

PRIME MINISTER

MEETING WITH DEPUTATION FROM SUNDERLAND

This meeting is a follow up to your meeting with Mr. Clay in Newcastle in April. A list of those attending is immediately below (Flag A). People you met in April are marked with an asterisk.

A telex from the Chief Executive of Sunderland Borough Council is at Flag B. With the agenda they propose you could hardly do more than listen, for the most part.

The Sunderland area has two major shipyards: Sunderland Shipbuilders and Austin and Pickersgill, which constitute together North East Shipbuilders Ltd. Under the terms of the announcements made by British Shipbuilders on 14 May, 925 jobs out of 3,100 at North East Shipbuilders are to go. On the present order book work at Austin and Pickersgill runs out in December this year and work at Sunderland Shipbuilders runs out in February 1987.

You are of course aware of the possibility of a Chinese order. The briefing invites you to say that you were encouraged by what Hu Yaobang had to say but that this should remain private. I fear that if you were to say that, it would leak.

Your familiar Questions briefing on shipbuilding is at Flag C.

The main points are:

- i. the problem is (orders), not lack of support (£1½ billion since 1979). Shipbuilding all over the world is being cut back sharply. Our assistance matches that available in the rest of Europe;

- ii. we are bound by the OECD understanding on credit, except for soft credit for developing countries. We are ready to use ATP in appropriate cases and have offered it for the Chinese order;
- iii. the European Community is reviewing assistance for shipbuilding and we aim to ensure that UK interests are protected;
- iv. there is no point in a policy of scrap and build: scrap and ships would be replaced by ships currently laid up;
- v. not aware of any firm prospects for public sector orders which could be brought forward to help the Sunderland shipyards;
- vi. the recent record of shipowners placing orders in the United Kingdom is similar to that of most other European countries.

You will want of course to be sympathetic about the position in Sunderland and the North East generally. Points to make if necessary include:

- i. the North East already has the highest assisted area coverage of any area in GB at 97% of its working population;
- ii. DTI have spent over £800 million since 1979 in the North East on schemes of regional aid;
- iii. the region has three Enterprise Boards.

Mark Samer

PP. DN

20 June 1986

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PRIME MINISTER

DWS 20/6.

20 June 1986SHIPBUILDING INDUSTRY

Although once important the British Shipbuilding industry is now relatively small (42,000 people in total), and the likely scale of future redundancies is also regrettably small compared to, for example, mining. The decline in shipbuilding has been worldwide and no country has escaped; Britain cannot expect to stand against the tide.

Strategically there is no purpose in maintaining warshipyards to build ships in time of war if our stocks of ammunition, and the rest of defence planning, is geared to a far shorter period than it takes to build such ships. The defence requirement is, therefore, for only two or three war shipyards for regular building together with a ship-repairing capacity.

New ship designs - British shipbuilders' Fleet Support King or short, fat frigates - may be better options for the future, but even if decisions were taken today, new ordering would be unlikely to impact on shipyards this decade.

MISC 127 concludes that there really is no justification for switching from current policies. Employment measures should be targetted on to the shipbuilding towns where prospective unemployment will bite most cruelly, but for the merchant yards doing more is only likely to prolong the agony at great expense.

On the warshipyards there is a case for re-phasing the current ordering pattern which would otherwise cause the loss of 4,000 jobs over the next few years with a similar recruitment at the start of the 1990s. The net discounted

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cost of doing so is very small (£5m), but the short-term PSBR effect is some £300m.

What is vital is to end the present intense lobbying for each MOD order which inevitably leads to great disappointment and depression for those that lose, and adverse publicity for both Government and the shipbuilding industry. The best way to get out of this vicious cycle is to make an irreversible decision that all future MOD orders will go to the lowest tenderer whatever this means for the yards that lose out. Having taken such a decision we should say so publicly, because it is only then that the lobbyists will recognise that further public rows can achieve nothing.

Peter Warry

PETER WARRY

DEPUTATION FROM SUNDERLAND - 23 JUNE 1986

MPs

Mr. Gordon Bagier, MP for Sunderland South

* Mr. Bob Clay, MP for Sunderland North

Borough of Sunderland

Councillor J. Donnelly, JP

Councillor J. Connor

Councillor J.D.S. Brown (Conservative)

Councillor F.D. Hall

Mr. G.P. Key (Chief Executive)

Wearside Confederation of Shipbuilding and Engineering Unions

Mr John Spoons - Secretary

Mr Nick Wales - Vice Chairman

Austin and Pickersgill Joint Shop Stewards Committee

Mr Jim Baldwin - Member

* Mr Peter Callaghan - Secretary

Sunderland Shipbuilders Joint Shop Stewards Committee

Mr Cedric Morse - Chairman

* Mr David Stores - Secretary

* People you met - April.

Urban M...
- 2 Lyd...?

SHIPBUILDING

Other shipbuilding countries

The UK shipbuilding industry is not alone in facing difficulties.

The Swedes have effectively abandoned merchant shipbuilding - despite having some of the most modern facilities in Europe. Ten years ago second world leader with 35,000 workers: now closing down industry altogether.

In Denmark two-thirds of shipyard jobs lost in 10 years.

The Dutch government refused to support their industry to build the sister ship to the large North Sea ferry won by Govan.

The Japanese are having to adjust to the shortage of orders. They have been cutting capacity since 1976, and are now considering a reduction of one third in the larger yards. That would entail over 20,000 job losses out of 60,000.

In South Korea job cuts of 7,000.

The Germans have cut their capacity by half since 1976 despite widespread use of soft credit to finance sales to developing countries.

The French are also cutting capacity. But the cost of maintaining their yards is reported to be very high. They do not at present have an aid regime agreed by the Commission. The Commission is, as with all Member States' aid regime, concerned to see that the level of support to the industry is matched by commitments to restructuring.

20 June 1986

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International comparisons

In Japan job cuts likely to be 20,000 out of 60,000. In South Korea job cuts of 7,000.

Sweden

Ten years ago second world leader with 35,000 workers: now closing down industry altogether. In Denmark two-thirds of shipyard jobs lost in 10 years.

Labour Government record

- (i) Labour's support for shipbuilding amounted to £130 million compared with £1.5 billion since 1979.
- (ii) Labour had no answer to the problem of shrinking capacity. 20,000 job losses in merchant shipbuilding between 1974 and 1979.
- (iii) Labour policy of cancelling Trident would put 6,000 jobs in naval shipyards at risk.
- (iv) Problem of shipbuilding partly arises from excessive subsidy leading to excessive production. Labour policies are more of the same.

Eric Varley quote

As Mr Varley, former Labour Minister said:

→ || "The size of the industry ... depends ultimately on the ability of the industry to sell its product in world markets."

[Hansard 2nd December 1975, col 1448].

2nd June 1986

KK7/22

SHIPBUILDING GENERALLY

Points to make

- (i) Present state of shipbuilding industry not through lack of Government support - £1.5 billion since 1979.
- (ii) No point in scrap and build. Laid up tonnage is 40 million tonnes - more than twice world capacity to build of 18 million tonnes. In 1985 30 million tonnes of capacity was scrapped.
- (iii) No incentive for owners to build. Bulk cargo freight rates down one-quarter in last 10 years and tanker rates down by two-thirds.

Better not to give examples - probably not suitable for Sunderland.

(iv) [Public sector orders in prospect include fisheries protection vessel and Scottish ferry.] But public sector orders cannot be conjured out of thin air.

Naval orders

This year Government will spend more than at any time in the last 20 years on production of ships and equipment for the Royal Navy. Currently 25 ships are on order, equivalent to £3½ billion. Since last June orders have been placed for:

- 2 Hunt class mine countermeasures vessels
- 1 Sandown class single role minehunter
- 1 Trafalgar class nuclear powered fleet submarine.
- 3 Upholder class diesel-electric patrol submarines.
- 1 auxiliary oiler replenishment vessel, and
- another announcement of 1 Trident submarine.

