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P 02121

MR NORGROVE

Prime Minister 2

You might like to glance at paragraphs ³⁹ 67-68 and 76-81, at this stage, in advance of your meeting with the Sunderland delegation.

DHL 20/6

THE UK SHIPBUILDING INDUSTRY

I was asked at E(A) on 17 April to produce an interdepartmental report on the shipbuilding industry. Ministers wanted a broader analysis as background to the further specific decisions they will need to take in the coming weeks.

2. I have completed the report, agreed interdepartmentally and with the Policy Unit, and attach an advance for the Prime Minister. I shall circulate this to E(A) next week for consideration at the end of the month together with papers on British Shipbuilders (BS) and the MOD frigate orders. It will also provide background for the Prime Minister's meeting with the Sunderland delegation on Monday.

3. The report in essence:-

- describe the existing state of the industry;
- assesses prospects on present trends and policies;
- examines the case for Government intervention.

4. The picture is a very sombre one. Without further significant orders, BS could be out of business altogether in the next couple of years. On the warship side, there is only enough work for three of the existing five firms in the medium term and in theory the MOD's steel ship requirements could be met by two yards. In all this could lead to a further 10-15,000 redundancies in shipbuilding over the next three years, largely in the North East and the Clyde, together with as many redundancies in supplying industries.



5. This gloomy picture is not, of course, unique to the UK. The unprecedented recession in the shipbuilding market has caused severe contraction round the world. Only the South Koreans seem to have increased capacity and employment; even Japan has retrenched substantially (a 37 per cent reduction in employment between 1977 and 1985 - compared with 78 per cent in BS) and the once great Swedish industry has now folded up entirely. I was interested to note also earlier this week a leading article about the French shipbuilding industry in Le Monde which told a very similar story to that in this report and pointed towards similar conclusions.

6. The report's basic conclusion, in the light of strategic, competition and economic considerations, is that there is no case for any major Government intervention. As the Secretary of the Boilermakers section of the GMBU admitted in a letter of 17 June to the Financial Times earlier this week (17 June), "It does not make long-term sense to subsidise workers to produce goods no body wants". Accordingly, the report's recommendations focus on maintaining present aids to shipping and shipbuilding, and considering now how most effectively to develop and target existing job and training schemes, so as to cushion the effects of rundown on the areas worst affected. In this I have very much in mind the desirability of preparation well in advance; we must avoid recurrence of the situation of a few weeks ago when, in response to the BS redundancies, we put a rushed employment package together from scratch in little more than 24 hours.

6. I am, however, also very conscious of the political and social considerations that might make Ministers wish to go beyond the above conclusions. While further redundancies in this relatively small industry are not significant on a national scale, they will cause acute problems for the particular communities affected, most of which are already suffering serious unemployment and industrial decline. I have therefore included in the paper (paragraphs 67 to 77) a "menu" of alternative policy options which could be considered further if Ministers so wished.

J B UNWIN

20 June 1986
Cabinet Office

REPORT OF THE OFFICIAL GROUP ON THE
SHIPBUILDING INDUSTRY

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Advanced copy. To be circulated to E(A) after final checking.

REPORT OF THE OFFICIAL GROUP ON THE SHIPBUILDING INDUSTRY

INTRODUCTION

The British shipbuilding industry is in serious difficulties. Faced with an unprecedented world wide slump in demand, and cut throat competition from the Far East, it has long been in decline. Total employment in the UK in shipbuilding and shiprepair (excluding the Royal Dockyards) has fallen from over 91,000 in 1977 to only about 48,000 in April 1986. And recently the picture has become even more gloomy. Despite earlier contraction, there is still substantial surplus capacity for both merchant and warship building, and it is conceivable that British Shipbuilders (BS), for example, could find themselves without any work within the next one or two years while at least two of the warship yards face an uncertain future. Ministers will soon have to take a number of key specific decisions affecting parts of the industry: these include consideration of BS Corporate Plan with consequential decisions on the extent of external finance and contract support; a review of reports on Harland and Wolff (HW) including plans for overhead reductions, flexible working practices and prospects for penetrating the offshore market; and decisions on the procurement by MoD of Type 23 Frigates.

2. Since the Government effectively control the future of the industry, Ministers will be subject to intense lobbying when these decisions have to be made. As the owner of the major merchant shipbuilding yards (BS and HW) they are involved with, and identified with, decisions on closures, and they bear a substantial share of the cost. Moreover, the Government as providers of 'state aids' and export credits are seen to be in a position to help the industry. Although the warship yards have been transferred to the private sector, the Ministry of Defence is almost their sole customer, and the Government therefore effectively determine the future of this sector through their procurement decisions. In the past the Government have offered contracts preferentially to help the survival of particular yards, and will be pressed to do so again. The recent decision on the Auxiliary Oiler Replenishment vessel AOR 02 is an example of this.

3. Ministers have recognised the danger of making individual decisions in isolation against a background of intense political pressure and the need to take into account a variety of wider strategic, social, economic and competition policy issues. They therefore asked the Cabinet Office to set in hand an inter--departmental study on the shipbuilding industry (E(A)(86) 13th Meeting; also E(A)(86) 15th Meeting).

4. This report therefore reviews the background to the present problems, and attempts to assess the likely result of continuing with current policies. It then examines the case for Government intervention and identifies the cost of certain options. (Other relevant material will be presented in the context of the BS Corporate Plan.) The Report covers both the industry itself and the wider economic and regional policy consequences of any further decline. Although shipbuilding is no longer a major industry in this country - with about 40,000 employees in the major yards it is, for example, only a quarter the size of the coal industry or the post office and smaller than many service industries - it is of great significance to particular communities, many of which are already hard hit by industrial decline. The report therefore briefly reviews steps which might be taken to cushion the impact on these areas.

THE SHIPBUILDING INDUSTRY

Global perspective

5. Other countries face similar problems. The World market for merchant ships has suffered from the profound imbalance of supply and demand since the oil crisis of 1973. Large investment and new capacity in the early 1970s came on stream precisely as world trade fell away as a result of the first oil price increase. World output in 1974 was 20 million compensated gross tonnes (cgt). In recent years the level of output has fallen to 13-16 million cgt. The situation remains extremely depressed, and new orders last year were at an exceptionally low level - below 11 million cgt.

6. The slump in demand has affected the shipbuilding industry world wide in recent years. Japan's problems have been compounded by the appreciation of the yen against the Dollar, and they plan substantial cuts in capacity - perhaps by up to 30 per cent. The Koreans appear to have decided to shelve any plans for increases in capacity, but to preserve existing capacity. Western European shipbuilders continue to decline. Between 1976 and 1984 the UK capacity has been cut by 55 per cent, German by 50 per cent, and France by 20 per cent. The

Major Shipyards in the UK

- Merchant Shipbuilding
- ▲ Warship building

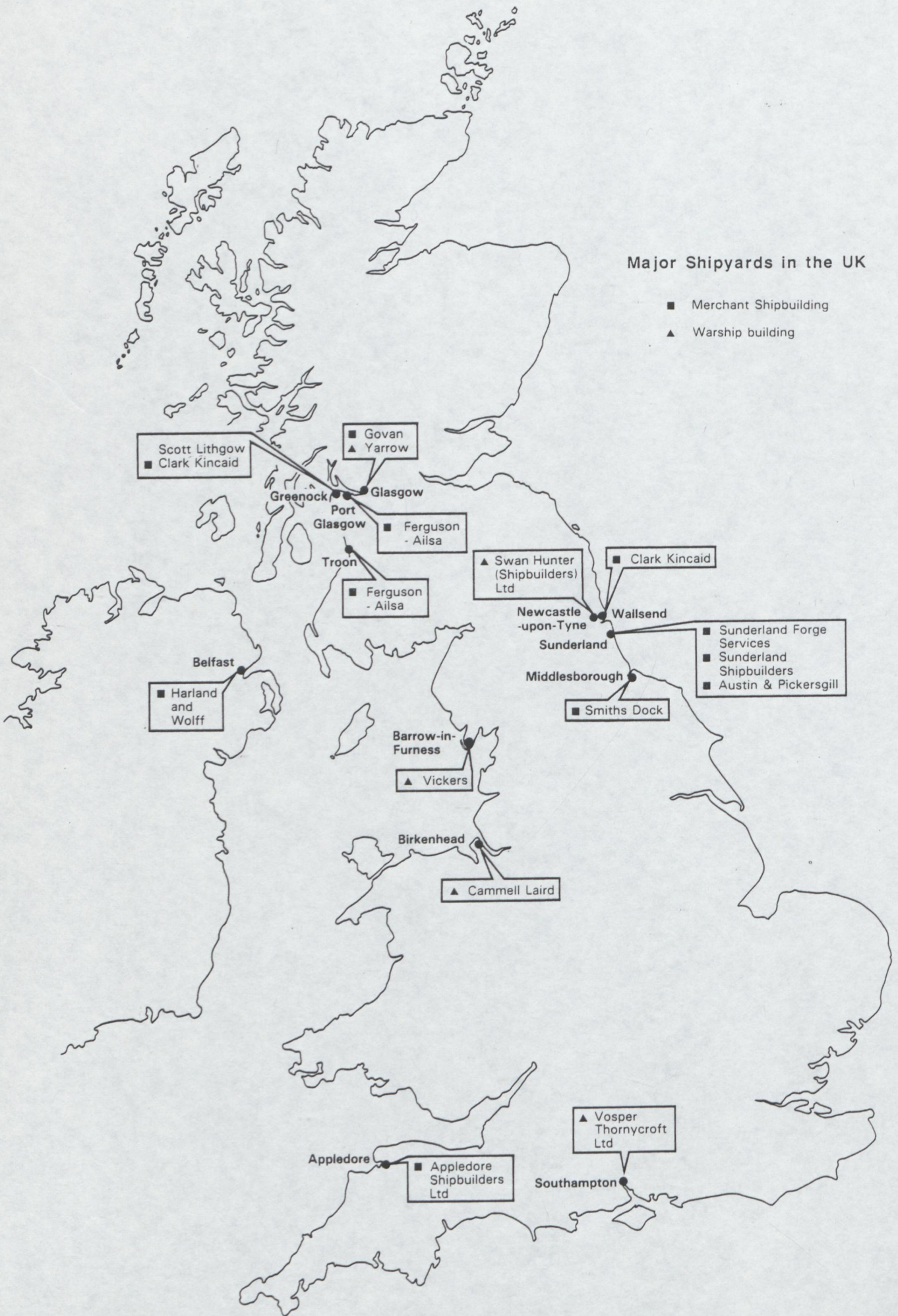


Table 1

MAJOR SHIPBUILDING YARDS IN THE UNITED KINGDOM

Region (Unemployment Rate)	Yard	Employment	Unemployment		
			Travel to Work Area\$ rate	no	
Northern (19.1 %)	Austin & Pickersgill	1,238	Sunderland	22.3%	38,538
	*Clark Kincaid	382	Newcastle	18.9%	67,848
	*Smith's Dock	1,534	Middlesborough	23.0%	30,201
	Sunderland Shipbuilders	1,869	Sunderland	22.3%	38,538
	Swan Hunter	4,500	Newcastle	18.9%	66,848
North West (16.3%)	Vickers	8,750	Barrow	11.18%	42,888
	Cammell Laird	1,320	Wirral and Chester	18.4%	39,186
South East (10.1%)	Vosper Thornycroft	2,700	Southampton	11.2%	19,610
South West (12.2%)	Appledore	650	Bideford	19.9%	1,790
Northern Ireland (21.7%)	Harland and Wolff	4,900	Belfast	18.3%	62,118
Scotland (15.8%)	Clark Kincaid	536	Greenock	21.5%	10,206
	Ferguson Ailsa	420	Greenock		
	*Ferguson Ailsa	378	Ayr	14.7%	6,961
	Govan	2,348	Glasgow	17.6%	113,579
	Scott Lithgow	1,560	Greenock	21.5%	10,206
	Yarrow	4,600	Glasgow	17.6%	113,579

* closure announced.

