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BRITISH SHIPBUILDERS
BILL
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Purpose of the Bill

The Government is committed to promote private ownership of shipbuilding. This Bill will remove the present statutory obstacles to the introduction of private capital, and provide enabling powers for the Secretary of State for Industry to direct British Shipbuilders (BS) to dispose of particular assets or subsidiaries.

Background

After a prolonged Parliamentary struggle, British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act 1977 (the 1977 Act) on 1st July 1977. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering.

Shipbuilding in Europe suffered a continuous decline in the 1950s and 1960s. Employment in the industry in the UK fell from 130,000 in 1955 to 69,000 in 1973. From 1974, the threat of nationalisation hung over the industry. In addition, it had to operate in the 1974-7 period in the dreadful economic climate which Labour had created. World demand continued to decline, and, not surprisingly, the industry faced serious financial problems.

Since nationalisation, the industry has received over £700 million. Had it remained in the private sector, assistance would have been needed. But, the industry would have faced up to the need for rationalisation much sooner, and the cost to the Exchequer might well have been less.

BS Financial Results

	£ million				
Year to April:	1978*	1979	1980	1981	1982
Turnover	497.0	842.0	813.0	899.3	1025.6
Trading loss	104.5	49.4	109.9	41.4	19.8
IF credited**	46.6	15.6	64.3	44.1	46.9
PDC introduced		-	236	110	107

* Nine months to April 1978

** Intervention Fund. Under the Industry Act 1972, this Fund was set up to assist the industry compete with overseas yards.

The Corporation's borrowing limit under the 1977 Act was £500 million. This was increased to £600 million in November 1981. Under the Shipbuilding Act 1982, the overall limit was increased to £700 million, with provision for the Secretary of State to extend it to £800 million.

The Corporation's EFL is £123 million in 1982-3, compared to £150 million in the previous year.

In 1981-2, the results in the five main divisions were:

	Turnover	Trading profit (loss)
	£ 000	£ 000
<u>Merchant Shipbuilding Division</u>		
Austin & Pickersgill Ltd	65,457	(8,949)
Govan Shipbuilders Ltd	52,630	(6,287)
Smith's Dock Ltd	30,688	(2,202)
Sunderland Shipbuilders Ltd	59,323	(5,605)
Appledore Shipbuilders Ltd	14,604	(356)
Ferguson-Ailsea Ltd	14,965	(6,276)
Goole Shipbuilders Ltd	15,810	(2,221)
Hall Russell Ltd	11,376	63
Henry Robb Ltd	10,032	(4,427)
Swan Hunter Shipbuilders Ltd	<u>120,874</u>	<u>83</u>
	395,759	(36,177)
<u>Warshipbuilding Division</u>		
Barclay Curle Ltd	5,306	624
Brooke Marine Ltd	17,124	479
Vickers Shipbuilding and Engineering Ltd	207,101	19,601
Vosper Thornycroft (UK) Ltd	124,066	9,302
Yarrow Shipbuilders Ltd	<u>74,790</u>	<u>8,576</u>
	428,387	38,582
<u>Engineering Division</u>		
Blackwall Engineering Ltd	1,829	17
BS (Engineering and Technical Services) Ltd	4,980	359
Britparts Ltd	2,493	-
Clark Hawthorn Ltd	24,952	(236)
John G Kincaid Ltd	19,502	(1,897)
K & L Marine Equipment Ltd	1,227	22
Sunderland Forge Ltd	9,052	(233)
Wolsingham Steel Ltd	<u>7,337</u>	<u>(223)</u>
	71,372	(2,191)
<u>Shiprepair Division</u>		
Brigham & Cowan (Hull) Ltd	-	-
Falmouth Shiprepair Ltd	6,318	1,023
Grangemouth Dockyard Ltd	1,669	(625)
Tyne Shiprepair Ltd	36,801	(7,989)
Vosper Shiprepairs Ltd	<u>8,401</u>	<u>(1,902)</u>
	53,189	(9,493)

	Turnover	Trading Profit (loss)
	£ 000	£ 000
<u>Offshore Division</u>		
Cammell Laird Shipbuilders Ltd	52,722	242
Scott Lithgow Ltd	74,735	(14,949)
V O Offshore Ltd	<u>7,312</u>	<u>1,029</u>
	134,796	(13,678)

Manpower

Division	July 1977	Nov 1978	Sept 1979	March 1981	March 1982
Merchant	34,245	33,376	31,069	24,963	24,658
Warship	25,778	25,795	25,990	25,207	24,514
Shiprepair	9,017	8,933	6,333	4,323	3,854
Engineering	5,691	5,706	5,089	4,348	3,897
Offshore Corporation	12,703	12,600	11,215	8,794	8,918
	-	-	-	136	275
H.Q.	35	177	244	204	204
Total	87,469	86,587	79,940	67,975	66,320

Note: Divisions were not formed until 1980 and statistics have been projected back to Vesting Day.