Value of these orders £1½ billion.



SHIPBUILDING ISSUES

Objectives

To endorse, as necessary, British Shipbuilders' decisions announced on 14 May.

To reassure the delegation that HMG is doing everything within the means available to help BS to secure orders but to make clear that it is on new orders that the future of the business must depend.

Introductory Note

We understand from British Shipbuilders that both the Sunderland local authorities and the men and their representatives are taking a very positive attitude in co-operating with North East Shipbuilders Limited to secure the future of the business. It is therefore unlikely that the Delegation will press for the 14 May decisions to be looked at again, even if at national level the Unions have yet to respond. Instead it is more likely that the Delegation will seek a reassurance about Government efforts in support of new orders and a commitment to the future of the Sunderland yards.

Briefing is arranged as follows:

- 1 - The shipbuilding market
- 2 - The future of North East Shipbuilders Limited
- 3 - New orders and our measures of support
- 4 - British Shipbuilders Enterprise Limited
- 5 - BNFL Order and the FSK 20/20

SHIPBUILDING AND ELECTRICAL ENGINEERING DIVISION 1
Department of Trade and Industry
19 June 1986



THE SHIPBUILDING MARKET

Line to Take

Last year the world shipbuilding market reached an unprecedented state of depression, even bearing in mind the problems of ten years ago. There is little sign of change so far this year.

Substantially the over capacity in shipping has meant a drastic fall in the demand for ships. None of the shipbuilding nations has been immune from the results of considerable over capacity in shipping and shipbuilding alike.

There is bound to be some strengthening in the market in the years ahead, if only because of replacement demand for present fleets. No one expects marked improvement until the 1990's.

Even when the 14 May measures are completely implemented, British Shipbuilders will have considerable capacity to deal with increased demand.

Background Note

The problems of shipbuilding largely have their origins in the state of the shipping industry and the financial health of shipowners. 1985 saw a series of financial collapses in the market and the situation does not look like improving in the



short term. Freight rates in the spot market remain too low to cover even operating costs; substantial shipping capacity remains laid up or substantially under-utilised (despite a record level of scrapping last year); and second-hand ship prices have continued to fall, prompting owners to seek additional purchases in that area rather than in new builds. The upshot of this is that there is some 30% + overcapacity in the world shipbuilding industry to meet current and expected demand over the medium term. Any upturn is not now expected before the 1990's.

This was the background to the BS decisions announced on 14 May. With only 23,000 compensated gross tonnes (cgt) of orders taken in 1985/86 (against their target of 200,000 cgt) and facing as a consequence an order book lasting only a few months and representing only about 50% of the Corporation's capacity, BS had to take a decision to reduce capacity. They did this in both terms of manpower and facilities in the form announced on 14 May. This will bring capacity more into line with expected demand over the next few years.

All other shipbuilding countries are similarly having to address this problem. Japan, for example, is expected shortly to announce a further 20% cut in shipbuilding capacity. Nearer home, Sweden has withdrawn from merchant shipbuilding.

The French have not escaped either. Their Normed Group, with three big yards, is to lose its operating susidy from next month. Heavy job losses, if not yard closures, seem inevitable.

DEPARTMENT OF TRADE AND INDUSTRY

18 June 1986



THE FUTURE OF NORTH EAST SHIPBUILDERS LIMITED (NSEL)

Line to Take

14 May decisions painful but essential in the face of market conditions. Those decisions have to stand to give the rest of the business a better chance.

BS is seeking to make NSEL one of the most efficient shipbuilders in Europe. I am sure you will do all you can to help.

The future depends on British Shipbuilders success in winning new orders. BS are chasing a number of new orders. The Government is giving them every possible support. But it is for BS and the workforce to succeed in making the new arrangements work.

Background Note

North East Shipbuilders Limited was formed in February 1986 to manage the remaining BS merchant capacity in the North East. The objective was to save costs. Initially only Austin & Pickersgill and Sunderland Shipbuilders, located opposite one another across the RiverWear, were to come under the common management of the new company. Since Smith's Dock at Middlesborough is to close, it will not join NSEL as previously planned.



Fact sheets about Austin and Pickersgill and Sunderland Shipbuilders are attached. The sheets show that work at Austin and Pickersgill is expected to run out in December 1986 with the completion of the second of two general cargo boats for a German owner and a large barge. At Sunderland Shipbuilders, the Stena Seawell, which the Prime Minister named on 25 April, is almost complete. Her sistership and a crane ship for ITM will both be complete by February 1987.

On 14 May British Shipbuilders announced the closure of Smith's Dock, the Troon yard of Ferguson Ailsa, and the Clark Kincaid enginebuilding facility at Wallsend. BS also announced a reduction in permanent employment to "economic manning levels" in each of its yards. 3,500 jobs in all will go by next March, 925 out of some 3,100 at NSEL.

It is known that BS discussed a range of scenarios with the Department of Trade and Industry before announcing their decision. Our Ministers have made clear that the decision was made by BS, and endorsed by them. The formal position with the Shipbuilding Unions is that they have yet to respond to the 14 May decision, which included proposals for changes in work practice and pay arrangements depending on success in implementing the new arrangements.

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MISC 127 is presently examining whether there is a strategic need for shipbuilding in this country. The Committee, whose Report is to be taken together with the BS Corporate Plan in E(A) at the beginning of July, is likely to recommend not so.

Question and Answer Briefing

WHAT IF BS WINS NO FURTHER ORDERS?

I very much hope they will win further orders. I do not share your pessimism. Clearly BS has to win new orders to continue in business.



VIABILITY OF BRITISH SHIPBUILDERS?

The 14 May measures must help to make BS more competitive, and should help them to win orders. They cannot however guarantee the future of BS.

IS THE REMAINING INDUSTRY TOO SMALL TO SURVIVE?

No. NSEL and the other yards have substantial capacity. The present measures will improve their competitiveness. In other countries and in the UK private sector far smaller shipbuilding units than BS or NSEL successfully provide a complete service for the types of ships they build. BS will continue to do same.

DEPARTMENT OF TRADE AND INDUSTRY

18 June 1986

AUSTIN & PICKERSGILL

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)
 an interest)
)

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

Party :
 Party :
 Party :

Location: Sunderland

TTWA: Sunderland

Unemp Rate: 22.3%

Employment a)Vesting: 2906 b)1984/85 : 1781 c) Apr 86 : 1210

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):	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			
	I	A	I	M	I	A	I	M	I	A	I	M
Contract No: 1431												
Owner: Liberia												
Ship Type: Multi King 22L												
Contract No: 1432												
Owner: Liberia												
Ship Type: Multi King 22L												
Contract No: 1434												
Owner: J P Knight												
Ship Type: N Sea Barge												
Contract No: 1435												
Owner: J P Knight												
Ship Type: Barge												

* Combined job losses at Austin and Pickersgill & Sunderland Shipbuilders were 923 and were announced on 14 May 1986.

SUNDERLAND SHIPBUILDERS

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 M.P.: Mr Gordon Bagier Party : Lab
 an interest) M.P.: Party :
) M.P.: Party :

Location: Sunderland TTWA: Sunderland Unemp Rate: 22.3%

Employment a)Vesting: 4614 b)1984/85 : 2030 c) Apr 1986 : 1897

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):	-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	I	I	A	I	I	A	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:									

* Combined job losses at Austin and Pickersgill & Sunderland Shipbuilders were 923 and were announced on 14 May 1986.



Line to Take

The problem facing BS is orders, not our measures of support.