\$April 1986 figures

Swedish industry, once the third largest, has closed completely.

United Kingdom Industry

7. The merchant shipbuilding industry in the United Kingdom comprises BS and the small private sector yards in Great Britain, and HW in Belfast. The warship building industry is largely distinct, and comprises five major yards, all now in the private sector; in addition a dozen smaller yards mainly in the private sector meet MOD's requirement for small vessels. The main yards are shown in the following map, and listed in Table I. Total employment in shipbuilding in the UK has fallen from about 82,000 in 1977 to some 42,000 in April 1986. Most of the decline has occurred in BS' shipbuilding and engine-building operations where numbers employed have fallen from 45,000 in 1977 to 10,000 in April 1986, and are planned to fall to 6,200 by next year. In addition, there is a large marine component sector. Numbers employed cannot be established with certainty but up to two thirds of the cost of a ship is accounted for by bought-in materials, equipment and services. The ship repair industry is also largely distinct, and is described separately in Annex A.

British Shipbuilders (BS)

8. BS was formed in 1977 on the nationalisation of the major British yards. Capacity has fallen from about 600,000 cgt a year in 1977 to about 250,000 cgt now. BS announced in May the closure of about a third of the current capacity, and once that is complete their remaining facilities will be those based at Appledore (North Devon), Ferguson - Ailsa (Port Glasgow), Govan (Glasgow), and Austin & Pickersgill and Sunderland Shipbuilders (Sunderland). Details of these yards are shown in Annex B. BS also have a marine engine building capacity, employing about 900 now. The Wallsend site is, however, due to close this year, leaving a single operation at Greenock (500 employees).

9. In view of the uneconomic prices for ships generally and the particular advantages of shipbuilders in the Far East for simple ships (tankers and bulk carriers), BS have effectively withdrawn from this sector. Since October 1983 their primary objective has been to concentrate on developing the cost--effectiveness of their mainstream merchant business. BS' marketing strategy has been to seek niches within the market, for example offshore diving and support vessels or ferries, where their ability to build sophisticated and

technologically complex vessels put them in a better competitive position. They are also seeking markets for simpler vessels where the ability to offer complex financial packages is an advantage.

10. At March 1986, work in progress totalled 193,000 cgt. The greater part of this will, however, be completed by the end of this year. Their current problems arise because instead of their budgeted order intake of 200,000 CGT in 1985-86, (compared with an actual 200,728 CGT in 1984-85), they won only 23,000 CGT.

11. Since 1983 the Government have supported BS' strategy within a framework of tight and decreasing financial support. Support levels have been set so as to put BS on a downward 'glide path'. The Government have not imposed a specific capacity target: if, through improved performance, BS could maintain a higher level of activity within the same financial constraints there would be less pressure on them to contract. This strategy was intended to bring BS closer to a normal commercial basis of operation, although it has always been recognised that they would not be able to operate without subsidy in the foreseeable future.

Harland and Wolff (HW)

12. HW is the second largest manufacturing employer in Northern Ireland, accounting for 5 per cent of manufacturing employment. Between World War II and the late 1960s HW built a wide variety of vessels - merchant, passenger and naval - with a workforce of over 20,000 and some 17 slipways. They reinvested in the late 1960s and early 1970s to concentrate on very large tankers and bulk carriers, but completion of this reinvestment coincided with the oil crisis of 1973 and the recession in new building. HW have been incurring losses since the early 1960s; by 1975 these had grown to the point where public ownership was the only alternative to closure.

13. Since that reinvestment, HW have closed all the slipways, building solely in the dry dock, and have halved the workforce. Their three major activities are shipbuilding and major conversions (employing 4100), engineering and engine building (640), and shiprepair (200).

14. The yard has aimed at diversifying away from large, relatively unsophisticated vessels such as tankers and bulk carriers into more complex tonnage, including offshore vessels, reefers and naval auxiliaries. They have met some success, but the sheer size of their physical facilities gives them an incentive to seek a base load of large unsophisticated tonnage in order to spread overheads.

15. The Government have recognised that there is no commercial case for preserving HW, but they have agreed to continue support (funded by the NI block budget) in view of the company's importance in regional, economic and political terms. The Government's main aim has been to reduce the company's external financing requirements, currently running at £38.5 million per year. A system of Contract Support Limits has been introduced in order to strengthen control over the company, and to force it to reduce its losses from both contracts and overheads. The financial discipline attached to the award of AOR 01 should further strengthen that control, and Ministers have agreed that failure to perform on the AOR contract could result in closure. The Government have also sought urgent studies of the scope for reductions in overheads, increased contracting out, and greater flexibility in using the workforce: reports are due shortly. Decisions will be required on the total level of financial support for the yard in 1987-88.

Scott Lithgow (SL)

16. SL is sui generis. It was sold in 1984 by BS to Trafalgar House, who intended to develop the business as a mixed purpose yard for offshore, merchant and warship work. Direct employment has fallen from 5,000 to 1,560 as the remaining major work - a rig for Britoil - nears completion. The yard also uses nearly 500 sub-contract staff. All attempts since the sale to obtain significant new work of any kind have been unsuccessful. For the purposes of this report, we treat SL as a warship yard.

Smaller Shipbuilders

17. There are some two dozen shipyards in the UK that have the facilities to build ships in the range 100 to 3500 gross tonnes. Total employment work is 2,000 - some 1200 on merchant work, and 800 on work for MoD. As the public sector merchant shipbuilding component shrinks, these small private yards (the largest of which are in East Anglia, Humberside, Merseyside and Aberdeen) become relatively more significant. Even so in March 1986 their order books accounted

for only 13 per cent of the total UK merchant order book. A number have recently built smaller vessels for the MoD or for foreign navies, and they are also involved in refit work. Generally, these yards require subsidy for merchant work but are able to make a profit on very small vessels eg fishing vessels or on MoD work. Many of them, however, are loss-making or barely profitable (three have closed in 1986) and many would go out of business if subsidies were withdrawn.

Warship Building

18. There are five major yards currently involved in new construction for the navy. All were previously owned by BS, but have recently been privatised. They are:

Vickers Shipbuilding and Engineering plc, (VSEL) at Barrow-in-Furness ('Vickers') and Cammell Laird Shipbuilders (CL) in Birkenhead owned by an Employee Consortium.

Yarrow Shipbuilders Ltd (YS), on the Clyde owned by GEC

Swan Hunter (Shipbuilders) Ltd (SH) at Newcastle-upon-Tyne, owned by management

Vosper Thornycroft Ltd (VT) in the Southampton area, owned by management

Scott Lithgow (SL) on the Clyde, owned by Trafalgar House.

19. The yards have a substantial programme of work and employ 28,700 people. There are over 20 major warships currently on order, and due for completion over the next four years or so. Details of employment and current workload for each yard are shown in Annex C. In addition HW have recently re-entered the Defence field as a builder of Auxiliary Vessels.

Marine Equipment Industry

20. Since up to two thirds of the cost of a ship arises from bought-in components, materials and services, the numbers employed in the ancillary industries supplying UK yards may be comparable to those employed in shipyards. The most important sector is the marine equipment industry. This consists of a wide range of firms, some dedicated solely to supplying the shipbuilding/boat-building sectors, whilst for others marine equipment represents only a small

proportion of their total output. Despite contraction in world markets, the main trade association for marine equipment claims that over 70 per cent of its members' output is exported, indicating a sound engineering and design base in the UK. Nevertheless they regard the UK market as an essential springboard for their continuing ability to export. Generally, however firms in the field of equipment supply for warships are not now predominantly dependent on work for the shipbuilding industry for their survival. In the light of the decline in merchant shipbuilding, MOD workload and the MoD competition initiative firms have generally diversified.

STATE AIDS FOR SHIPBUILDING

Support Mechanisms

21. The main mechanisms of support for the merchant shipbuilding industry are:

- a. the Shipbuilding Intervention Fund (IF) under the Industrial Development Act 1982, from which the Government can pay grants to shipbuilders in Great Britain up to 20.5 per cent of the contract price of a ship to match foreign competition. Northern Ireland runs its own scheme for HW with a maximum grant level of 25.5 per cent for very large ships, otherwise 20.5 per cent. IF expenditure on BS and HW falls within their External Financial Limits (EFL). Expenditure on IF for the private sector runs at a low level, estimated at £4 million in 1986/87;
- b. the financing of BS' and HW's working capital and losses through the External Financing Limit (EFL). BS' EFL for 1986-7 has been revised upwards from £73 million to £130 million, largely to cover closure costs and the creation of British Shipbuilders Enterprise Ltd. Of this, £95 million is for trading purposes (and includes IF payments of £25.5 million), £5 million is for BS Enterprise Ltd, and the remainder is for restructuring. HW's 1986-7 EFL is £38.5m;
- c. the Shipbuilding Home Credit Scheme under which, in accordance with the terms of the OECD understanding, the Government offer fixed rate credit comparable to export credit. The terms available are an 8 1/2 year repayment period at 7.5 per cent interest rate. The Department of Trade and Industry operate the scheme for all UK shipbuilders, including HW and the private sector. The main cost is the interest support for

past orders - the latest estimate for 1986-87 is £34.4 m;

d. the Shipbuilding Redundancy Payments Scheme (due to end at 31 December 1986) to meet most of the costs of redundancies from BS. Estimated cost in 1986-87 is £16.7 m. Northern Ireland runs a parallel scheme for HW, at a cost of £2 m this year.

e. all merchant ships built in the UK are eligible for a relief (known as shipbuilders' relief) from hydrocarbon and motor vehicle licence duties valued at 2 per cent of the contract price of a ship.

22. It has recently been confirmed that in appropriate cases, merchant ships are eligible (like other sectors of industry) for the Aid and Trade Provision (ATP). No recent contracts have been won using ATP but BS are pursuing an order from China under the ATP soft loan facility.

23. In addition long term export credit cover from ECGD is available for both warships and merchant ships. Although terms might be varied to meet competition, ECGD's normal approach is as follows:-

i. for merchant ships to apply the terms of the OECD Understanding on Ships (ie a maximum credit of 8 1/2 years from delivery with interest at 7.5 per cent). These are the same terms as offered for the Home Credit Scheme and although the credit repayment period is less than for some other major exports (eg 12 years for large jets, 15 years for nuclear plant) the interest rate involves a significantly larger subsidy than for other exports subject to the general OECD Consensus (under which minimum interest rates currently range from 8.8-11.2 per cent).

ii. for warships, although these are not governed by either OECD agreement, the maximum credit period is 8 1/2 years and standard Consensus interest rates are applied. Thus the terms are marginally less good than for other industries but are the same as for other arms sales.

Amount of Government Support

24. Government support to the shipbuilding sector (including redundancy and closure costs) from 1 April 1979 to 31 March 1986 amounted to £2,232 m (excluding ECGD interest rate support). Of this, £1092 m has been paid directly to BS and £225 m to HW, to fund capital expenditure (including for the now privatised warship yards), losses restructuring and closure costs and working capital, and £294 m by way of IF payments (£235m for BS, £41 m for HW and £18m for the private sector). The net cost of the Home Credit Scheme in this period is £359m. In addition redundancy payments under the SRPS amount to £195 m of which £177 m is for workers from BS and £18 m for those from HW.