The Shipbuilding Redundancy Payments Scheme was introduced in 1978, retrospective to vesting day. This scheme was extended by the Government in July 1982, so that it will now run until 30th June 1985. It was also improved, primarily to give a better deal to those under 40.

At that stage, 20,000 employees had been helped by the scheme, at a cost of £55 million. The savings in manpower costs were estimated to be £150 million. Payments made under the scheme to date have been:

£ m	1978	1979	1980	1981	1982
Year to April:	-	4.7	15.5	20.1	14.4

The Bill

Clause I

The Functions of BS

Under the 1977 Act, BS has a legal duty to "promote the efficient and economic design, development, production, sale, repair and maintenance of ships and slow speed diesel marine engines, and research into matters relating thereto". Other legal duties are also imposed by the Act. For example, BS is required to carry out its activities with full regard to the requirements of national defence and the need to benefit from the knowledge and experience of its workforce; and to promote industrial democracy.

Such legal requirements would obviously be inconsistent with operation as a private sector company. Thus a first step in privatisation is to remove them. The Bill therefore seeks to repeal these sections of the 1977 Act, while ensuring that BS retains the legal capacity to carry on existing activities, and other activities approved by the Secretary of State.

Removal of the legal straightjacket will enable BS to organise its affairs in the light of its own commercial judgement. Responsibility for the implications for national defence is put where it properly should be - on Government.

The Powers of the Secretary of State

Under the 1977 Act, the Secretary of State was required to have regard to a number of specific factors before giving a general direction to BS. These were:

- the need to co-ordinate the operations of BS with those of the British shipping industry.
- the shipbuilding policies of any international organisations to which the UK belongs.
- the ability of BS to compete in world markets on equal terms with overseas competitors.
- the implications for regional employment.

The Bill seeks to replace these with the requirement that, before giving a general direction to BS, the Secretary of State must be satisfied that it will further the national interest. The factors above will obviously be embraced by this requirement, and other factors might also be involved.

Clause II

The Organisation of BS

The Bill would give the Secretary of State power in the national interest, to direct BS, by order:-

- to discontinue or restrict any of its activities (or those of its wholly owned subsidiaries),
- to dispose of all or any of its property, rights or liabilities (or those of its wholly owned subsidiaries).

It is envisaged that this power will be used to deal with unfair competition with the private sector, and to direct the sale of some or all of the shares in BS subsidiaries.

The Secretary of State would be given powers, when directing disposal, also to direct BS to form a company to which the property can be transferred. He would also be able to prohibit such a company from straying outside the activities specified in his

direction. Thus he would be able to maintain control over the nature and the use of the assets of the company. The company would initially be a wholly owned BS subsidiary and the restrictions above would end if and when it ceased to be wholly owned.

These provisions will enable activities to be concentrated in separate wholly owned subsidiaries, to ensure transparency. This might be necessary in its own right, or as a prelude to disposal. The Bill would enable the Secretary of State to direct that an employees' share scheme be established, to allow employees to benefit from disposal.

Safeguarding the National Interest after Disposal

When the Secretary of State directs or consents to a disposal, the Bill gives him powers:

- to require BS to amend the articles of association to include restrictions on things such as the size of foreign share holdings and the nationality of directors.
- to require the creation of special rights preference shares to be held by him or his nominee. Consent of these shareholders would be needed to any change in the relevant articles.

These powers would be used for reasons of national security, to ensure that assets important to our defence interests do not pass into foreign control. The Bill provides a simple, flexible and effective method of securing this.

The Warship Yards

Vickers, Vosper Thornycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. However, this does not preclude other possibilities, and all options are open.

The previous owners of the specialist warship yards have been informed of the Government's intention to legislate. The over-riding concern in any option taken by the Government will be to enhance the strength of the industry and maximise return to the taxpayer.

The 1977 Compensation Terms

In Opposition, Conservatives were very much opposed to the terms of compensation for the owners of firms nationalised under the 1977 Act. As Secretary of State for Industry, Sir Keith Joseph reaffirmed the view that they were "grossly unfair" (Hansard, 7th August 1980, col. 290). Total compensation paid for the 24 private companies vested in BS was £755 million. Many of the companies involved have settled, but nine separate applications are before the European Commission of Human Rights.

The Government believes that, however unjust the original arrangements, it would be unjust to amend the terms now because people have sold shares on the terms of the 1977 Act.

The Benefits of Privatisation

Mr Lamont has said of BS: "we believe that jobs are going to be best preserved and orders most easily won under private ownership", (BBC Radio 4, 27th April 1982).