ON MEASURES OF SUPPORT:

UK assistance is geared towards direct production aid through the Intervention Fund. Some other EC countries may have more generous credit terms. Taken as a whole, our assistance matches that available in the rest of Europe.

On credit we are bound by the terms of the OECD Understanding. As Mr Clay knows, the exception is soft credit terms for developing countries where the rules of our Aid and Trade Provision are met. We are ready to use ATP in appropriate cases and have offered soft credit terms for the Chinese order BS is pursuing.

ON NEW ORDERS:

Understand BS is quietly optimistic about a number of major orders. It must be for them to decide where ships are built but NSEL will obviously benefit if they are successful.

We are giving our full support.

On China, I met General Secretary Hu Yaobang and Vice Premier Li Peng on their recent visit to London. I will tell you privately that I was encouraged by what they had to say. But it



doesn't do to talk too much about commercial matters when delicate negotiations are in hand.

Background Note

Throughout the handling of the 14 May announcement, Ministers have emphasised that it is orders, not our support for them, which is at the root of British Shipbuilders' difficulties.

On orders the Chairman of British Shipbuilders Phillip Hares told the Select Committee on Trade and Industry on 18 June that BS was optimistic about a number of major orders including two or more container vessels for a Far East country, by which he meant China; four or more cargo vessels or an owner BS already knows well, by which he meant Cuba; a number of Rollon Roll-off vessels for a European owner, on which an announcement may be possible later this month though not by 23 June. Mr Hares also mentioned a number of ferries, though these are relevant to Govan rather than NESL. The Prime Minister may wish to refer to her talks with the Chinese while, as above, indicating reticence about particular orders in the interests of commercial confidentiality.

On our measures of support for individual shipbuilding orders the Prime Minister will recall being pressed by Mr Clay when she visited Newcastle to name the Stena Seawell. A record of that meeting and her subsequent letter to Mr Morse, the Chairman of the Sunderland Shipbuilders Joint Shop Stewards Committee, who is to attend this meeting, are overleaf. This contained a brief statement of our subsidy regime, and the flexibility available within it.

The letter to Mr Morse, who was concerned with the fairness of competition, also raised the issue of the aid arrangements within the EC which are to follow the Fifth Directive, due to run out at the end of the this year. The Prime Minister said she was glad the Commission would make proposals on the basis of a review of all assistance to shipbuilding in Member States. The Commission has yet to make proposals but the work on the inventory is well advanced. At the Industry Council on 9 June Peter Morrison made clear the priority the UK in our Presidency would give to establishing a Sixth Directive to come into operation on 1 January 1986.



In winding up the special shipbuilding debate on 21 May Peter Morrison said three specific points the opposition wanted the Government to look into were under review: bringing forward public orders, improving the package of support and looking at what can be done for British Shipbuilders. They are referred to below.

QUESTION AND ANSWER BRIEFING

FLEXIBILITY OF THE INTERVENTION FUND

The EC has made it clear that they will consider allowing support above the usual 20½% percent maximum. But no case has arisen requiring a reasonable increase. Neither the Government nor BS is prepared to pursue orders regardless of cost.

SOFTER CREDIT? MATCHING CREDIT? LONGER CREDIT? PRIME

MINISTER'S UNDERTAKING ON CREDIT TERMS?

We are bound by the Fifth Directive on shipbuilding aids to the credit terms in the OECD understanding. It is true some Community countries are allowed more generous terms;



but their direct production subsidies are lower. The exception is soft credit terms for developing countries where the rules of our aid and trade provision are met. We are ready to use ATP in appropriate cases. We have recently offered soft credit terms to the Chinese for an order being pursued by BS.

GOVERNMENT SHOULD APPLY TO THE COMMUNITY FOR CRISIS AID

We did so in 1984 when we sought the Commission's agreement, secured last year, to an increase in Intervention Fund arrangements. Future arrangements will depend on the Community regime to follow the Fifth Directive on which negotiations will start shortly. We are pleased with the preliminary progress being made.



WHAT WILL FOLLOW THE PRESENT FIFTH DIRECTIVE ON SHIPBUILDING

AIDS

The Commission has yet to make proposals. As I promised Mr Morse in a recent letter, we want the new arrangements to be as favourable as possible to UK interests.

GET UK SHIPOWNERS TO BUY BRITISH

Of course we hope UK owners will always consider placing orders in UK yards. Most of them already do. Their recent record is similar to most other European countries - only about a third of orders measured in compensated gross tonnes are placed outside the UK. But it would be most unwise to oblige them so to do. They also face fierce international competition and must retain the freedom to buy from the sources that give their businesses the best opportunity to compete.



SCRAP AND BUILD

I know there are those who are attracted to such proposals. Ship scrapping was tried in this country in the 1930's, but history has not judged this scheme to have been a success. More recently, we tried to achieve agreement in the Community on a Community wide scheme, but without success. Do not believe scrap and build is relevant to present situations. Any ships in operation that could be considered for scrapping would be replaced by ships currently laid up - not by new build.

BRING FORWARD PUBLIC SECTOR ORDERS?

I am not aware of any firm prospects that could help NSEL.

IMPROVE SUPPORT PACKAGES/HELP FOR SHIPOWNERS

We are talking to shipowners with the interests of the Sixth Directive in mind. We are determined the Directive should suit our interests

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20 MAY 1986



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10 DOWNING STREET

THE PRIME MINISTER

For Information

19 May 1986

Mr Coates
PS/PM
PS/SB
PS/Su. Bd.
Mr Mountfield
Mr Ramsay
Mr Fowler
Mr Dowie
Mr Rickford
Mr Whithipdale
Mr Brown IFRM

Mr Simpson / NCL
Mr Hoddinott

Dear Mr. Horse.

I was very glad to have the opportunity to meet Mr. Clay and representatives of the Trade Unions when I visited Sunderland on 25 April, and to receive your letter of that date. It was a memorable day, and one of which Sunderland Shipbuilders can be justly proud. The Stena Seawell is proof of what Sunderland Shipbuilders can achieve.

You ask for aid to secure new orders. Where there are orders suitable for the Sunderland Yards, of course we must seek to win them, though we have to operate within the framework of rules established within the European Community to prevent a senseless bidding up of aid.

We are bound by the Community to the terms of an OECD Understanding about credit, except where Aid and Trade provision criteria for Development Aid are met. In such cases we are ready to match other countries' terms. The Chinese order discussed on 25 April is a case in point. I hope we succeed in winning it.

/Some of our

27 MAY 1986

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Some of our partner countries in the Community have credit terms that are more generous than the OECD Understanding: but the value of their direct aid within the EC rules is commensurately less than ours. As you know, UK direct support from the Intervention Fund is up to 20.5 per cent of contract price.

The Commission has said that it is prepared to allow some flexibility in matching Far East prices in exceptional cases, though BS has yet to identify an opportunity to take advantage of this exception at a realistic level of support. Were such an opportunity to come along, I am sure it would be looked at most carefully. But the lack of opportunities in this area illustrates all too clearly the fundamental problem facing BS: there are not many suitable orders around to be won. No amount of aid can secure orders that are simply not there.

As you know, the Commission is now holding preliminary discussions on the aid arrangements to follow the present Fifth Directive, which runs out at the end of this year. I can promise you that we want the new arrangements to be as favourable as possible to UK interests. I am therefore particularly glad that the Commission will make its proposals on the basis of a review of all assistance to shipbuilding in Member States. As you say, we want a fair market, and I know the Commission is looking carefully at the difference between Far Eastern and competitive EC cost levels.

