April ~~concerning~~ ^{about} the
Fleet Support King 20/20. *R*

It ~~As you have said,~~ ^{know} the Navy at present ~~does not have an~~ ^{has no}
approved requirement for a supply vessel of the FSK 20/20 type, ~~But~~ ^{But}
~~but~~ ^{however} the possibility of a mixed fleet of armed and unarmed
replenishment vessels ~~cannot be ruled out for the future,~~ ^{has not been however been} ~~and~~ ^{and}
the meeting to be held between BS and MOD officials in June ~~must,~~ ^{is a course}
~~nevertheless,~~ ^{without commitment, but it will allow a discussion (full)} be non-committal on the part of the MOD but will
provide you with a valuable official assessment of your modified
~~and the Defence Sales Organisation is available to help~~ ^{and I am sure will provide you with a very ready}
~~market your design overseas,~~ ^{though I do recognise that your}
~~sales efforts will be inhibited by the lack of an order from the~~ ^{Royal Navy,}

If, in the future, a requirement for a vessel similar to
~~the FSK 20/20 should arise,~~ ^{arises} I am sure you will understand ~~that~~
~~that we would be obliged to mount a competitive procurement~~ ^{that we would be obliged to mount a competitive procurement}
~~route and offer the opportunity to tender to other shipbuilders~~ ^{in which other shipbuilders might also have an}
~~opportunity to tender.~~ ^{opportunity to tender.}
Such a requirement is not, ~~however,~~ ⁱⁿ likely to emerge until the
1990s at the earliest.

But I am afraid ~~that~~ ^{we} have made a

I am sorry I cannot be more helpful.

I really am very sorry that I cannot send a
more encouraging reply. *R*

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10 DOWNING STREET

From the Private Secretary

8 May 1986

FLEET SUPPORT KING 20/20

Thank you for your letter of 7 May, to which was attached a draft reply for the Prime Minister to send to Mr. Phillip Hares about the FSK 20/20.

The Prime Minister remains sceptical about the proposition that the Navy should be supplied from a small number of large, armed and very expensive ships. She would be grateful to know more about the basis on which this decision was taken and in particular to know what other options were considered, and why they were rejected.

The Prime Minister is unwilling to sign the reply to Mr. Hares until these points have been answered, and I should be grateful for an early reply.

DAVID NORGROVE

Richard Hatfield, Esq.,
Ministry of Defence

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