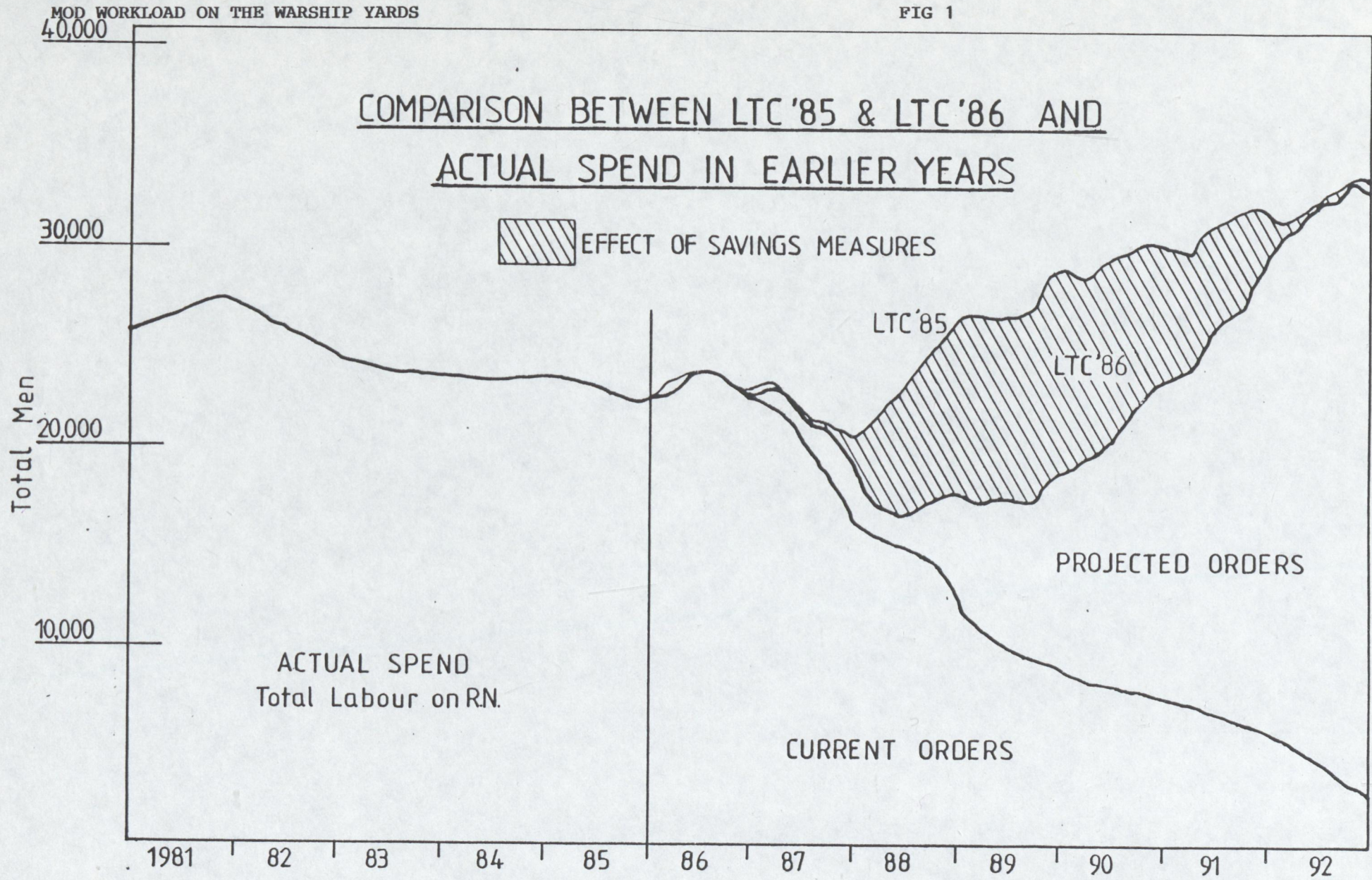
25. The current annual cost of supporting the merchant shipbuilding industry (ie excluding restructuring and redundancy costs and the interest support costs on ships long completed but including an estimate of the Net Present Value of the interest support costs of new contracts undertaken in 1985-86) is £125 m (of which direct support to BS is £78 m, IF for the private sector is £4 m, interest support costs are £5 m and direct support for HW is £38 m). Ship subsidies are generally in the range 30-50 per cent of the total cost.

European Community Aspects

26. All aids to merchant shipbuilding in the Community are currently governed by the Fifth Directive on Aids to Shipbuilding which expires on 31 December 1986. The Fifth Directive is aimed primarily at direct production aids (such as our IF arrangements) which are permitted in exchange for commitments to restructure the industry to reduce the degree of overcapacity) and at credit regimes. It does not attack indirect support such as favourable tax regimes for shipowners or investors or mixed credit arrangements. The Fifth Directive will need to be replaced or prolonged if state aids are to be permitted after that date. The UK has been pressing for a more equitable regime which looks at the totality of aid both direct and indirect. The Commission seem reasonably favourable to this but have yet to table proposals. It seems likely that they will seek to impose a common basic ceiling on production aid, taking into account all forms of aid bearing on the costs of new ships to their owners. In addition, they may propose an additional element of aid for new orders from less efficient yards linked to irreversible restructuring resulting in improved productivity. Whatever regime is eventually agreed seems likely to place a continuing constraint on the UK's freedom of action.

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FIG 1



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although it is possible that the recent fall in oil prices will stimulate the demand for ships somewhat earlier than previously forecast. Whether the upturn will quickly restore the market to balance and thus enable merchant shipbuilding to be profitable or at least unsubsidised will depend on whether the Japanese and the Koreans cut capacity in the interval.

Oil

30. The Offshore Oil Sector also provides a potential market and we have examined the possibilities here. Traditional shipyards lack the facilities and skills to build jackets or modules for fixed platforms, but can offer service vessels, including diving support vessels, supply boats, and semi-submersible drilling rigs. At present UK yards (mainly BS and HW) have about £250 m of work in hand for this sector. Their performance has been patchy, with a number of contracts running very late, although some yards have a good reputation for supply boats. In general, however, the prospects for offshore related work in the short-term are very poor. With the dramatic fall in oil prices exploration has been cut back, and several potential new projects have been postponed. On a longer time scale, up to 15 new supply vessels a year will be needed to replace existing fleets, and UK shipbuilders might expect to secure about 6-10 of these. The Offshore Supply Office has an initiative in hand to improve the UK market share, but it is clear that this sector does not offer a significant lifeline to the UK Shipbuilding industry.

Defence Procurement

31. The 1981 Defence White Paper 'The Way Forward' (Cmmd 8288) made it clear that there would be a reduction in the scale of new warshipbuilding and therefore in the work load for the industry. The Falklands campaign has slowed the run down.

32. There remains considerable uncertainty over the resources which the Ministry of Defence is likely to be able to devote to new shipbuilding orders. Following seven years of real growth to 1985-86, on present public expenditure plans the defence budget will decline by 6 per cent in real terms over the next three years. Following the 1986 Long Term Costing exercise, the Ministry has concluded that in order to maintain balanced forces overall while keeping within financial constraints the new ship programme will have to be cut back, with Type 23 frigate orders up to 1988 reduced from 7 to 4 and a one year delay to minehunters. Figure 1 shows the pattern of current and projected orders until

1992. This shows a decline in workload from the current year until 1988, rising again in the early 1990s (on the assumption, which Ministers have yet to consider in the PES context, that the defence budget remains level in real terms after 1988-89).

33. There is also the possibility of building warships for export (see paragraphs 28 above). But in the medium term the prospects for sales of complete warships are poor; the only prospect recently in view - two frigates for Pakistan - has receded.

34. Overall, currently forecast RN and export orders are likely to result in a general contraction and the closure of at least two of the five warship building yards, although, depending how orders are placed, the navy's workload could be sufficient to sustain four in the 1990s.

Future Concepts for Warships

35. The Type 23 frigate and Auxilliary Oiler Replenishment Vessel are planned to account for the bulk of warship procurement (outside the specialist submarine area). With the EH101 helicopter, they reflect a new concept to exploit the towed array sonar (which allows Russian submarines to be detected and engaged at long ranges). There will be a natural opportunity to review the new approach as MoD move towards the second batch of Type 23s. Amongst the factors to be reviewed will be:

- a. An unarmed (and hence cheaper) support ship (possibly on the lines of the BS FSK 20/20) linked to a frigate with an enhanced frigate capability;
- b. Developments in new weapons technology;
- c. The outcome of the enquiry into hull shapes.

36. However, even if a change of approach were adopted, this would not have significant implications for the warshipbuilding industry in the 1980s. At least 3 years are needed to work up the design of any new frigate and begin building the first of class before follow-on production can begin. New designs of support ship can be produced more quickly, but none is scheduled beyond the second AOR for this period.

37. In the longer-term MoD is interested in unconventional hull forms, particularly the Small Waterplane Area Twin Hull (SWATH) - a development of the catamaran - and the Surface Effects Ships (SES) - a hybrid between hovercraft and catamaran. There are several small design houses promoting such ideas along with the established firms and the ships could be built in existing frigate yards.

CONSEQUENCES OF CONTINUATION OF EXISTING POLICIES

38. This precise course of developments is, of course, impossible to forecast, But this section attempts to forecast the consequences of continuing with existing policies over the next few years. It is not possible to produce more than a broad brush picture, and, for the merchant ships at least, actual events will depend mainly on developments outside the control of the UK Government.

Prospects: Merchant Yards

39. For BS, the present order book will be exhausted by mid-1987. Their future even at their new reduced level of capacity therefore depends on winning sufficient orders for new work in the very near future. Although they are currently pursuing some quite hopeful prospects none can yet be guaranteed. They will undoubtedly find it difficult to fill their remaining yards in the face of substantial world over-capacity, and with the Far East competitors able to undercut European prices even after allowing for state aids. Unless new work is found quickly, there will therefore be further contraction beyond the 3,500 redundancies announced in May. Since overhead recovery becomes an increasing burden as the workload diminishes it is not inconceivable that BS could be disbanded by 1988 with most, if not all its yards closed. This is made clear in the new BS Corporate Plan which asserts that if the order book in 1986-87 is as low as in the previous year, then in 1987 BS would cease to exist unless it were decided that a minimum level of capacity should be maintained despite the absence of any work.

40. HW's current order book is longer but will be exhausted on completion of AOR 01 in 1989-90. The company is exposed to the same general market pressures as BS in the merchant market, save that its capacity, unique in the UK, to build the largest vessels enables it from time to time to gain orders in this category albeit often at unattractive prices. The company has been looking to the possibility of taking off-shore orders as a means of providing a continuing

workload, but as explained in paragraph 30 above, this market segment is unlikely to offer much in the next few years. Prospects of follow on AOR orders are low before 1990 (unless SH decline AOR 02).

Prospects: Warship yards

41. For the Warship yards, the continuing demand for naval vessels will ensure that a core of the industry survives, but since there is substantial overcapacity few individual yards are guaranteed a future: in theory, VSEL/CL (at Barrow and Birkenhead) and one other yard would have sufficient physical capacity to meet the entire requirement for steel vessels. The precise future shape of the industry will be determined by the effect of individual procurement decisions. The general policy of the Ministry of Defence for achieving value for money in defence procurement is now based on competitive tendering wherever possible (although Ministers have on occasions diverted orders for wider political or other reasons). This produces the greatest pressure for efficient management, improved productivity and innovation in design, and encourages firms to put forward novel and more cost-effective ways of countering the Warsaw Pact's capabilities.

42. The outcome of competition alone is unlikely to be the sole consideration in placing contracts. For example, if contraction has already reduced the field for a given vessel type to two firms, as seems inevitable in some areas given current overcapacity (and assuming no Government intervention), the Government could be faced with awkward choices of either departing from strict competition in order to sustain the second yard for competition on future contracts or relying on overseas competition. Nevertheless it is possible to suggest the following outcome of a pure competitive regime:

- a. VSEL/CL (but not necessarily the Birkenhead yard) survives because it is the sole source for nuclear-powered submarines.
- b. SL closes.
- c. if SH are unsuccessful in the current frigate competition (ie no more than the one frigate promised) they will be in jeopardy.

d. if VT do not secure a frigate order at home or abroad they will face a serious work shortage in 1988-89 (but MoD would not be sufficiently concerned to take special action at this stage to preserve their specialist Glass Reinforced Plastic design capacity).

e. YS will be in serious difficulties if they do not win frigate orders.

43. On the basis of the currently planned pattern of work and assuming a competitive regime there should be enough work to ensure the survival of three of the existing five firms in the medium term. But this would still imply 6,000 more redundancies at Newcastle, on the Clyde and around Southampton.