The benefits which privatisation brings are many:

- * Companies or operations are removed from artificial guarantees provided by the State, where there are few commercial disciplines, and no need to persuade investors to invest in the business.
- * Managers - the people who know most about the business - are freed from Treasury control and able to raise money in fair competition with other borrowers.
- * Greater efficiency comes with investment projects competing for capital.
- * Employees can identify more closely with their companies. They can take a stake in them: thanks to this Government around 90,000 of them already have. And the National Freight Company+ is now owned by a consortium of its managers and workforce.
- * When linked with liberalisation, consumers benefit from the effect which competition has on efficiency and prices.
- * Individuals are able to buy shares - in particular, small investors are often given preferential access.

The real rate of return on the £90 billion employed in the nationalised industries in 1980 was minus 1%, and this poor performance was not untypical of recent years. This burden on the nation must be reduced.

Progress on privatisation/liberalisation

The Government has made substantial progress in reversing the "Socialist ratchet". For the first time since the war, the size of the publicly owned sector of industry is being significantly reduced.

Communications Industry

British Telecom has operated separately from the Post Office since October 1982.

Nearly half the Government's shares in Cable and Wireless were sold in Autumn 1981, to form a private sector company.

+ Formerly the National Freight Corporation.

Mercury was given a 25 year licence in February 1982 to run an independent telecommunication network in competition with BT. The first service is expected in early 1983.

Value added services, offered by private firms using BT's network, are now being licensed.

The supply and maintenance of telecommunications apparatus has been opened up to competition. One result is that private subscribers will no longer have to rent telephones other than the first from BT.

Legislation in place contains powers to require BT to form wholly owned subsidiaries and dispose of them.

Legislation outlined in the Queen's Speech will put BT into Companies Act form and enable the sale of shares. This will be a major extension of real public ownership.

Legislation in place allows the Post Office monopoly to be suspended.

Private operators have been licensed to provide mail services and document exchanges.

Transport Industries

Legislation in place permits the denationalisation of British Airways.

The National Freight Corporation (now Company) has been bought by a consortium of management and workers.

The traffic licensing régime has been relaxed, particularly in relation to express coach services.

Legislation in place allows private capital in the National Bus Company.

British Rail's hovercraft subsidiary has been merged with Hoverlloyd, to form a new private sector company, Hoverspeed.

Six BR hotels have been sold, together with a significant portfolio of property.

Legislation in place allows the sale of Sealink, BR's ferry service.

The British Transport Docks Board, which owns 19 ports, is to be denationalised shortly.

The testing of heavy goods vehicles is being transferred to the private sector.

Energy Industries

Legislation in place permits the sale of shares in Britoil (formed from the oil exploration/production arm of BNOC), and BGC's oil-producing interests in the North Sea. It is intended that Britoil will become a private sector company, although the Government will retain special rights to prevent unacceptable changes in future control.

BGC's statutory privileges in buying gas, and its monopoly position in supplying large gas consumers, have been removed.

Legislation in place permits the sale of BGC's showrooms, subject to further legislation on safety.

BGC's half share in the Wytch Farm onshore oilfield is in the process of being sold.

Legislation outlined in the Queen's Speech will permit the private generation of electricity as a main business.

Other Industries

British Aerospace and Amersham International have been transferred to the private sector.

Legislation outlined in the Queen's Speech will permit privatisation of British Shipbuilders.

BL has disposed of its interests in Prestcold, Coventry Climax and Alvis.

Significant progress has been made with the rationalisation of the British Steel industry, both within BSC and in those sectors of the market where BSC and the private sector operate.

Part of the operations of BSC have been returned to the private sector in the form of a separate company, Allied Steel and Wire Ltd., now one of the largest wire companies in Europe. The Corporation has been reorganised so that the saleable parts, which are not part of the mainstream steel business, are formed into Companies Act companies. BSC's major construction subsidiary, Redpath Dorman Long Ltd., has been sold. Sheffield Forge masters is being established as a unique combination of publicly owned

(BSC) and privately owned (Johnson Firth Brown) industrial interests.

The NEB holdings in 21 companies have, to date, been sold back to the private sector. Prominent among these were holdings in ICL, Ferranti Ltd., and Fairey Holdings Ltd. The NEB's role as an agent of "back door nationalisation" has been ended.

In the longer term, the Government has made it clear that it does not accept that state ownership is the only solution for the so-called natural monopolies.

Labour policy on nationalisation

Labour's Programme 1982 states: "We have to demonstrate the practical benefits of common ownership, showing how public enterprises can be a spearhead for innovation and new investment, making clear the benefits to both workers and consumers, and exploring the best forms of organisation and different forms of common ownership". At least they concede that the practical benefits have not been demonstrated yet, despite over 30 years since Labour's nationalisation programme first got underway.