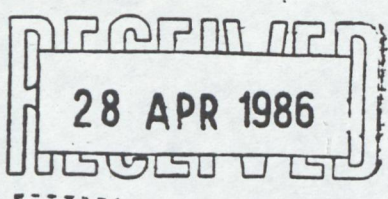
I do appreciate how important shipbuilding is to Sunderland and to other parts of the country. We are doing what we can.

Yours sincerely
Margaret Thatcher

C. Morse, Esq.

File 511/05/04

For Information



Mrs Overton
2 Feb



10 DOWNING STREET

Mr Coates

30/4

25 April 1986

From the Private Secretary
Mr Brown FRM

Dear Mike

M. [unclear]

Dr Murray

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The Prime Minister held a meeting today at Newcastle Airport with Mr. Bob Clay, M.P., Mr. T. Carty (Boilermakers Union District Delegate), Mr. D. Storrs (Secretary, Sunderland Shipbuilders Joint Shop Stewards Committee) and Mr. P. Callaghan (Secretary, Austin and Pickersgill Joint Shop Stewards Committee) to discuss the prospects for the shipbuilding industry in Sunderland. Mr. David Durie (Department of Trade and Industry) was also present.

Mr. Clay said the existing orders for ships in Sunderland would provide work only up until the end of the year. The yards faced immediate redundancies and lay-offs, even if fresh orders were secured tomorrow. In addition to the 3,000 jobs directly involved, a further 6,000 in Wearside were dependent on the yards. The area already had a very high unemployment rate. He appreciated the national concern about jobs on Tyneside. But Wearside faced similar problems, if not worse ones. An unemployment catastrophe loomed. This, in yards whose record of building orders to cost and to time was well established. Once the associated skills and traditions were lost to the area, they could not be regained. It was time for the Government to help, with softer credit, a scrap and build policy and extra subsidy. In particular, he urged the Prime Minister to see that orders for ASKs were placed in Sunderland, and he deeply regretted that BNFL had decided not to place their recent order in the UK.

Mr. Carty said Sunderland was totally dependent on shipbuilding. The male rate of unemployment was already 42 per cent. It had the most modern yard in Europe, had diversified into building the most sophisticated vessels, and the unions had negotiated the introduction of new technologies and overcome demarcation problems. Sunderland's industrial relations record was good. The industry could match the Japanese in speed of work and productivity. What was needed were orders. He reiterated that the Government should provide easier credit facilities, a scrap and build policy and provide incentives for British firms to build in British yards. The Government should also consider building for stock.

Mr. Storrs confirmed that the existing order book would take the yards only into early 1987. The men who had worked on the first Stena Seawell vessel would have nothing to go

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06 MAY 1986

on to when that was concluded shortly. There had been no new apprentices for two years. The new skills which had been learned needed to be passed on. The men in the yards had done everything to justify fresh orders.

Mr. Callaghan underlined the points made by his colleagues. The social consequences for the town if shipbuilding collapsed would be devastating.

The Prime Minister said she appreciated the deep concern of Mr. Clay and his colleagues. The fundamental problem was a shortage of orders. She wished she could pull them out of a hat. But she could not. Indeed, British Shipbuilders' orders now amounted to only one-tenth of the level expected. The trouble arose in part because of over-buying worldwide, as a result of heavy subsidy. The key point was to be competitive to attract those orders which were available. Sunderland's work on the Stena Seawell, which she was naming that afternoon, was a major achievement, though she understood the disappointment that lower oil prices had prevented a third order being placed. The prospect of orders from China represented the best hope for Sunderland. She knew British Shipbuilders were chasing those hard. The Government had informed the Chinese that the special credit facilities agreed could be used for the two ships in question.

The Prime Minister appreciated the importance of trying to match the level of support provided by other countries, including Europe. This was not easy; matching on the specific project itself was one thing, but providing the sweeteners on the associated work was another matter. The Government had also pressed for support from the intervention fund to be increased. The Government would continue to do everything it could including through the use of Aid and Trade provision where possible. On the Chinese order, however, she could not promise an early result. China was notoriously slow in these matters. On Fleet Support Kings, she paid tribute to Sunderland's design work on this vessel. She could not be optimistic, however, that orders would be forthcoming, though the Government would continue to look at the matter carefully. On the BNFL ship, she noted that the Japanese price simply could not be matched; and requiring BNFL to place their order here would have had wider and unacceptable commercial repercussions. The Government stood ready to help with the anti-dumping case being brought against Mitsubishi.

The Prime Minister thanked Mr. Clay and his colleagues for coming to see her and for the courteous but forceful way in which they put their points. If they wished to pursue them further in London she hoped they would approach Ministers in the Department of Trade and Industry. But she was ready to consider a further meeting herself if they wished.

I am copying this letter to John Howe (Ministry of Defence).

Le
Mark Addison

(Mark Addison)

Mike Gilbertson, Esq.,
Department of Trade and Industry



BRITISH SHIPBUILDERS ENTERPRISE LIMITED

Line to Take

We all regret 925 jobs had to go from Sunderland in the interests of the future of NESL. British Shipbuilders new enterprise company, which begins work on 1 July, has the objective of finding new employment for each and everyone of those made redundant, or putting them in the best position to get a new job. The new company is being given £5m itself, and can call £1m from the Manpower Services Commission to help with training. I wish it every success.

The success of BSC industry and the NCB Enterprise Company are most encouraging. BSC industry has created some 30,000 jobs in seven years of operation and expect a further 20,000 jobs to follow in firms already assisted. NCB Enterprises believe it has created 6,400 jobs in its first eighteen months, and has another 5,800 in prospect from work already done.

Background Note

In addition to the formation of the British Shipbuilders Enterprise Limited, the 14 May announcement included a further £4m of general support for employment related measures in the North East.

British Shipbuilders has pressed ahead with the arrangements for BSEL. The headquarters are to be in Middlesbrough. Councillors will be present in all yards from 1 July. It has been agreed, but not announced, that BS will make training allowances



available at the same net take home pay as its nationally agreed lay-off scheme. Arrangements are being made for BSEL to collaborate most closely with other enterprise agencies in the North East, but to complement not reproduce their services. Money has been specifically earmarked to help with the formation of new businesses.

DEPARTMENT OF TRADE AND INDUSTRY

20 July 1986



BNFL ORDER AND FLEET SUPPORT KING

Line to Take on BNFL order

I understand that British Shipbuilders has secured the support of the Association of Western European Shipbuilders in bringing a case against Mitsubishi, and has already had preliminary discussions with the European Commission. As in all such cases, we stand ready to help where we can.

Line to Take on Fleet Support King

Sunderland Shipbuilders are to be congratulated for their part in developing the design of this very interesting naval auxiliary. Understand the Royal Navy does not have a requirement for a new vessel of this kind at present. But know it has been studied with interest by the Ministry of Defence and that British Shipbuilders are actively promoting the vessel in a number of Commonwealth and other countries.

BACKGROUND NOTE

British Nuclear Fuels Ltd (Loss of Fuel Carrier to Japan)

Sunderland Shipbuilders was the lead yard for BS tendering for this contract. It was lost this February to an apparently below cost bid from Mitsubishi. The price difference was such that the Secretary of State for Energy (the sponsoring Department for BNFL) felt unable to prevent the company accepting the Japanese bid on commercial grounds. Bs are, with DTI support, now actively pursuing through the EC Commission an anti-dumping case against the Japanese.

Fleet Support King (FSK)

Sunderland Shipbuilders (along with Govan in Glasgow) are taking the lead on the design of the FSK, an un-armed naval replenishment-at-sea vessel, for which BS is hoping for both home and export orders. The genesis of the design was BS's perception of a market gap for this sort of vessel, replacing ageing auxiliaries at nearly half the price of the sophisticated, armed Auxiliary Oiler Replenishment vessels (AORs).