Summary of Prospects

44. To summarise, if present trends continue there is likely to be a considerable further retraction in both merchant and naval capacity. In all there might be a further 10-15,000 redundancies largely in the North East and the Clyde over the next three years. There would also be almost as many redundancies again in the supplying industries, but relatively few firms depend solely on shipbuilding for their survival.

45. The scale of possible redundancies must however be seen in the context of of recent changes in this and other industries. Only five years ago BS employed 20,000 on merchant shipping compared with 6,500 who will be employed by the end of this financial year. The National Coal Board made 36,500 miners redundant in 1985-6, and on present plans another 28,250 will leave by 1990. Employment at British Leyland has declined by some 44,000 over the past five years after taking account of the privatisation of Jaguar. The number of employees at the British Steel Corporation has fallen by over 110,000 over the past six years. The National Bus Company expect to make up to 7,000 driver/fitters redundant in September this year while a further 9,000 redundancies are expected to be announced by the PTEs following deregulation. The reorganisation of BREL is likely to lead to between 6,000 and 7,000 job losses in the next three years. Many of the above job losses will be concentrated in areas where unemployment is already high such as the North East and Scotland. None of these developments makes the further likely job losses in the shipbuilding industry easier to bear in the areas affected (nearly all of which are already suffering from industrial decline and high unemployment). But we believe it right to view these losses in

the wider perspective of the economy as a whole, while recognising the difficulties which regions such as Northern Ireland, Clydeside and the North East are experiencing in participating in the functioning of the national economy..

THE CASE FOR GOVERNMENT INTERVENTION

46. Against this gloomy prognosis, Ministers will wish to consider whether there is a case for the Government to intervene to prevent further contraction or the possible closure of the merchant shipbuilding industry and a contraction of the naval yards, for wider strategic or economic reasons.

Strategic Case for Maintaining the Shipbuilding Industry

47. As a Maritime nation Britain depends on its fleets for trade and defence. It has therefore often been argued (frequently of late in Parliament) that the United Kingdom must maintain an indigenous shipbuilding industry for strategic reasons. Indeed the argument is often expressed far more widely on the lines that maritime commercial and national interests - the merchant navy, the Royal Navy, shipbuilding, fishing, seabed resources, law of the sea issues, ship broking, marine research, marine insurance, carrage of imports and exports by sea - are of such special importance to the UK as to require a 'maritime policy' and far greater co-ordination than there is at present. We examine these arguments briefly below.

The Merchant Fleet

48. The number of ships on the UK register - about 670 of over 500 grt - has been falling as many companies are increasingly using foreign registers where operating costs are lower. The Government's policy is to come to terms with this inescapable fact: accordingly various means are under consideration for ensuring that as far as possible vessels on foreign registers can be readily made available in an emergency. For strategic purposes, the UK fleet is therefore most appropriately defined by reference to vessels owned or controlled from the UK. This comprises some 900 vessels, of which about 30 per cent were built in the UK.

49. Merchant vessels would have two distinct functions in times of tension or war: to operate in support of the armed services, and to maintain the flow of essential imports to support manufacturing and the civil population.) Recent studies by the Department of Transport have shown that adequate ships are available to meet the first requirement, although certain deficiencies may arise in the near future and measures are being considered to deal with them. As for the second function, there would certainly be a significant shortage of some types of vessel during the first two months of a major conflict, but NATO pooling arrangements exist to help deal with national problems of this kind and a study by the Alliance is in hand to assess the adequacy of the pool.

50. It is at present possible to have all types of merchant vessel built overseas, and there is no reason to expect this to change in the future in peace-time. In a period of tension or war, however, it is likely that many or most overseas sources would not be available. The value of UK sources at such times would, however, be limited.

- a. they would of course be liable to attack and would therefore not be an absolutely secure source;
- b. given the scale of merchant shipping that would be needed and the attrition that could be expected in war, the contribution that the UK shipbuilding industry could make, while helpful, would be relatively small;
- c. the lead times for building ships are longer than UK endurance planning assumptions.

The Group's view, therefore, is that that the strategic need to preserve the UK's present merchant shipbuilding capability is not great enough to justify very substantial public expenditure.

51. There is however, a strategic requirement for repair facilities. If Europe were reinforced a large number of ships would be involved in supplying the UK, and facilities would be needed to carry out repairs to keep them servicable. At present this requirement can be more than met by the existing ship repair industry (described in Annex A) and does not affect our basic judgements on the shipbuilding industry.

Warships

52. In the case of warship building, it is clearly more important that there should be an indigenous industry. As a matter of policy, the possibility of procuring naval ships overseas is not ruled out, but in practice it is difficult to integrate the advanced weapons systems (which account for over 50 per cent of cost) into ships from other countries. Overseas procurement of major warships would also, of course, be politically controversial.

53. From a strategic viewpoint MoD has an essential requirement to maintain VSEL for submarine design and construction (VSEL/CL capacity then provides a capability for many other areas too). For the medium-term it is also necessary to sustain YS's capability for the design of frigates and VT for GRP ships. In the longer-term it might be possible to consider relying on foreign sources in some areas if this proved economically sensible and was acceptable to Ministers politically. But this is not a practicable option for the period to the mid 1990s because the first of class new ships - SSBN, Type 23 frigate, the new minehunter, AOR, and Upholder Class submarines - are already being built domestically. In any case, as has been indicated in paragraphs 43-41 above, there is more than enough UK capacity to meet any foreseeable naval requirements.

Competition Policy

54. Given the availability of ships from elsewhere there are clearly no competition reasons for maintaining UK merchant shipbuilding capability. But as indicated earlier, there may be a case for ensuring that sufficient yards remain in business to provide competition for future naval procurement. The MoD would like to have as many competing sources available as possible for its orders. For small craft it is common to have 6-10 small yards tendering. But

for major warships, which require a complex mix of different specialist skills to be brought together on each of a limited number of vessels, a wide spread cannot be expected. The major benefit comes from the absence of monopoly (ie where there are two fully fledged competitors); this immediately puts both firms under pressure for efficiency and innovation. While there are some extra benefits from a wider spread of three or more firms, the MoD's experience is that the major step change comes from preventing a single firm from controlling the domestic market.

55. The strategic requirements coupled with the limits on the capacity of individual yards will together ensure at least competition between two firms for most foreseeable ship orders to the mid 1990s (other than nuclear submarines, where there is only one supplier). VSEL and YS would be competitors for frigates and SSKs (covering 17 of the 22 major orders envisaged up to 1991 outside the nuclear submarine area); YS and VT would compete for the 8 GRP minehunters. Thus the Department would have to consider special steps to preserve competition for VSEL on the AOR (and in the longer-term other larger ships) only if all of SL, HW, and SH were in jeopardy - a fairly remote contingency.

56. Given its stretched programme, MoD is unlikely to be able to justify devoting resources specifically for increasing competition in shipbuilding beyond a field of two. Such resources would almost certainly give a better return in breaking monopolies faced by the Department elsewhere, for example in aircraft or weapon production or among specialised sub-contractors.

57. In short, the strategic considerations above and competition policy point to the same conclusion:: so long as VSEL, and YS, together with one of SL, SH and HW for the support vessels survive, the Navy's requirements can be satisfied competitively.

Economic and Social Considerations

58. Any further decline in the shipbuilding industry is likely to give rise to increasingly strident calls for the Government to take action for wider economic or social reasons. It will be argued that the Government have a duty

to prevent the extinction of this sector, particularly since the areas which will be hardest hit - the North East and Clydeside - already have exceptionally high levels of unemployment. Greenock/Port Glasgow, for example, already has a male unemployment rate of nearly 26 per cent, and this would rise to over 32 per cent if Scott Lithgow were to close.

59. The fact is, however, that shipbuilding is no longer very significant to the national economy overall. The direct contribution of BS and HW to GDP appears to be negative. They account for about 0.05 per cent of the UK employed labour force, and there are at least 200 larger companies in the UK. BS is, for example, about a tenth of the size of Marks and Spencer. Its turnover is similar to that of a single large engineering company.

60. Although the economic case for sustaining the merchant shipbuilding industry is undoubtedly weak, the argument has been made that the Government should not let the industry run too far down when there may be a significant upturn in demand in the 1990s, and shipbuilding worldwide may once more become profitable. This argument is advanced in the new BS Corporate Plan. It is, however, more speculative whether even in these circumstances shipbuilding in Europe generally or the UK would become profitable. On the other hand, while the capital costs of entering the market are not high, all new entrants start building simple standard ships and it takes a long time to acquire the necessary skills to build sophisticated vessels (even now the Japanese appear not to be competitive for passenger ferries). It could be argued, therefore, that if the UK were to withdraw from the large merchant shipbuilding sector, it might be difficult later to reassemble the necessary skills to re-enter and we would therefore lose the capability of operating in a potentially (but not certainly) profitable sector. Since, however, the prospect is so speculative the Group as a whole do not regard this as invalidating the general economic conclusion above.

61. The DTI, in their analysis of BS Corporate plan, will prepare detailed costings of the effect of rapid closure of BS' merchant operations. This will include the effects on ancillary industries. Preliminary figures indicate that the full costs to the Exchequer on top of those for the current round of

redundancies, could be of the order of £114 m using a three year re-absorption and £235 m using a five year re-absorption period, though in the main areas affected it could take much longer for everyone to be re-employed.

62. Any closures would, however, have a significant local impact on the communities concerned, increasing substantially (in the short term at least) levels of unemployment. Some communities - Sunderland, Belfast or the Clyde - have traditionally looked to shipbuilding as their main employment, and there is considerable local pride associated with each yard. Moreover, the shipbuilding industry has naturally been concentrated in areas of heavy engineering activity which have been severely hit by the restructuring in the coal and steel industries. Even though job losses may be absorbed in the economy as a whole, this will take much longer in local areas. There may therefore be a social argument for action to alleviate unemployment, at least in the short-term while local communities adapt.

63. Shipbuilding is particularly significant in Belfast: Northern Ireland has neither a coal nor steel industry, and HW is the only heavy industry in the Province. A study undertaken jointly by NIO and the Treasury and presented to E(NI) in July 1983 concluded that, whereas the job losses associated with closure of HW might be absorbed in the national economy within 5 years, the local Northern Ireland economy would be unable to replace jobs lost locally at the same rate; rather there would be a substantial increase in unemployment which could take up to 15 years to clear. The regional economy has since continued to decline and overall unemployment is projected to increase significantly in the medium term. The importance of HW has if anything increased in regional economic terms. Throughout direct rule Ministers have found it difficult to contemplate HW's closure, particularly at times of heightened tension in Northern Ireland, and successive Secretaries of State have allocated support from within the Northern Ireland block whilst increasingly seeking to apply discipline to the company. Whilst it is unlikely that the Northern Ireland parameters will ease in the short term, the logic of current policy is that if the company is unable to deliver ships according to programme and to obtain fresh orders HW will shrink and eventually close. Ministers explicitly accepted this in their discussion of

the AOR contract at E(A) in May.

Summary: A Case for Government Intervention

64. To summarise, we do not believe there is any overriding strategic or general economic case for maintaining the merchant shipbuilding yards at a higher level of activity than commercial considerations would suggest. There might however be a stronger social or regional case for some further action to help this sector. On the other hand, there is a continuing strategic need to maintain a warship building capacity. But this could be met by only three of the present five yards. It is desirable to maintain at least two competitors for each class of vessel, but this also does not require that all five present yards should continue in existence. In both the merchant and warship sectors the consequent run-down would not be serious in terms of the economy overall. But it would exacerbate severe existing problems of unemployment in the particular towns affected.

POLICY OPTIONS FOR THE GOVERNMENT

65. Against this background, Ministers will need to consider

- i. whether to continue with present policies towards merchant shipbuilding and warship procurement, which will almost certainly result in substantial further contraction of UK shipbuilding capacity within a two year timescale;
- ii. whether to try to slow down, or prevent, the further contraction of merchant shipbuilding, or alternatively to accelerate it;
- iii. whether to intervene to reduce the extent of contraction of warshipbuilding capacity;
- iv. given the prospects for shipbuilding, what measures should be taken to provide, or encourage the growth of, alternative employment opportunities in the areas affected by shipbuilding and other heavy industry-related redundancies.