The programme also promises "a radical improvement in the service which these industries provide to the people who own them". Again, at least the present shortcomings are appreciated. Nevertheless, Labour plans to renationalise the businesses which the present Government has returned to the private sector, to undo everything which has been achieved in liberalising the state monopolies and to extend nationalisation into each important sector of industry.

The terms upon which renationalisation would proceed have been the subject of dispute within the Labour Party. Mr Benn told the House of Commons: "Both at the TUC Congress last year and the Labour Party Conference last year, we called...for the reacquisition of public assets without compensation". (Hansard, 10th November 1981, col. 499). However, the Right of the party appears to have succeeded in moderating this. Labour's Programme 1982 states that "shareholders should be repaid precisely the amounts which were paid for the assets at the time they were denationalised".

A still different form of words emerged from the last Labour Conference. The motion passed said that compensation would only be given: "on proven need and at a level which ensures that the recipients do not gain from their investment".

Gerald Kaufman, Shadow Environment spokesman, has said: "We will make sure that those who have bought into British Shipbuilding will make no gain from their act of piracy", (Financial Times, 20th October 1982). He promised that Labour would renationalise without delay any part of the British shipbuilding industry that is privatised by the Government.

Labour will extend state ownership into the electronics industry. The Programme states: "GEC, which occupies a pivotal position in the British electronics and electrical engineering industries, will form an integral part of our public ownership programme." It also promises more state ownership in construction and building materials, pharmaceuticals, road haulage, major ports, and timber products. It states that existing nationalised industries will be allowed to diversify; and that "We are committed to take a majority stake in all existing and future North Sea oil fields". Mr Benn has warned: "It is long-term policy of the Labour Party to bring all oil into public ownership, including BP". (Hansard, 10th November 1981, col. 499). The 1982 Conference approved a motion which included a call for the nationalisation of 20 to 25 large companies.

At the Labour Party Conference in 1976, Mr Callaghan said that the NEC's proposal to nationalise the banks would be "an electoral

albatross", (Blackpool, 24th September 1976). However, among proposals listed for consideration in Labour's Programme are: "A public stake in the banking system established by taking one or more major clearing banks into public ownership", and "An extension of public ownership into other parts of the financial system". The 1982 Conference threw out a motion to nationalise the banks, but only on a margin of 3.4 million votes for, 3.1 million against.

On the subject of the price to be paid for assets confiscated by the State. Labour's programme warns: "We have learned the lessons of past mistakes and will not overcompensate." It is suggested that shareholders could be compensated by government bonds which would have staggered periods of redemption.

Labour's plans for confiscation extend beyond their nationalisation proposals. They promise to: "provide a statutory right and mechanism for workers in private firms - subject to government consent - to convert their enterprise into a workers' co-operative by acquiring the assets of the firm". There is no discussion of the need for consent from the owners of the enterprise, nor of the terms of compensation.

Cost of Labour's Nationalisation Proposals

Re-nationalisation: direct cost at least £800 million today; but it would rise substantially once Britoil and BGC interests sold.

Nationalisation: among the numerous companies which would apparently be nationalised are Beecham Group, Glaxo, GEC, Plessey, Barratt Development and Taylor Woodrow. Compensation for these alone would mean payments to shareholders of well over £12 billion; provided the terms of compensation were fair.

Alliance policy on nationalised industries

The SDP Green Paper No. 2 states: "If a (nationalised) industry is operating in a competitive environment and can viably be operated as a commercial concern, there is no overriding case for subjecting it to the sort of system of Government control which exists at present..... We propose therefore that the competitive industries should be set up as Companies Act companies and given an equity structure Even if the Government continued to hold the initial equity, there would be no objections to issuing further equity to private shareholders Ownership would gradually pass from public to private hands".

This is very similar except perhaps in its stress on gradualism, to the Government's policy. So is the SDP's policy, set out in the Green Paper, of increasing the pressure on the nationalised industries to be efficient, although it is unclear how this would be reconciled to their plans to introduce subsidies. The SDP agree with the Government that the State monopolies need to be kept under tight control.

However, the SDP and the Liberals voted with Labour during last year's debate on the address on a motion "regretting that the Gracious Speech contains proposals which, in putting private profit before public interest, strip the nation's North Sea oil and gas assets"

They voted against the Oil and Gas (Enterprise) Bill second reading and (with the exception of Christopher Brocklebank Fowler, who was then a Conservative and the Liberal Stephen Ross), against the British Telecommunication Bill second reading. The SDP did not exist on the latter occasion, but many SDP MPs voted as Labour MPs on this occasion.

It is therefore very difficult to ascertain whether the theory of the Green Paper commends itself to the Party in Parliament, and how it would be applied in practice.

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