/Cont



The MoD however, take the view that they have no place for this type of vessel within their present programme. There may, however, be a requirement for it in the longer term as a complement to the current AOR programme. In such an eventuality, however, MoD Ministers have told the House that the tender would need to be open to all relevant UK yards.

Department of Trade and Industry

18 June 1986

CONQUEROR



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ISSUES OTHER THAN SHIPBUILDING LIKELY TO ARISE

Northern Development Company

[At a meeting on 22 may the NDC informed SOS DTI that they had been encouraged by the PMs view that regional organisations get their act together and win more developments for the region.]

Welcome the willingness of those in the region to work together. Understand that NDC are preparing a paper for SOS DTI outlining plans which he has agreed to discuss with colleagues.

Transfer of North of England Development Council to NDC?

SOS DTI will consider proposals when NDC submits them.

Urban Programme

Why has Sunderland received £3.17m UP resources for 1986/7 when Newcastle/Gateshead Partnership is getting £17.2m?

Policy is to give Partnership areas more UP resources than Programme authorities because in general Partnership areas are more deprived.

DoE Ministers currently considering whether there should be more flexibility in allocating resources to authorities to reflect and reward good performances and changing needs.

Use of UP resources for infrastructure and environmental works in the Port of Sunderland

Not appropriate to aid schemes specifically intended to help one port compete with others for port related business especially in view of the current over-capacity on the east coast. SoS Environment told the council in January that he would consider UP for general infrastructure, road access and environmental improvements which help to open up the Port area for new non-port related uses. Same would apply to Urban Development Grants for Private Sector projects.

Review of Regional Policy

Currently undertaking a review of some administrative aspects of the policy. No change to the policy itself. The North East already has the highest Assisted Area coverage of any area in GB at 97% of its working population.



Housing Investment Programme

Sunderland's 1986/7 allocation of £5.02m is the lowest of the NE Metropolitan Districts

Sunderland is the only authority in the Northern region not to receive a lower allocation for 1986/7 than last year.

Council application for additional resources under the DoE's Urban Housing Renewal Unit initiative for the refurbishment of run down council estates still under consideration.



POSITIVE POINTS ON THE REGION

(a) THE ECONOMY

- Notwithstanding the recent upsurges **Redundancy** announcements are over **40%** down on 1981 levels. Vacancies have more than doubled since 1981.
- **New industrial activities** with major growth potential (light engineering, electronics, fine chemicals, pharmaceuticals) have lessened the region's dependence on declining industries.
- Former "one industry" towns eg Schildon and Consett are showing an **increasing diversity of activities and entrepreneurial spirit.**
- Important niches are being carved in **leading edge technologies** such as biotechnology and advanced materials.
- The region has benefitted from continued growth in **North Sea related activities and the retail trade.** However the falling price of oil has resulted in uncertain prospects for further orders for the regions fabrication yards.
- The number of **self-employed people** now stands at 96,000, 25% higher than in 1979.
- **New firms** are being created at a rate of over 6,000 a year, comfortably exceeding business failures.
- A particular focus of **Industry Year 1986** is the encouragement of entrepreneurship particularly among young people.

Modernising and Broadening the Region's Industrial Base

- Helped by government aid of over £35m since 1979 encouraging the production and use of new technology, the region is becoming **less reliant on the old industries and processes** and more reliant on the newer industries. Also the older industries are increasingly using up-to-date technology.
- The region's industrial base is also being broadened by **inward investment** (eg the pharmaceuticals industry hardly existed 10 years ago but now employs over 5,000 people). Since January 1985 there have been **16** successful inward investment cases creating or safeguarding 2,500 jobs.



Institutions, both public and private in the region covering areas such as applied R & D and technology transfer (eg Newcastle Technology Centre, Durham Mountjoy Centre, the Middlesbrough CadCam Centre and Whessoe Technical and Computing Systems).

- The DTI Regional Office is bringing together industrialists, academics, trainers etc involved in potential growth areas (eg Offshore Technology, Biotechnology, Advanced Manufacturing Technology) into **Sector Working** groups to jointly consider problems and opportunities.

(b) DTI COMMITMENT TO THE NORTH EAST

- 97% of the North East working population lies within **Assisted Areas** eligible for schemes of regional aid compared with only 35% nationally.
- DTI has spent over £800 million since 1979 in the North East on its schemes of **regional aid (Regional Development Grant and Selective Financial Assistance)**, related to the creation or safeguarding of over 79,000 jobs.
- Up to £868k worth of grant is available to the **North of England Development Council (NEDC)** in 1986/87 enabling it to expand its programmes of promotional activity on behalf of the region. This represents a 14% increase on last year.
- Cleveland, Tyne and Wear and most of Durham have been designated **steel and/or shipbuilding closure areas** thereby benefitting from ERDF Non-Quota help for small firms. Since its inception in 1981 the region has been allocated almost £8m.
- **English Estates** will be able to spend £32m this year in Assisted Areas, with Government providing £12.6m grant-in-aid, 20% up on last year. The balance of spend will be raised from rents and sales. Around 34% (£11m) is expected to be spent in the Northern Region. A newly formed subsidiary of English Estates to handle its activities in the North East and Cumbria will allow it to make an even greater contribution to the economic development of the region by responding more effectively to the particular problems and needs of the area.
- The region has 3 **Enterprise Zones** enjoying rates, tax and planning benefits (Hartlepool, Middlesbrough and Newcastle/Gateshead).



GOOD NEWS

Sunderland

The Nissan development still buoys up the area with 500 immediate jobs and long term potential for 2,700 jobs. There is also the prospect of additional business for local companies and the possibility of further inward investment by specialist suppliers.

Superbadge, Washington (Hong Kong based Knitwear manufacturers) are to create 120 jobs.

Ikeda Bussan (Japan) in partnership with Hoover Universal Ltd have taken a 42,000 sq ft factory to manufacture seats and interior panels for Nissan's Bluebird car production, creating 50 jobs.

Rolls Royce, Sunderland are to take on 30 extra workers.

Perlos, Washington is the Finnish company to set up in the region and will manufacture plastic components creating 30 jobs.

NEK Cables (Norway) is extending its factory and will create an additional 140 jobs over 3 years.

A leading clothing company is opening its third factory in the North East at Washington and creating 80 jobs.

North East

The new Metro Centre complex at Gateshead has opened its first store. The £150M Centre which is the largest shopping development of its kind in Europe is expected to create up to 6000 jobs in the region, the official opening is scheduled for October.

A garden festival similar to the one held in Liverpool is planned for Gateshead in 1990. Expected to run for 5 or 6 months it will have exhibitions of plants, gardens and leisure pursuits. The object of the festival is to reclaim and landscape derelict land, at the end of the festival some land would be developed for housing and much would remain as park land. About 500 will be employed during site preparation and at least 200 for servicing visitors.

Newcastle City Council have bought a 70 acre site on the River Tyne to be called the Armstrong Centre. This will encompass a retail park, leisure complex and business park. The £46M complex is still having problems with financial backing however if it proceeds it should create 1700 jobs by 1991.



A £157M development scheme is planned for the Tees corridor, an application has been lodged under the ERDF rolling programme, if successful £45M will be spent in 86/87 on changing the image of the area to attract new jobs.

A £15M project to convert a derelict shipyard into a riverside village at Hebburn is set to provide 750 jobs (2/3 rds will be CP workers). The development is a partnership between local government and private enterprise. The scheme includes plans for a maritime museum, a marina and a river front promenade.

Cummins Darlington have commenced production of truck engines at their new £13.5m factory at Darlington. 150 additional people will be employed when the works is in full production.

Darlington and Simpson Rolling Mills has won a £4m contract from Iraq (May 86). The Darlington company will supply hot rolled special profiles for the manufacture of steel windows.