66. The outlook for shipbuilding on present policies has been set out in full in this report. For the merchant yards it means as a probability of some further early contraction of BS beyond the closures recently announced, with a possibility of total closure by the end of 1988. For the warship yards it means early closure of SL, a very doubtful future for SH, and a threat to VT (particularly outside its GRP capacity). For HW current policies can be expected to result in reducing capacity and, conceivably, closure.

Measures to Support Merchant Shipbuilding.

67. The objective would presumably be to defend some or all of BS's surviving capacity, in the hope that it could become strong and profitable in the 1990s when world shipbuilding orders may recover. Possible measures include:

a. bringing forward public sector orders. With the exceptions of a bulk carrier for BSC which only Harland and Wolff could undertake, a resupply vessel for St Helena and some small ferry vessels, there are no public sector orders in prospect for merchant vessels;

b. speculative building. There is no reason to expect that ships built in advance of firm orders could be sold in 1-3 years time at other than the lowest distress prices, imposing heavy losses on BS and therefore increasing public expenditure;

c. additional subsidies for shipbuilding, if orders could be found. There is unlikely to be much room for these within the new EC state aid regime to follow the Fifth Directive which expires at the end of this year. Such subsidies would in a number of cases also be contrary to the UK's general stance on limiting export credit competition;

d. measures to assist UK shipowners. The Secretary of State for Transport is considering the scope for some kind of investment aid for UK shipowners. The speed and extent to which this would give benefit to UK ship builders is uncertain. While some benefit may be expected in the medium term, the amount of new investment will of course depend on

developments in world shipping markets; with the current world surplus of shipping, purchase of second-hand ships will in many cases be the most sensible way for UK (as opposed to EC) shipowners to modernise; and it would be difficult to limit to UK shipbuilders the construction of aid-assisted new ships.

e. work-sharing among BS shipyards. The idea would be to spread work as widely as possible over the remaining yards, deliberately foregoing opportunities to rationalise and cut overheads. There could well be EC constraints on the successful operation of such a policy, which would be far from satisfactory from the standpoints of management and workforce, although in the very short run it might avoid some restructuring and redundancy costs. This option would, however, reduce BS's competitiveness, so prejudicing future orders. DTI will be exploring the implications of this in considering BS's 1986 Corporate Plan;

f. keep the yards open despite the absence of work. Although this might be cheaper than keeping the yards open by building ships which could only be sold for less than the costs of materials, it could not in practice be done for more than very limited periods when early new orders were in prospect. It would not be possible to keep the facilities and skilled workforce idle for several years. As the Secretary of the Boilermakers' Section of the GMBU admitted in a letter of 17 June to the Financial Times, "It does not make long-term sense to subsidise workers to produce goods nobody wants".

68. None of these expedients is intrinsically desirable, and there can be no guarantee that any combination of them would ensure the survival of a chosen group of BS yards. Rather than prolong the agony, there could be a case for facing up to total closure as soon as possible, and then pursuing other policies to boost alternative employment opportunities. The implications of this course will be explored in the context of the BS Corporate Plan, but whatever the merits it would seem likely to present major political and employment difficulties.

Measures to support the warship yards.

69 Possible steps relate to the volume, timing and conditions of orders for the Royal Navy, and the terms on which UK-built ships are sold to foreign armed forces.

a. A planned approach to ordering

70. For the warship yards, a deliberate policy to guarantee the future of the UK industry would involve identifying now the core yards needed for strategic and competition purposes and ensuring that they received a steady flow of orders. The non-core yards would not be allowed to compete for further naval work, thus allowing the remaining yards to spread overheads over more vessels and providing economies through batch ordering. Such a 'planned' approach would reduce the spur to improve efficiency provided by the current highly competitive environment; guaranteeing core yards' work would effectively create monopolies. It would also appear to run counter to general assurances given prior to privatisation that the yards would be allowed to compete for any work of which they were capable. A less overtly dirigiste approach would be to leave the non-core yards to compete, but on the basis that the Government would not depart from the results of competition in order to secure their survival. There would be a risk that the 'wrong' yards might win competitions, so threatening the future of facilities elsewhere judged to be necessary for defence. But it would always be open to the Ministry of Defence to override, in exceptional circumstances, the natural result of competition to sustain key facilities.

b. Rephasing orders

71. Another option would be action to reduce the trough in orders and workload inherent in MOD's current plans (which were shown in Figure 1). A steadier pattern of ordering would reduce the need for redundancies in the next 1-3 years only to be followed by a renewal of recruitment in the early 1990s. It would also avoid the risk of the cash flow short-fall resulting from the hiatus in orders putting at risk firms for which there would be enough defence work again by the 1990s. Bringing forward orders could, however, only be achieved within the existing defence budget by diverting resources from other defence programmes (requiring at least equally painful cuts elsewhere and

producing a less effective defence capability in total), or by an increase in provision. There are also limits on what is technically feasible. Since it takes 18 months between placing an order and the start of significant fabrication work in a yard, the dip in loading in 1987 is now unavoidable. The best that could be achieved would be to prevent the loading falling as far as expected in 1988. This could be achieved, for example, by:

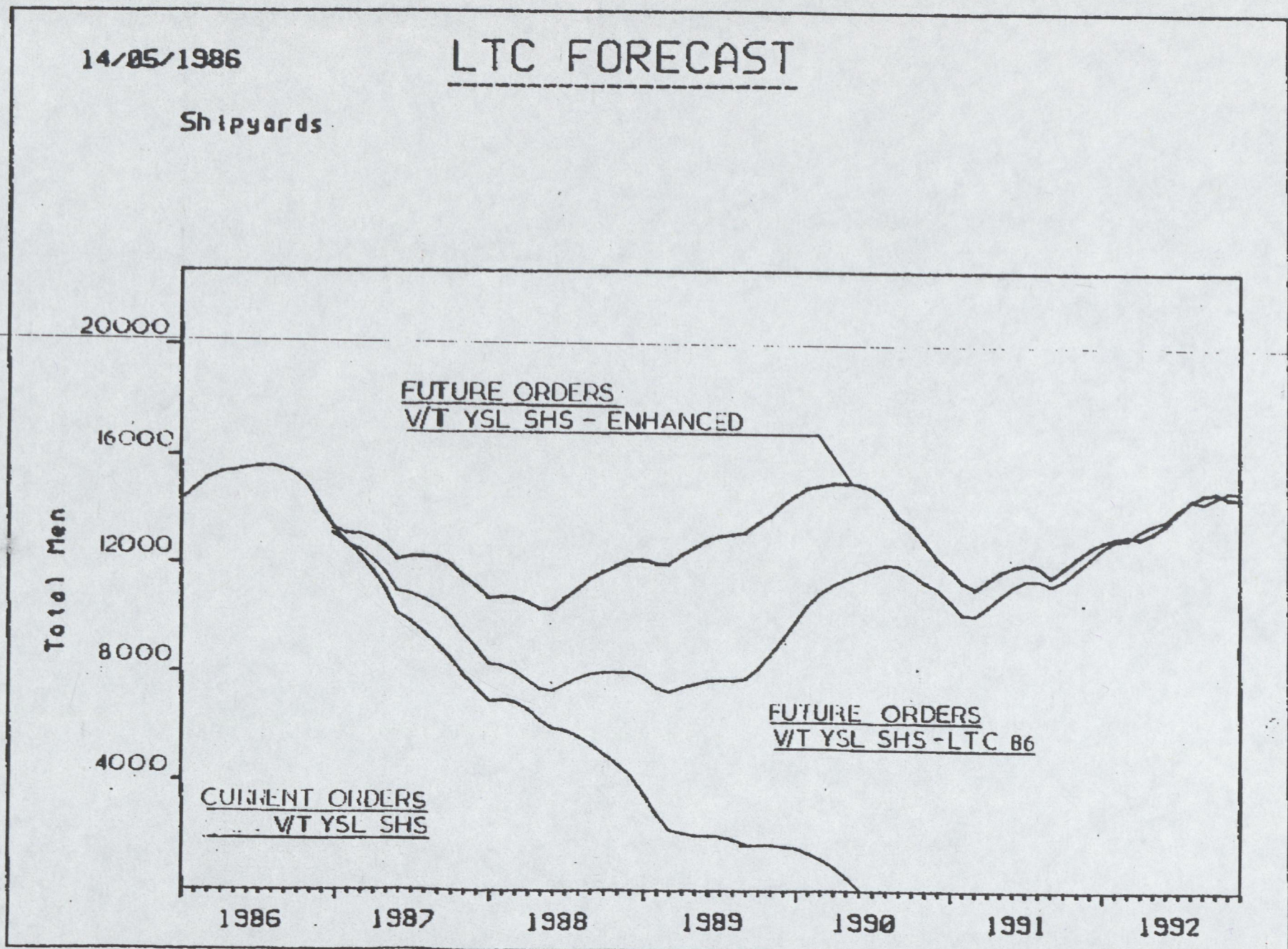
- a. Adding to the two frigate orders planned for 1986 and one for 1987 by bringing forward 3 more Type 23 Frigates from the early 1990s (to begin building in 1987 and early 1988). The cost profile would be:

					£m
1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
+ 5	+ 30	+ 55	+ 78	+ 80	+ 39'
1992-93	1993-94	1994-95	1995-96	Later years	
- 23	- 61	- 82	- 60	- 61	

- b. Bringing forward the Single Role Minehunter Programme by one year. In theory a greater acceleration would be feasible, but this would involve substantial procurement risk given that the first of class had only recently begun construction. The cost profile would be:

					£m
1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
0	+ 3	+ 15	+ 13	+ 7	0
1992-93	1993-94	1994-95	1995-96	Later years	
- 12	- 13	- 10	- 2	- 1	

FIG 2



Together these measures could produce a raised workload as shown in Figure 2.

72. The impact of such rephasing on individual yards would clearly depend on what orders they won. The MoD preliminary assessment, however, is that if the weaker yards (VT and SH) had firm orders ahead of them they might struggle through the lessened dip in 1988 with wastage and short time working. About 4,000 jobs might be saved in the short term, although as the expense of a similar number of job opportunities in the 1990s. The total gross cost in discounted cash flow terms of bringing forward these orders is about £60 million at 1985-86 prices, though increasing public expenditure by more in the PES years. The discounted net cost to the Exchequer allowing for tax, national assurance and benefit flows would be much less, at about £5 million.

73. Improved Export Credit Support for Major Warships

As noted in paragraph 27, UK warshipbuilders have had little success in recent years in securing major export orders. Such orders have substantial advantages, not only for the yards themselves but also for potential UK suppliers of all the equipment, civil and military, needed in the ships. One possibility for consideration would therefore to be made some improvement in the financial terms UK yards are able to offer secure new orders. Although softer export credit terms would not in themselves guarantee success, other arms exporting countries may well be covertly offering credit on concessional terms; for example the US FMS credits can involve long term loans to potential customers at rates equal to half the cost of US government funding. A possible scheme would be:

a. each of the four major yards (VSEL, YS, VT and SH) would be given a private assurance that ECGD would match the concessional credit terms provided by the US government (say 85 per cent credit over 20 years from contract at 5 per cent interest) for its first major export order for frigates/submarines up to (say) 1988;

b. this credit would apply to the UK content of the contract price only;

c. the sales would have to be accommodated within the ECGD cover available for the country concerned, and other underwriting requirements would have to be satisfied.