Komatsu of Japan forecast 270 jobs at their new earth-moving equipment plant at Birtley.

Black and Decker are to open a new plant at Spennymoor creating 270 jobs.

NSK Bearings Peterlee is doubling the size of its factory creating 247 jobs.

Tabuchi Electric Japanese owned microwave oven component manufacturers, have moved into a £1m factory at Thornaby, Cleveland and will employ 100 people within the next few months.

Glaxo have built a £20m extension to their plant at Barnard Castle, Co Durham. The new plant incorporates the latest technological advances in the production of the next generation of antibiotics.

Multi-Arc (UK) Ltd Consett have invested a further £500,000 in a new titanium nitride coating plant. The company which aims to prolong the life of cutting tools and machinery parts has increased sales by 100% since May last year.

Mallinson-Denny (Northern) Ltd, timber merchants, have announced (April 1986) an £8m expansion programme to create 200 jobs. The expansion means a huge increase in the amount of timber imports through the Tyne Dock at South Shields where a further 10-15 jobs will be created.

Adtrack (reports on advertising strategy and expenditure), Davy Forge (ferrous and non-ferrous forgings) and House of Hardy (quality fishing tackle) received Queens Awards for Export in 1986. There are around 1200 exporters in the North East.

(D)



PROPOSED USES FOR SHIPBUILDING CLOSURE FUNDS

(£1M Derelict Land Grant, £2m Urban Programme, £1M MSC, £5m British Shipbuilders Enterprises)

Sunderland Borough Council and other non-public agencies have been approached in order to discuss how this cash could be used to best advantage. The three major schemes to come forward so far in Sunderland are:

(a) MARI (Microelectronics Applications Research Trust Ltd): two projects to establish an advanced telecommunications centre providing up to 54 jobs by 1988, and a 'Start' centre to provide IT training for new businesses. Both would be located in the restored Webster's Ropery on the Wear, which has already been restored with £0.8m Urban Programme funds.

(b) Project North East and Entrust: a joint project using new premises in the centre of Sunderland. Entrust is the local enterprise agency and Project North East is aimed at spreading the opportunities and skills in self employment and small business for young people.

(c) Additional workshop accommodation for small businesses.

Sunderland's bid for the extra resources has just been received and decisions will be taken quickly by DOE Ministers.



SUNDERLAND BOROUGH COUNCIL

Sunderland Council area is the largest district in Tyne & Wear with a population of 297,000, of whom 55,000 live in Washington New Town. The workforce is around 130,000 with a total of 173,000 in the Travel-to-Work-Area.

Sunderland is a Development Area and a Programme Authority. It is eligible for European aid both as an Assisted Area and as a shipbuilding Closure Area.

Councillors:	Labour	59
	Conservative	11
	Liberal/SDP	5

The labour-dominated local authority is lacking in vitality and is inward looking. Efforts to involve the private sector in development have been half-hearted; and offers of assistance from outside agencies (DOE, DTI) in framing new proposals have, in the past, been ignored. There is a general chip on the authority's shoulder, namely that they have been unfairly treated where Government help is concerned, in comparison with Tyneside and Cleveland. Sunderland have threatened to leave the newly formed Passenger Transport Authority following the County's abolition, largely because the METRO railway system only covers the other 4 boroughs.

There are no projects of any great merit coming through in Sunderland, unlike Tyneside with the Metrocentre, the 1990 Garden Festival and numerous major Urban Development Grant developments.

Sunderland needs to attract some of the major voluntary agencies in the region and to encourage the private sector. DTI and DOE regional officials have offered the setting up of a team with the local authority to establish a Sunderland Action Plan - we suggested that it include also MSC, English Estates and local enterprise agencies under a private sector chairman. This would help in better targetting of existing help and encouraging new projects to take account of grants - on request, such as Urban Development Grant (from DOE) and Regional Selective Assistance (from DTI).



The local authority have, in the last few days, identified the British Shipbuilders' Deptford yard as the major inner city resource they would like to develop. This extends to 35 acres, although BS may wish to retain their large shed (see map). Our rough estimate is that it would require £10m to clear the dereliction and a further £20m to develop. The Government could only apply its share of resources of this magnitude if there were real prospects of the private sector taking up the development. If a private developer were to come forward the new Urban Regenerating Grant, being introduced in the current Housing and Planning Bill and available directly to developers, might provide a way forward. Sunderland must apply its mind to how they are going to achieve development of this site. DOE, DTI, English Estates stand ready to help.



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PERSONALITIES

1. Councillor John Donnelly - Deputy Leader (Labour)

Deputy Leader and Chairman of Management, Policy and Resources and Shipbuilding Committees. An ex-miner. A moderate who is a major figure in the authority. He appears ready to do business with the private sector (he is also chairman of Newcastle Airport) but is unsure how to achieve this. Of all those in the Labour Group he is the most ready to take a pragmatic line; and to deliver the local authority's contribution to any new initiative. Has close links with the Association of Metropolitan Authorities.

2. Councillor J Connor (Labour)

A shipyard worker at Austin Pickersgill on the Wear. Not chairman of any major committees and probably invited to attend because of his shipyard experience and background. Not notably moderate.

3. Councillor Tim Brown (Conservative)

Conservative spokesman on industry and the economy in the Council. Not leader of the Conservative group but very prominent. A local solicitor.

4. Councillor F D Hall (Liberal)

A shipyard worker at Swan Hunter on the Tyne. A leading local Liberal but not known to be influential. Again likely to have been chosen because of his shipyard background.

5. Geoffrey Key - Chief Executive

Mr Key is head of a relatively under-powered group of officers.

The authority's style is generally to raise problems and to deposit them in the lap of central government, with no suggestions of their own how to achieve positive progress.



9

SUNDERLAND - BACKGROUND NOTE

<u>% Unemployment</u>	April 86	May 85 - April 86
Sunderland	19.1	19.0
North East	22.3	22.2
All Development Areas	20.1	20.0
All Intermediate Areas	16.5	16.4
GB	13.6	13.4

Redundancies

Redundancies Jan - Dec 1985

Agriculture, forestry and fishing	-	0
Energy and water supply	-	3857
All manufacturing industries	-	14923
Construction	-	2658
All service industries	-	3396

24,834

Notified redundancies having taken place

Quarter ending March 1986 - 3473 *

Recently announced redundancies not included above

Swan Hunter	Wallsend	possible	1000
Smiths Dock	Middlesbrough		1300
Clark Kincaid	Wallsend		360
Austin & Pickersgill	Sunderland		360
NEI Nuclear Systems	Gateshead		75
NEI Parsons	Heaton/Gateshead		790 (news item)
Press Offshore Ltd	Wallsend		108 May 86
ICI	Billingham/Wilton		250 (news item)
* Bates Colliery	Blyth		900 closed 23 May 1986

* included in total

HH WOOD

GATESHEAD

99



Regional Assistance

Over £77m since 1979 creating or safeguarding 12,400 jobs.

Regional Development Grant Nov 84 - mid June 86

	North East	Sunderland
Payments	£13m	£2.6m
Jobs created	4795	1131

Regional Selective Assistance

	North East	Sunderland
No. of projects	158	18
Offers	£28.8m	£5.7m
Jobs created	5981	1144
Jobs safeguarded	3735	435

Business Improvement Services

£600,000 since November 1984.



DoE Grants and resources to Sunderland (£m)

	1984/5	1985/6	1986/7
Rate Support Grant	62.7	56.6	67.8
Urban Programme Allocations	3.28	3.474	3.17
Derelict Land Grant Allocations	0.779	0.785	0.890
Housing Investment Programme Allocations	6.207	5.02	5.02
Urban Development Grant	-	0.067	0.178
	<u>72.966</u>	<u>65.946</u>	<u>77.058</u>

Notes:

1. Urban Programme allocations attract Exchequer grant at a 75% rate.
2. Derelict Land Grant is normally paid at a 100% rate.
3. Housing Investment allocations are loan approvals only. Sunderland is currently not in receipt of housing subsidy, although it may return into subsidy as a result of the recent transfer of the Washington New Town public stock to the Authority.
4. The UP and DLG allocations for 1986/87 exclude any additional resources that might be given to Sunderland from the £10m Shipyard Closure package.
5. The HIP allocation for 1986/87 could also be enhanced: Sunderland have requested £3m for 4 schemes to run-down estates under the DOE's Urban Housing Renewal Unit initiative: these schemes are still being considered. Housing capital expenditure can be increased by the use of the prescribed proportion of capital receipts from the sale of council houses and land - Sunderland currently spends about £13m a year on housing capital schemes.



DOE INTEREST

1. Urban Programme Allocations

Sunderland might ask why they have only received £3.17m Urban Programme resources for 1986/87 whereas the Newcastle/Gateshead Partnership is getting £17.2m. Both Newcastle and Gateshead have lower populations than Sunderland.

The answer is firstly that within the Urban Programme framework Inner City Partnerships are, as a matter of Government policy, given more resources than Programme authorities (of which Sunderland is one) and Other Designated Districts because in general Partnership areas are more deprived than these other areas. The Newcastle/Gateshead Partnership in fact has a lower score than any other Partnership areas under the index used by the DOE to measure urban deprivation. But a political decision was taken to have a Partnership on Tyneside and its existence could be said to benefit the whole of the Tyne and Wear commuting area.

Resources for Sunderland itself amongst the Programme authorities are determined by a formula of eight indicators covering matters such as unemployment, overcrowding, household formation, lack of basic amenities and ethnic origin. Using Census data an index (known as 'Z-score') is calculated for each district area. Sunderland scores highly under the unemployment indicator, but it does less well under ether indicators because the Borough has a young population, a high percentage of LA housing and low ethnic population. Sunderland also has a comparatively small designated inner area. The Borough is a large one and icludes substantial rural areas as well as Washington New Town within its boundaries.

DOE Ministers are currently reviewing the heirarchy of Partnership and Programme authorities and considering whether there should not be more year-to-year flexibility in allocating resources to authorities to reflect and reward good performance and changing needs.

2. Housing Investment Programme (HIP) Allocation

A similar complaint may be made by Sunderland about the HIP allocations - Sunderland's allocation for 1986/87 of £5.02m is the lowest of the Metropolitan districts in the North East; Newcastle receive £9.75m. Again the answer lies with the methodology used for allocations (the Generalised Needs Index') but this is agreed annually with the Association of Metropolitan Authorities. The methodology covers all aspects of housing need, including that in the older private sector. Sunderland's housing stock is comparatively modern and 51% is in the public sector. The stock also includes dwellings in Washington New Town. Whilst a significant proportion of the stock may suffer from disrepair, few dwellings actually lack basic amenities; there is little overcrowding and little homelessness.

Sunderland were the only authority in the Northern Region not to receive a lower HIP allocation for 1986/7 - it is the same as for last year. Sunderland have applied for £3m additional HIP resources under the DOE's Urban Housing Renewal Unit initiative for the refurbishment of run-down council estates. Their 4 schemes are still under consideration.

3. Port of Sunderland

Sunderland Council would like to use Urban Programme resources for infrastructure and environmental works in the Port of Sunderland. They also believe there is a need for Urban Development Grant aid towards business expansion schemes related to the Port.

The line taken by DOE is that it would not be appropriate for the Government to grant aid schemes specifically intended to help one port to compete directly with others for port-related business, especially in view of present over-capacity in the North East and right along the east coast within the ports industry. No marketing schemes or running costs can therefore be funded through the Urban Programme. However, the former Secretary of State told the Council in January that he would consider assisting with UP general infrastructure, road access and environmental improvements which helped to open up the port area

for new non-port related uses. The same would apply to UDG for private sector projects.

4. Washington New Town

It was announced last year that the New Town Development Corporations, including Washington, would be wound-up in March 1988. Washington and Peterlee/Aycliffe are two of the region's most successful job-creating agencies and care has to be taken over transfer of their assets and promotional role. It is currently proposed by DOE and DTI Ministers that Washington's assets and appropriate staff should transfer to a new Northern Subsidiary of English Estates. The Chairmen of the NTDC's (Professor McClelland - Washington; Sir Michael Straker - Peterlee/Aycliffe) are concerned about the competence of English Estates for this task, particularly the promotional role. The Chairmen are to have a further meeting with DOE and DTI Ministers shortly. Sunderland Borough Council has urged the Government to retain Washington NTDC, but does not appear too ill-desposed to a transfer to English Estates.

5. Urban Development Grant (UDG) Schemes

Two major private developments are currently being considered by Sunderland and DOE for UDG assistance:

(a) Refurbishment for sale by Wimpey of 120 difficult-to-let council flats at Downhill Estate. This is a £3m project on which UDG of £1.4m is sought. The grant application is with DOE. The scheme has had to be appraised carefully because of doubts about value for money and the high cost. A decision should be taken shortly.

(b) Sunderland Town Centre: a £17m project to enclose and upgrade Sunderland's town centre shopping precinct so that it can compete more effectively with recent out of town shopping developments (eg Metro Centre, Gateshead) and other town centres (eg Eldon Square, Newcastle). The works are estimated at £17m and a UDG of £5.5m would be needed. No application for grant has been made yet to DOE.

Prospects for approval are not good: the scheme would not create extra jobs nor increase retail floorspace. DOE's priority with UDG is to find schemes that will have direct economic and physical benefits.

PROJECTS IN SUNDERLAND WITH DOE INTEREST

(a) Pallion Enterprise Workshops

Conversion of an 8,000m² derelict factory using MSC Community Programme and YTS labour to provide small industrial units and sports and leisure facilities. The Urban Programme contributed almost £1m. A good example of an enterprise scheme involving local residents in positive response to a factory closure.

(b) Greenwells Dock and North Sand Shipyards

Two large reclamation projects involving sites formerly owned by British Shipbuilders. Work is underway on both sites and Derelict Land Grant of £1.5m will be paid by DOE. The schemes with further UP support will provide large marketable sites for port-related industry, including offshore oil business. The Nissan car plant could use the North Sands site for a roll-on, roll-off facility, although Nissan appear to have chosen to continue using their Teesport facility.

(c) Marlborough Park, Washington

The London-based property company Regalian have purchased from Sunderland Council 400 flats and maisonettes in a former difficult-to-let estate on the fringe of Washington New Town. They are refurbishing the units for sale at low cost on similar lines to Battersea Village in Wandsworth. The first phase of the project was opened by Sir George Young on 20 May. About £4m private investment is involved. The most refreshing aspect of the scheme is that no Government subsidy or grant has been needed.

(d) Urban Development Grant

Three small UDGs, in total worth £1m, have been approved or offered for private housing schemes in Sunderland. Another £1.4m UDG application by Wimpey to refurbish 120 council flats at Downhill Estate stands a reasonable chance of success.

(e) MARI (Microelectronics Applications Research Trust Ltd)

MARI are involved with Sunderland on 3 current projects:

(a) A software development unit for school-leavers with Sunderland's Inner Area Programme meeting £100,000 of the revenue costs over 4 years.

(b) A proposed advanced telecommunications centre at Webster's Ropery building on the Wear with UP support.

(c) A proposed 'Start' project of IT training for new businesses, also at Webster's Ropery and with UP support.