74. There are no OECD or other international regulations governing the terms of export credits for defence sales. The Government are therefore free to offer such a relaxation in ECGD's terms of cover so long as they are prepared to absorb the substantial additional subsidy costs. The main objections are as follows:-

a. greater use of soft credit terms runs counter to the lead taken by the UK in developing and promoting OECD arrangements to avoid an escalating trade credit war to the UK's economic disadvantage;

b. prudential limits on ECGD cover for many prospective markets mean that a sizeable warship order may displace other, usually less subsidised, UK military and civil business;

c. there might be pressure to extend such concessions to other defence sales (including smaller naval vessels) leading to higher subsidy costs;

d. other shipbuilding countries would be likely to respond in kind generating a futile and expensive credit competition which the UK would be ill placed to win;

e. ECGD would have difficulty in underwriting recourse to the weaker privatised yards (eg VT and SH) without some external financial backing. (Such recourse is exercised if default on a guaranteed loan is due to the performance failure of the exporter).

75. If support were given to the sale of one frigate value £100 m on the above terms the gross interest subsidy would be approximately £59.0 m compared with an estimated subsidy of £14.3 m on normal terms for the poorest countries. On a discounted basis this would involve a gross subsidy of £27m (£18.6m net for the poorest countries) per ship. (For intermediate and richer countries

the net subsidy will be higher). The cost per job in shipbuilding (based on the gross subsidy) is estimated at about £7,500 a year. Such a scheme could not be justified on defence grounds, but could be an alternative to other possible schemes (described below) to cushion the regional and social impact of decline in the industry.

Employment Support Measures

76. Despite the lack of any strategic requirement to maintain shipbuilding capacity, shipbuilding has attractions as a means of sustaining employment: the industry has provided traditional manufacturing jobs, regarded by some as 'real jobs', the yards are an important focus of local pride and they are often in areas where newer industries have been slow to take root. To the extent that parts of the industry - principally the warship yards - can be seen as having a clear future, policy should reasonably be directed to ensure that future. But there can be little case for trying to sustain artificially those parts of the industry with no commercial future. To do so would tie up precious resources which might be better used to create jobs in newer industries with a better chance of a long-term future. The average gross cost per job of supporting state owned merchant shipbuilding has been around £7,000 a year in recent years, though this seems set to rise given the current low prices for ships. Thus the BS Corporate Plan suggests a figure of some £10,000 in the period ahead. On the other hand, every 10 jobs in shipbuilding support 7 in supplying industries taking the average cost per job secured by continued support for BS to around £6,000. This is close to the average Exchequer cost of revenue lost and benefits available to the unemployed. By way of comparison with job creation schemes, the approximate gross cost of each filled place in the community programme in 1985-86 was £4,350, with a net Exchequer cost of around £1,900.

77. In the past, redundancies in shipbuilding and other sectors have been met by ad hoc packages developed at short notice as crises have occurred. The response to the BS redundancies announced in May was to set up British Shipbuilders Enterprise Ltd, partly financed by resources from existing programmes. The company was provided with £5 m in 1986-87 for financial support to advise, retrain, and give business loans to redundant workers. In

addition £5m has been earmarked from existing allocations to provide retraining and environmental improvement work. As an alternative to direct increases in shipbuilding subsidies, such measures could be used to cover further redundancies, either at the cost of additional public spending or diversion of existing resources.

78. Such an approach, however, merits more careful consideration and advance preparation than on the last occasion. In other words, the strategy should be prepared in advance of the crisis. One approach would be to devise and keep on the shelf a flexible package of additional measures which would build on existing employment and environment schemes and would concentrate on encouraging the growth of new and small businesses. It would, of course, be for consideration by Ministers whether such measures should be financed by reallocation of existing expenditure provision or by additional expenditure.

CONCLUSIONS AND RECOMMENDATIONS

79. The Group's principal conclusions are:

- i. there is substantial excess capacity in both the merchant and warship-building sectors;
- ii. on any reasonable assumptions about the continuation of present trends and policies (including no new subsidy schemes for shipbuilding and continuation by MOD of a vigorous competition policy within the framework of present defence plans/resources) there will be further substantial closures and redundancies. By the early 1990s the industry could be reduced to a rump of warshipbuilders comprising Vickers, Cammell Laird, Yarrow and the glass fibre capacity of Vosper Thornycroft;
- iii. there is no strategic case for intervention to avert this rundown (there is a strategic requirement for repair facilities, but adequate capacity is available at present and studies are in hand to examine longer term capacity);

iv. nor is there any overriding economic case for intervention in favour of this particular (relatively small) industry;

v. there is, however, a potential case for some intervention to help cushion the effects of shipbuilding closures and other redundancies in the worst hit areas. This could take the form of a continuation of current aids to merchant shipping and an extension in a limited way to warship exports, as well as policies directed towards encouraging alternative employment in these areas;

vi. for future MoD orders, all yards capable of undertaking the work should be allowed to compete. But the Government should only depart from the results of the competition where necessary to secure the survival of capabilities which are strategically essential.

80. We therefore recommend that consideration should be given now to how most effectively existing DE, DOE and DTI schemes (and corresponding schemes in Scotland and Northern Ireland) can be developed and targetted on the areas worst affected by shipbuilding and other redundancies, either by diversion of existing public expenditure provision or by additional resources.

81. These steps would constitute the Government's minimum response. Further consideration may suggest some case for measures to of the kind discussed in paragraphs 66 to 77 above. But we make no recommendations on these now , and decisions will turn among other things on a judgment about their place in overall public expenditure priorities.

ANNEX A

THE SHIPREPAIR INDUSTRY

1. This annex describes the existing shiprepair capacity available in the UK and comments on the size of the existing world market.

PRIVATE SECTOR SHIPREPAIRS

2. The British shiprepair industry is distributed around the coast and is represented at all the major ports. The business involved ranges from relatively small specialised repair services to yards offering the full range of docking and refit facilities. Moreover, many private sector shipbuilders engage in shiprepair work including the smaller ship yards which were never taken into public ownership as well as the newly privatised warship yards. All these yards can be expected to compete more for shiprepair business as competition for shipbuilding becomes increasingly fierce.

3. Statistics about the shiprepair industry - both here and in other European countries - are difficult to obtain. However, the Association of Western European Shipbuilders (AWES) estimates that average employment in British shiprepair during the year to 31 March 1986 was 6250. (This figure excludes the Royal Dockyards which, as will be seen below, dwarf these figures.) The numbers employed fluctuate widely since typically a company

employs a small permanent workforce, supplemented as necessary by casual labour. By way of example, Tyne Shiprepair Ltd has a core of 350 supplemented by 600 casual employees; similarly Smiths Shiprepairers (North Shields) Ltd permanent workforce of 200 can be increased by 700 casual workers.

4. The major private sector shiprepair yards are:

NAME	LOCATION	TURNOVER (1984) £m
Tyne Shiprepair Ltd	South Shields	12.8
Smiths Shiprepairs Ltd	North Shields	13.3
Vosper Shiprepairs Ltd	Portsmouth	18.2
Falmouth Shiprepair Co Ltd	Falmouth	6.0
Brooke Marine	Lowestoft	3.9
Clyde Dock Engineering Co Ltd	Govan	6.0
Grangemouth Dockyards Ltd	Grangemouth	1.3
Bristol Channel Shiprepairers Co Ltd	Cardiff, Barry, Swansea, Bristol	1.9
Humber Shiprepairers ltd	Immingham	NA
Seaforth Welding Co Ltd	Liverpool	5.2
Tyne Dock Engineering Ltd	South Shields	3.0

By way of comparison, the turnover of Devonport Dockyard was £208 m in 1984 and Rosyth Dockyard £140 m.

The warships also compete for repair work.

5. The turnover figures include refit work which shiprepairers would classify as shiprepairing. Some of the traditional warship builders, such as Vosper Thornycroft (UK) Ltd, carry out extensive refit work although they do not have dry dock facilities. If dry docking were required, public or private dry docks could be hired and then the main refit carried out at the shipyard.

Harland and Wolff

6. In addition, Harland and Wolff offer facilities. H&W's shiprepair capacity in terms of manpower is low (approximately 200). The physical facilities are limited and basic, consisting mainly of a repair key although the company has the use, on a rental basis, of a one million tonne dry dock. The repair division also has access to the company's shipyard and engineering division where necessary. The volume of work depends on local traffic, but the repair activity makes a useful contribution to overheads.

The Royal Dockyards

7. On contractorisation the Royal Dockyards, which employ over 11,000 at Devonport and 6,000 Rosyth, will be guaranteed work equivalent to only three-quarters of their present capacity. They will have to compete for the remainder, worth perhaps £100 m a year, with the private sector. This could be a significant source of work, although since the Ministry of Defence workload is declining and since the private sector will find it hard to be competitive, too much reliance should not be placed on it.

UK SHIPREPAIR MARKET

8. The total amount of work carried out by UK shiprepairers (excluding Royal Dockyards) is declining, turnover reducing from £100.6 m in 1982 to £83 m in 1984 and £68 m in the year to March 1986. This work was predominately for UK ship owners, only some 10 per cent of business in 1984 arising from foreign ships.

9. The decline in shiprepair reflects the reduction in the size of the UK registered fleet. The number of vessels over 100 gross registered tonnes in UK registered ownership is now less than half the number of registered in 1960; it has been suggested that this tends to break the traditional link between ship ownership and the use of national repair facilities. In addition, changes in the technology of shiprepair and design have lengthened the service intervals required between routine dockings and inspections. Two recent improvements are the change to self-polishing compolymer hull coatings and performance monitoring and planned maintenance.

10. The above factors have together reduced the size of the potential demand for shiprepairing facilities in the UK and contributed to the decline in the size of the shiprepair industry. AWES have been unable to provide data about the potential size of the market and consequently we do not know what proportion of work for UK owners is placed in UK shiprepair yards nor whether the yards are losing their share of repair work for UK owned ships.

POLICY TOWARDS THE SHIPREPAIR INDUSTRY

11. The largest shiprepair companies came under public ownership in 1977 as the result of nationalisation but British Shipbuilders were subsequently instructed to sell, close or dispose of their shiprepairing activities. This has now been completed.

12. The Government's view is that there is a surplus of shiprepairing capacity in the UK - which will be exacerbated following contractorisation of the Royal Dockyards. Government policy is to refuse aid to shiprepairers which have run into financial difficulty. Furthermore, any such aid would have to be notified to the European Commission in accordance with Article 4 of the fifth directive on aid to shipbuilding. Shiprepairing yards are not capital intensive but any investment aid exceeding 5 m ECUs (approximately £3 m) would also have to be notified. In view of the over-capacity in shiprepairing throughout Europe the granting of aid for rescue or for major investment seems likely to be challenged by the Commission.

CONCLUSION

13. The amount of shiprepairing capacity provided by the private sector companies is difficult to assess by there appears to be considerable over-capacity. The Government has not provided aid to avoid a run down in this sector. Some further contraction seems inevitable.

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address
 Appledore Shipbuilders Ltd
 New Quay
 Appledore
 North Devon, EX39 1LX
 Tel : 02372 3281

Facilities etc
 2 Slips . Largest Ship 10,000 dwt.
Ship Type : General cargo vessels;
 bulk carriers; dredgers; chemical
 and products tankers; container vessels;
 offshore supply ships; naval auxiliary ships.

Managing Director: Mr C Benton

Constituency: Devon West & Torridge

M.P.: Sir Peter Mills

Party : Con

**Others with) Devon North
 an interest)
)**

M.P.: Tony Speller

Party : Con

M.P.:

Party :

M.P.:

Party :

Location: Bideford

TTWA: Bideford

Unemp Rate: 20.2%

Employment

a) Vesting: 870

b) 1984/85 : 818

c) Jan 86 : 650

Redundancies

a) Last Announcement: 70 (HR1 issued October 1985)

b) Outstanding : 3

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/
Profit(loss) (£m):	-0.3	-2.1	-1.6	-0.4	-0.1	-4.4	-7.4	
Turnover (£m):	17.0	17.2	21.4	14.6	20.8	24.4	14.7	
No. of Orders Taken:	3	2	2	3	2	2	-	2
Ships Completed:	-	3	1	-	2	2	3	3

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987			
	I	J	I	F	I	M	I	A	I	M	I	A
Contract No: 141												
Owner: ARC Marine												
Ship Type: Dredger												
Contract No: 142												
Owner: ARC Marine												
Ship Type: Dredger												
Contract No:												
Owner:												
Ship Type:												
Contract No:												
Owner:												
Ship Type:												

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address
Austin & Pickersgill Ltd
PO Box 38, Southwick
Sunderland
Tyne & Wear, SR5 2BJ
Tel : 0783 486100

Facilities etc
2 Slips
Multi-Purpose Standard Cargo Vessels
(from 9,000 to 22,000 dwt)
Standard Bulk Carriers (from 26,000 to 35,000 dwt)

Managing Director: Mr G H Parker

Constituency: Sunderland North M.P.: Mr Robert Clay Party : Lab
Others with) M.P.: Party :
an interest) M.P.: Party :
) M.P.: Party :

Location: Sunderland TTWA: Sunderland Unemp Rate: 22.4%

Employment a) Vesting: 2906 b) 1984/85 : 1781 c) Feb 86 : 1238

Redundancies a) Last Announcement: 465 (announced Feb 1985) b) Outstanding : 59

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss) (£m):	0.8	-5.87	-11.54	-8.95	0.4	-19.71	-8.03	
Turnover (£m):	45.2	45.8	50.4	65.5	61.4	27.1	22.0	
No. of Orders Taken:	3	2	8	12	-	2	4	1
Ships Completed:	8	11	7	7	6	3	5	4

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985	1986	1987
Contract No: 1431 Owner: Liberia Ship Type: Multi King 22L	B	L	C
Contract No: 1432 Owner: Liberia Ship Type: Multi King 22L	B	L	C
Contract No: 1434 Owner: J P Knight Ship Type: N Sea Barge	O B L C		
Contract No: 1435 Owner: J P Knight Ship Type: Barge		O	B L C

CLARK KINCAID (Greenock)

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Clark Kincaid Ltd
Greenock Works
PO Box 31
18 East Hamilton Street
Greenock, PA15 2AE
Tel : 0475 20441/6

Facilities etc

Slow-speed engines (under licence from
MAN-B&W and Sulzer
Propeller Shafting, Bearings, Stern tubes and Seals
Tanker Hatch Covers, Exhaust Gas Valves
General Fabrication and Machining

Managing Director: Mr W Scott

Constituency: Greenock & Port Glasgow M.P.: Mr N A Godman Party : Lab

Others with) M.P.: Party :
an interest) M.P.: Party :
) M.P.: Party :

Location: Greenock TTWA: Greenock Unemp Rate: 22.4%

Employment a)Vesting: 1411 b)1984/85 : 700 c) Jan 1986 : 536

Redundancies a)Last Announcement: 76 (HR1 issued 1 Nov 1985) b)Outstanding 14

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss)^ (£m):	-0.45	-2.66	-5.24	-1.90	-2.18	-6.11	-11.01	
Turnover (£m):	10.8	9.6	19.7	19.5	14.6	6.4	8.68	

CURRENT ORDERS

(Key : 0=Order ; S=Shop Trial Completion)

Engine	1985												1986												1987											
	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I		
Contract No: 504																																				
Customer: Smiths Dock	-----												S																							
Engine Type: Sulzer 5RLB56																																				
Contract No: 505																																				
Customer: A & P	-----												S																							
Engine Type: B&W 4L70MNCE																																				
Contract No: 506																																				
Customer: A & P	-----												S																							
Engine Type: B&W 4L70MNCE																																				
Contract No: 511																																				
Customer: (Land Engine)	-----												S																							
Engine Type: SW 8TM620																																				
Contract No: 512																																				
Customer: (Land Engine)	-----												S																							
Engine Type: SW 8TM620																																				

Note Traded separately as John Kincaid Ltd until October 1984.
1984/85 results are for combined Clark-Kincaid company.
Work on current engine orders is split between the Greenock and Wallsend sites.

BRITISH SHIPBUILDERS : YARD DATA RECORD

<p><u>Address</u> Clark Kincaid Ltd Wallsend Works P.O. Box 8, Wallsend, Tyne and Wear. NE28 6QH Tel : 091 267 8941</p>	<p><u>Facilities etc</u> Medium - speed engines, Various engine components, Ships cranes and general engineering work.</p>
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Managing Director: Mr W Scott

Constituency: South Shields	M.P.: Dr D Clark	Party : Lab
Others with) an interest))	M.P.:	Party :
	M.P.:	Party :
	M.P.:	Party :

Location: Newcastle	TTWA: Newcastle	Unemp Rate: 18.8%
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Employment	a) Vesting: 1938	b) 1984/85	575	c) Feb 1986 : 382
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Redundancies	a) Last Announcement:	84 (HR1 issued 1 Nov 1985)	b) Outstanding	0
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	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss)^ (£m):	-1.4	-5.1	-8.4	-2.3	-2.3	-9.5	-11.00	
Turnover (£m):	19.0	15.2	18.1	24.9	24.9	8.1	8.58	

CURRENT ORDERS

(Key : O=Order ; S=Shop Trial Completion)

Engine	1985				1986				1987			
	I	J	I	A	I	J	I	A	I	J	I	A
IContract No: 504												
ICustomer: Smiths Dock												
IEngine Type: Sulzer 5RLB56												
IContract No: 505												
ICustomer: A & P												
IEngine Type: B&W 4L70MNCE												
IContract No: 506												
ICustomer: A & P												
IEngine Type: B&W 4L70MNCE												
IContract No: 511												
ICustomer: (Land Engine)												
IEngine Type: SW 8TM620												
IContract No: 512												
ICustomer: (Land Engine)												
IEngine Type: SW 8TM620												

Note Traded separately as Clark Hawthorn Ltd until October 1984.
1984/85 results are for combined Clark-Kincaid company.
Work on current engine orders is split between the Greenock and Wallsend sites.

Bref 4c

FERGUSON-AILSA (Port Glasgow)

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Ferguson-Ailsa Ltd
Newark Works
Port Glasgow
Renfrewshire, PA14 5NG
Tel : 0475 42214

Facilities etc

3 Slips (Max Length 100m)
LPG Carriers up to 5,500 dwt
Ferries, General Cargo Vessels, Tugs,
Small Bulk Carriers, Dredgers, Fishing Vessels,
Small Naval Auxiliary Vessels
Offshore Supply Vessels

Managing Director: Mr J L Peach

Constituency: Greenock & Port Glasgow	M.P.: Mr N A Godman	Party : Lab
Others with an interest) Carrick Cumnock & Doon Valley)	M.P.: Mr George Foulkes	Party :
	M.P.:	Party :
	M.P.:	Party :

Location: Port Glasgow	TTWA: Greenock	Unemp Rate: 21.6%
Employment	a) Vesting: 363 b) 1984/85 : 390	c) Feb 1986: 420
Redundancies	a) Last Announcement: 48 (announced Feb 1986)	b) Outstanding: 48

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss)^ (£m):	-	-2.75	-3.55	-6.28	-1.14	-1.96	-2.23	
Turnover (£m):	-	17.2	13.7	15.0	24.0	20.3	16.1	
No. of Orders Taken:	1	1	2	3	2	-	3	0
Ships Completed:	3	1	2	2	2	2	3	1

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

	1985	1986	1987
	I J F I M I A M I J I J I A I S I O I N I D I J I F I M I A M I J I J I A I S I O I N I D I J I F I M I A M I		
Contract No: F567			
Owner: John Townsend Ltd	B	L	C
Ship Type: Tug/Supply Ship			
Contract No: F568			
Owner: Arctic Offshore M	B	L	C
Ship Type: Tug/Supply Ship			
Contract No:			
Owner:			
Ship Type:			

Note ^ In 1978/79 Ferguson Bros was part of Scott Lithgow, thereafter results/performance are included within the Ferguson-Ailsa figures.

B.P.L. 9F

FERGUSON-AILSA (Troon)

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Ferguson-Ailsa Ltd
Troon
Ayrshire
KA10 6DN
Tel : 0292 311311

Facilities etc

2 Slips (max length 114m); 2 Docks (max length 122m)
LPG Carriers up to 5,500 dwt
Ferries, General Cargo Vessels, Tugs,
Small Bulk Carriers, Dredgers, Fishing Vessels,
Small Naval Auxiliary Vessels
Offshore Supply Vessels

Managing Director: Mr J L Peach

Constituency: Ayr

M.P.: Rt Hon George Younger Party: Con

Others with)
an interest)
)

M.P.: Party:
M.P.: Party:
M.P.: Party:

Location: Troon

TTWA: Ayr

Unemp Rate: 14.5%

Employment a) Vesting: 456 b) 1984/85 : 380 c) Feb 1986 : 378

Redundancies a) Last Announcement: b) Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Profit(loss) (£m):	-1.0	-2.75	-3.55	-6.28	-1.14	-1.96	-2.23	
Turnover (£m):	4.8	17.2	13.7	15.0	24.0	20.3	16.1	
No. of Orders Taken:	1	1	1	1	4	2	4	0
Ships Completed:	-	3	1	-	2	2	3	2

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985					1986					1987									
	I	J	I	F	I	M	I	A	I	M	I	J	I	A	I	M	I	A	I	M
Contract No: A569																				
Owner: Seaforth Maritime																				
Ship Type: Supply Ship																				
Contract No: A570																				
Owner: Seaforth Maritime																				
Ship Type: Supply Ship																				
Contract No: A571																				
Owner: MAFF																				
Ship Type: Research Vessel																				

Note - From 1979/80 onwards the Ailsa results/performance are included within the Ferguson-Ailsa figures

GOVAN

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Govan Shipbuilders Ltd
 1048 Govan Road
 Glasgow
 G51 4XP
 Tel : 041 445 2351

Facilities etc

Multi-purpose Dry Cargo Vessels (15,000-24,000 c
 Bulk Carriers
 Standard and Specialised Passenger/Car Ferries
 Other Specialist Vessels
 Re-engining

Managing Director: Mr E D Mackie

Constituency: Glasgow Govan

M.P.: Rt Hon Bruce Millan Party : Lab

Others with) Glasgow Garscaddon
 an interest) Glasgow Provan
) Greenock & Port Glasgow

M.P.: Mr Donald Dewar Party : Lab
 M.P.: Mr Hugh Brown Party : Lab
 M.P.: Mr N A Godman Party : Lab

Location: Glasgow

TTWA: Glasgow

Unemp Rate:22.0%

Employment a)Vesting: 5662 b)1984/85 : 2823 c) Jan 1986 : 234

Redundancies a)Last Announcement: b)Outstanding

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/
Profit(loss) (£m):	-14.88	-14.92	-12.98	-6.29	-12.48	-12.85	-18.35	
Turnover (£m):	41.25	25.74	40.68	52.63	67.51	32.83	30.14	
No. of Orders Taken:	-	2	2	5	2	-	4	0
Ships Completed:	4	9	4	2	3	3	2	3

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985			1986			1987		
	I	A	I	I	A	I	I	A	I
Contract No: 264									
Owner: CEGB									
Ship Type: Collier									
Contract No: 265									
Owner: P & O Ferries									
Ship Type: RO/RO Ferry									
Contract No:									
Owner:									
Ship Type:									
Contract No:									
Owner:									
Ship Type:									

SUNDERLAND SHIPBUILDERS Brief 41

BRITISH SHIPBUILDERS : YARD DATA RECORD

Address

Sunderland Shipbuilders Ltd
 PO Box 1, Pallion
 Sunderland
 Tyne & Wear, SR4 6TX
 Tel : 0783 670143

Facilities etc

3 Slips
 Standard Bulk Carriers (from 20,000dwt to Panamax size).
 Cargo Liners from 12,00 to 20,000 dwt
 Tankers, Product Carriers, Diving Support Vessels.