(f) Project North East

This group has set up other enterprise centres in the North-East and has recently identified premises in Sunderland town centre. The new centre (which will probably have capital support from DOE through the Urban Programme) will provide facilities for young people to develop commercial products and ideas with a view to establishing viable businesses.



NORTHERN DEVELOPMENT COMPANY

BACKGROUND

The NDC represents an alliance of local interests - Local Authorities, CBI, Chambers of Commerce and TUC - to promote the interests of the Northern Region in respect of economic development and employment creation. The body will seek to establish a common strategy and priorities with all promotional and spending agencies including Government, the northern subsidiary of English Estates and the New Towns and will promote, both at home and abroad, the North as a place to invest, work and live.

A private company has been formed and a board of directors representing the main sponsors is currently being appointed. A Chairman of national standing is being sought.

RECENT DEVELOPMENTS

NDC has received widespread support from local government, employers, unions and the media and most of the region's MPs. Some Conservative MPs and councillors have expressed concern however that NDC would be Labour dominated and act as a vehicle for attacks on Government. Mr Morrison (MOS Industry) has had private meetings with several of these opposers to hear their views, which were discussed between NDC representatives and the Secretary of State for Trade and Industry on May 22. At that meeting the participants said:

(a) they had been encouraged by the views of the Prime Minister who, on an earlier visit to the region encouraged regional organisations to get their act together and win new developments for the region;

(b) that in order to retain a broad base of support in the region and Ministerial blessing NDC must operate on a non-party political basis; and

(c) NDC would put to Ministers proposals for taking over NEDC (North of England Development Council - the region's promotional organisation) with a transfer of DTI funding, since it was illogical to have both NDC and NEDC as separate promotional bodies.

The Secretary of State asked NDC representatives for a paper setting out in greater detail what NDC would do. The agreed line for the media was:-

"On his visit to the North East arranged several months ago the Secretary of State met a group of representatives from the newly-formed NDC who outlined their plans. This group included representatives of the Local Authorities, trade unions and the CBI. The Secretary of State found their ideas very interesting and asked that the NDC prepare a paper to deal with the many questions he raised. When he had received the answers to these questions the Secretary of State undertook to discuss them with his Ministerial colleagues."



I

WINDING UP OF WASHINGTON NEW TOWN

It was announced last year that the New Town Corporations were to be wound up in March 1988. Washington New town is very close to Sunderland and industrial development in Washington provides job opportunities for Sunderland residents. DoE and DTI are agreed that a Northern Subsidiary of English Estates (a DTI sponsored industrial property developer) should take over the management and further development of the New Town's industrial estates after winding up.

The Chairmen of Washington and Peterlee/Aycliffe New Towns are concerned about the competence of English Estates for this task, particularly the promotional role played by the New Towns. The Departments do not agree with this contention that English Estates is not competent to take on this task.

However DTI Ministers believe that it would not be appropriate for English Estates - which is a purely property development company - to take on the wider promotional role. It would be preferable to hand over these functions to a regional development organisation with a full range of interests in the North East's economy such as the Northern Economic Development Corporation or the Northern Development Company - if this proves itself to be a non partisan body representing all region's economic interests.

Sunderland Borough Council has urged the Government to retain Washington New Town but does not appear to be too indisposed to a transfer to English Estates.

LINE TO TAKE

English Estates not competent to take over Washington New Town?

Departments involved believe that English Estates is competent to take on this task.

Promotional role of the New Town?

Not appropriate to English Estates which is a purely property development company. Would be preferable to hand over these functions to a regional development organisation such as the Northern Economic Development Corporation or the Northern Development Company - if this proves itself to be a non partisan body representing all region's economic interests.



(5)

SUNDERLAND DELEGATION

Lloyds List 13 June quoting Bob Clay MP.

1. Withdraw 925 redundancies, otherwise NSEL will not be able to take advantage of expected upturn in 1990's.

Line to Take

BS decision in interests of future of business

Future depends on orders

Smaller yards than ~~NSEL~~
NSEL operate successful business.

2. And the Sunderland yards have hardly been taking on any apprentices.

Line to Take

The number of apprentices must be for BS to judge

Last year Sunderland Council very helpfully provided for extra apprentices to be taken on.



3. Clear up-to-date information on hoped for orders:

(a) 'five containerships for China'

Line to Take

I met General Secretary Hu Yaobang and Vice Premier Li Peng. Tell you privately I was encouraged by what they had to say.

Background : Not to be revealed

All the signs are that COSCO will shortly indicate their agreement to purchase two ships on soft loan terms. COSCO would like to order five. We have told the Chinese we would do our best to ensure finance for five. If offered two, BS would seek to close a deal including an option on three more.

(b) 'four reefers from Cuba'

Line to Take

Phillip Hares told the Trade and Industry Select Committee last week he was optimistic about a repeat order from a present owner. It does not do to go into commercial detail when negotiations are in progress.



Background : Not to be revealed

A group of four general cargo boats for Cuba is nearing completion at Smith's Dock. BS and the Cubans are talking about 4 to 7 more, this time with some refrigerated capacity. There is still a wide price gap which BS do not expect to narrow significantly until the Cubans are nearer the point of needing to order at least the first ship. This may not now be until towards the end of 1986.

(c) 'A further order, which is understood to be near being secured.'

Line to Take

Phillip Hares said he was also optimistic about an order for roll-on roll-off ferries for a European owner. It would not be wise to say more.

Background : Not to be Revealed

BS now hope to sign a contract on 27 June to build 4 small inter-island ferries for a Danish owner, with an option to build a further 20. This point has been delayed twice already. If the order is secured, it could provide a base-load at the Sunderland yards until the Spring of 1989. BS have been at great pains to retain the closest confidence about this order; their main fear is that the Danish Authorities would press for a new competition to allow very depressed Danish yards the opportunity to tender. This, in turn, could bring the Poles back in. They offered better terms than BS, but the owner prefers to build here, if he can afford to.

DEPARTMENT OF TRADE AND INDUSTRY

23 June 1986

COVERING CONFIDENTIAL



Secretary of State for Trade and Industry

PS/

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215)
(Switchboard) 01-215 7877

20 June 1986

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Mark,

... As requested in your letter of 29 May I enclose briefing for
the Prime Minister's use at the meeting with a delegation from
Sunderland on 23 June. The briefing is divided into two parts -
shipbuilding and non-shipbuilding issues. The Prime Minister
might find it helpful to concentrate on the first part. I also
... attach a copy of the Prime Minister's recent letter to the
Managers of the Wear SAIMA Branch.

My Secretary of State and Mr Coates from Shipbuilding and
Electrical Engineering Division will attend.

Copies of the brief have been sent to Iain Mackinnon (Department
of Employment), Brian Leonard (Department of Environment) and
Michael Stark (Cabinet Office).

Yours ever

Michael

MICHAEL GILBERTSON
Private Secretary

Encls

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BOARD OF TRADE
BICENTENARY

DEPUTATION FROM SUNDERLAND - 23 JUNE 1986

MPs

Mr. Gordon Bagier, MP for Sunderland South

Mr. Bob Clay, MP for Sunderland North

Borough of Sunderland

Councillor J. Donnelly, JP

Councillor J. Connor

Councillor J.D.S. Brown

Councillor F.D. Hall

Mr. G.P. Key (Chief Executive)

Wearside Confederation of Shipbuilding and Engineering Unions

Mr. John Spoor - Secretary

Mr. Nick Wales - Vice Chairman

Austin and Pickersgill Joint Shop Stewards Committee

Mr. Jim Baldwin - Member

Mr. Peter Callaghan - Secretary

Sunderland Shipbuilders Joint Shop Stewards Committee

Mr. Cedric Morse - Chairman

Mr. David Stores - Secretary