Managing Director: Mr E Welsh

Constituency: Sunderland North

M.P.: Mr Robert Clay Party : Lab

Others with) Sunderland South
 an interest)
)

M.P.: Mr Gordon Bagier Party : Lab
 M.P.: Party :
 M.P.: Party :

Location: Sunderland

TTWA: Sunderland

Unemp Rate: 22.7%

Employment a)Vesting: 4614 b)1984/85 : 2030 c) Feb 1986 : 1869

Redundancies a)Last Announcement: 250 (HR1 issued 1 Jan 1986) b)Outstanding 145

	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/
Profit(loss) (£m):	-5.23	-19.32	-0.62	-5.61	-1.81	-12.66	-4.87	
Turnover (£m):	98.74	47.60	55.77	59.32	58.55	50.11	52.17	
No. of Orders Taken:	-	2	5	5	4	4	1	-
Ships Completed:	7	6	6	4	3	5	1	2

CURRENT ORDERS

(Key : O=Order ; B=Commence on Berth ; L=Launch ; C=Completion)

Vessel	1985				1986				1987																				
	I	A	M	I	J	I	J	I	A	I	S	I	O	I	N	I	D	I	J	I	F	I	M	I	A	M	I	J	I
Contract No: 868																													
Owner: ITM Offshore	—————				B	—————				L	—————				C	—————													
Ship Type: Crane Ship																													
Contract No: 24																													
Owner: Northern Coaster	—————								L	—————				C	—————														
Ship Type: Diving Support																													
Contract No: 25																													
Owner: Northern Coaster	—————												L	—————				C	—————										
Ship Type: Diving Support																													
Contract No:																													
Owner:																													
Ship Type:																													

BRITISH SHIPBUILDERS : EMPLOYMENT AND REGIONAL BRIEF

[February 1986]

COMPANY	* EMPLOYEES *	* TTWA *	* UNEMP % *	* CONSTITUENCY *	* M P *	* PARTY *
Appledore Shipbuilders	650	Bideford	20.2	Devon West & Torridge	Sir P Mills	Con
Austin & Pickersgill	1238	Sunderland	22.0	Sunderland North	R A Clay	Lab
Clark Kincaid - Greenock	536	Greenock	21.6	Greenock & Port Glasgow	N A Godman	Lab
Clark Kincaid - Wallsend	415	Newcastle	18.8	South Shields	Dr D Clark	Lab
Ferguson-Ailsa Pt Glasgow	420	Greenock	21.6	Greenock & Port Glasgow	N A Godman	Lab
Ferguson-Ailsa Troon	378	Ayr	14.5	Ayr	G Younger	Con
Govan Shipbuilders	2348	Glasgow	17.6	Glasgow Govan	B Millan	Lab
Smith's Dock	1472	Middlesbrough	23.0	(Middlesbrough (Redcar)	(S Bell (J Tinn	Lab Lab
Sunderland Forge Services)	311	Sunderland	22.0	(Sunderland South	(G Bagier	Lab
Sunderland Shipbuilders)	1855			(Sunderland North	(R A Clay	Lab
Britparts	12	Newcastle	18.8	Wallsend	W Garrett	Lab
B.S.(Training)	40	Glasgow	17.6	Glasgow Govan	B Millan	Lab
		Aberdeen	6.6	Aberdeen South	G Malone	Con
		Barrow	11.5	Barrow in Furness	C Franks	Con
Marine Design Consultants	172	Sunderland	22.0	Sunderland South	G Bagier	Lab
		Dundee	16.7	Dundee East	G Wilson	SNP
-----	-----	-----	-----	-----	-----	-----
TOTAL : MS & EB COMPANIES	9847					
=====	=====	=====	=====	=====	=====	=====
B S STAFF	187					
-----	-----	-----	-----	-----	-----	-----
TOTAL BS EMPLOYEES	10034					

Note: Unemployment rate (GB)(including school leavers)(unadjusted): 13.6%
 Unemployment rate (UK)(including school leavers)(unadjusted): 13.7%

MAJOR UK SHIPBUILDERS

1. VSEL/CAMMELL LAIRD

Location

VSEL - Barrow-in-Furness
Cammell Laird - Birkenhead

Workforce

VSEL - 8750 (3780 tradesmen and helpers)
Cammell Laird - 1320 (750 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

VSEL - SSN16, December 1986
SSN17, March 1988
SSN18, February 1990
SSN19, February 1991
SSK01, February 1988
SSBN05, Early 1990s

Cammell Laird - Type 23-13, February 1989
SSK02, January 1990
SSK03, August 1991
SSK04, February 1993

Remarks

The VSEL/Cammell Laird conglomerate is by far the largest shipbuilding company in the UK. VSEL have a large design staff and a monopoly of SSN/SSBN construction. The ongoing expansion of facilities will give them the capacity in future to build all such boats required by the RN. Indeed, optimum plant utilisation will in the near future require additional surface ship or conventional submarine work. If the TRIDENT programme is to be maintained more than 1000 additional tradesmen and helpers will be required by the early 1990s.

Facilities and labour force at Cammell Laird could be readily expanded to maintain an output of one frigate and one conventional submarine a year if the combine win the orders.

2. YARROW SHIPBUILDERS LIMITED

Location

Glasgow

RESTRICTED COMMERCIAL IN CONFIDENCE

Workforce

4600 (including 2400 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

Type 22-08, November 1986
Type 22-11, September 1987
Type 22-12, January 1988
Type 23-01, March 1989

Remarks

A frigate specialist with a comprehensive design capability. It was purchased last year by GEC and has the capacity to build a Type 23 frigate every nine months. Such a programme would stabilise the workforce at about 5000 with 2800 tradesmen and helpers. The yard's Glass Reinforced Plastic shipbuilding facility has been mothballed because of a lack of orders.

3. VOSPER THORNYCROFT

Location

Woolston and Porchester

Workforce

2700 (including 1100 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

MCMV 10, December 1986
MCMV 12, December 1987
MCMV 13, March 1989
SRMH 01, March 1989

Remarks

Vosper Thornycroft was bought by its management at the end of 1985. The Woolston yard has design and construction facilities for Glass Reinforced Plastic-hulled minehunters. The GRP facility is currently fully loaded, but longer term prospects are uncertain as the SRMH programme is being deferred. Since the modern frigate building facility has no work the outcome of the negotiations on the Pakistani Type 21 order is critical to the future of the yard.

4. SWAN HUNTER LIMITED

Location

Tyneside (north bank) - Wallsend, Neptune

RESTRICTED COMMERCIAL IN CONFIDENCE

Tyneside (south bank) - Hebburn

Workforce

4500 (including 2600 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

Type 22-09, November 1987
Type 22-10, February 1988
Type 22-14, September 1989
LSL Sir Galahad, July 1987

Remarks

Swan Hunter was privatised by a management buy-out team earlier this year. The company can design merchant ships and first of class naval auxiliaries, and follow-on warships where design is limited to the introduction of changes. It cannot design a first of class warship. The yard at Hebburn is already largely in care and maintenance, but the industrial workforce is likely to remain fairly steady for the next year or so working on existing orders.

5. HARLAND AND WOLFF

Location

Belfast

Workforce

5200 (including 2500 tradesmen and helpers)

Current MOD Orders and Expected Delivery Dates

RFA ARGUS, March 1987
AOR 01, August 1990

Remarks

Harland and Wolff was modernised to allow the company to compete for Very Large Crude Carriers and Bulk Carriers. As this market has shrunk, and the remnant been cornered by the Japanese and South Koreans, the company has sought to return to the naval new construction market after a 20 year gap. This has put them in direct competition with the established naval builders on the mainland.

6. SCOTT LITHGOW

Location

Greenock - Cartsburn and Port Glasgow

RESTRICTED COMMERCIAL IN CONFIDENCE

Workforce

1560 (including about 1000 tradesmen and helpers)

Current MOD Orders

None

Remarks

The first BS yard to be privatised, being sold to Trafalgar House in 1983. The Cartsburn facility is in care and maintenance. The Port Glasgow yard is fitting out a drilling rig due for completion in November 1986. The yard has no other significant work.

Note

Unless otherwise stated, all data is as at May 1986.

RESTRICTED COMMERCIAL IN CONFIDENCE

SUMMARY TABLE: GOVERNMENT FINANCIAL ASSISTANCE TO THE SHIPBUILDING INDUSTRY IN THE MAJOR PRODUCING COUNTRIES

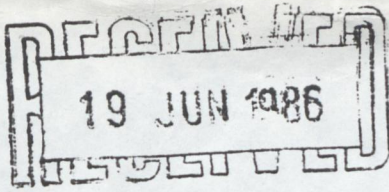
COUNTRY	DIRECT SUBSIDIES	EXPORT CREDIT	DOMESTIC CREDIT			TAX ALLOWANCES ETC
			CREDIT SHARE OF PRICE	REPAYMENT PERIOD	INTEREST	
Belgium	Nil	OECD terms	80% Interest relief subsidy max 3 percentage points	15 yrs		
Denmark	Nil	OECD terms	Ship credit fund 80%	14 yrs including 4 yrs grace period	8%	Ship lease finance scheme. investors in new marine vessels possessing a bank guarantee for 20% contract price could apply to the Danish Investment Fund (DIFKO) for the rest of funds. DIFKO would launch scheme enabling individual investors to purchase blocks of shares. Cost payable over several yrs but holder may claim tax rebate on the whole sum. Scheme abolished in December 1984 and led to collapse in orders in 1985. Consideration being given to the introduction of a similar but limited scheme.
Federal Republic of Germany	Nil	KFW provides export credit on OECD terms and special conditions for developing countries	Investment grants. Up to 12.5%. If owners comply with certain conditions 20% for conversions. 2% subsidy rate for domestic owners. Interest free loans for ships flying the FRG flag which were built between 1972 & 1982			Tax concessions for shipping companies. Tax allowances for private investment in shipbuilding. <i>ditto</i> like the Danish scheme. Lander support for companies buying ships

SUMMARY TABLE: GOVERNMENT FINANCIAL ASSISTANCE TO THE SHIPBUILDING INDUSTRY IN THE MAJOR PRODUCING COUNTRIES

COUNTRY	DIRECT SUBSIDIES	EXPORT CREDIT	DOMESTIC CREDIT			TAX ALLOWANCES ETC
			CREDIT SHARE OF PRICE	REPAYMENT PERIOD	INTEREST	
France	20% for large & medium yards 10% for small yards	OECD Terms	8½ years @ 7½%			
Italy	25% Large yards 15% Medium yards 11% Small yards Plans for demolition subsidies on a 2 old tonnes for one new tonne basis Additional 5.3 for yds in the Mezzogiorno	OECD Terms	OECD Terms			All materials used in shipbuilding are exempt from VAT. No customs duties on imported materials on equipment. Incentives for rationalisation and reorganisation leading to reductions in capacity 30% - for large yards 20% for medium - small yards. 35 million lira allocated for research & development in 1986
Netherlands	Up to 7%	OECD Terms	80%	8½ yrs	8%	
			With 2% subsidy for ocean-going vessels			
Spain	9.5-14.5% linked to Govt approved restructuring schemes & high tech vessels. 0-9.5% for the rest	OECD terms Special fund for exports to developing countries	85%	12 yrs with grace period	8%	Customs rebate of 5.5% on imports of parts & materials.
			Conversion & Repairs: 75%	8 yrs with up to 2 yrs grace period	8%	Customs duties on ships imported from the EEC 9.3% - to be progressively reduced to nil over 7 years.



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10 DOWNING STREET

THE PRIME MINISTER

19 June 1986

Thank you for your letter following your decision not to join the one day strike on 20 May.

I congratulate you on your decision to stay at work. It does not show a lack of concern about jobs at British Shipbuilders. On the contrary, the only way to secure these jobs is to win orders - and that means demonstrating a determination to work hard to fulfil orders on time and to cost. For our part, we in Government shall continue to give the most effective support we can.

I was certainly impressed by the Stena Seawell. It is a fine achievement for your yard, and I know it will help strengthen Sunderland's position in the tough competition for the orders which are available.

Managers of Wear SAIMA Branch