



HOUSE OF COMMONS
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From:
Michael Foot MP

5 May 1983

Dear Prime Minister,

Our Industry team and I have recently had the opportunity of visiting a number of shipyards and having intensive talks about the future of the shipbuilding industry with managements and workforces in the North of England and in Scotland.

I am deeply concerned about the present prospects for survival of the industry. Already we are moving dangerously close to a situation in which British shipyards will be unable to undertake major tasks as was evidenced by the Cunard Countess order going to Malta. The logic of leaving this essential industry to the vagaries of market forces and competition is that we could reach a situation before long in which this maritime country of ours will be totally dependent upon foreign yards for new ships and major shiprepairs. I do not believe that this is a position which should be allowed to develop and I am taking the exceptional step of writing to you to ask the Government to give further help to this essential industry before it is too late.

Further closures and redundancies are threatened in the immediate future. I believe that Government intervention is necessary to carry the industry over for the next 2 years when an upturn in orders can reasonably be expected. These next two years are crucial to the very survival of a shipbuilding capacity in the United Kingdom and we neglect them at our peril.

I believe that a programme along the following lines would go a long way to ensure that the industry survives its present crisis.

1. As a matter of urgency, Government aid should be increased in the short term.
2. An accelerated building programme for public sector vessels and defence vessels.
3. More flexible credit arrangements to enable British Shipbuilders to compete against Japanese and Korean shipyards.

4. Home owners credit facilities to be improved to maximise work for British Shipbuilders from British shipping lines. Japan gives its domestic owners credit on 90 per cent of a home built vessel's price spread over 12 years at low interest rates - and prices are up to 15 per cent below the actual costs of material and labour.
5. All British shipowners, Government Departments and nationalised industries must buy from British yards with financial incentives being made available to private companies.
6. Consideration should be given to placing an advance order for an oil rig as the Labour Government did on two occasions in similar circumstances. There was no difficulty in selling them on completion.

There may of course be alternative ways of keeping the shipbuilding and shiprepairing industry in being. The essential point at this stage is that there should be a Government commitment to do so and I urge you to take a very early opportunity to make this commitment known to the industry and to the country.

M. Thatcher

Rt. Hon. Margaret Thatcher MP
10 Downing Street
London



10 DOWNING STREET

PRIME MINISTER

Michael Foot writes to urge
on you a six point programme to
help the shipbuilding and ship-
repairing industry.

I have asked Patrick Jenkin's
office for an urgent draft reply.

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5 May 1983

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Michael FOOT MP
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5 May 1983

I enclose a copy of a letter to the Prime Minister from the Leader of the Opposition. He urges on her a six point programme to help the shipbuilding industry.

I should be grateful for a draft reply for the Prime Minister to send to Mr. Foot as soon as possible.

W. F. S. RICKETT

Jonathan Spencer, Esq.,
Department of Industry

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OPPOSITION DAY DEBATE
ON
SHIPBUILDING

Tuesday 19th April 1983

<u>Contents</u>	<u>Page</u>
Background	1
Prospects	1
World Situation	2
Manpower	3
BS Finances and Intervention Fund	4
1977 Compensation Terms	6
British Shipbuilders Bill	6
Labour Policy	8

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Background

British Shipbuilders was established under the Aircraft and Shipbuilding Industries Act, 1977, after a prolonged Parliamentary struggle. It was formed from twenty-seven companies in shipbuilding, ship repairing and marine engineering.

Shipbuilding in Europe declined throughout the 1950's and 1960's. In the UK employment in this sector fell from 130,000 in 1955 to 69,000 in 1973. From 1974 the threat of nationalisation hung over the industry, world demand continued to decline and its financial problems continued to be acute.

Since nationalisation the industry has received over £700 million in grants and loans from the exchequer. If it had remained in the private sector it would have needed assistance, but it would also have faced up to the need for rationalisation much sooner and the cost to the exchequer might well have been less.

Prospects

Present prospects are gloomy. The world's shipyards have been badly hit by the recession (see below) because their customers the shipowners are facing a glut in capacity brought about by the drop in world trade. In December 1982 12 per cent of the world's total fleet, some 84 million tons of shipping, was lying idle. Competition from foreign, mainly Far Eastern, yards is intense. British Shipbuilders current order book at the end of March 1983 was estimated at £2705 million, which included £1908 million for warships and £553 million for merchant shipping. Sir Robert Atkinson, the retiring chairman of BS, has warned that the corporation is "fighting for its life" and cannot afford a wage rise this year. Great efforts are being made to improve productivity, which rose 15 per cent in 1980 - 1982, and modernise the yards. In 1983-4 capital expenditure will be £90 million.

Warship Yards: Vickers, Vosper Thornycroft and Yarrow have a consistent track record of profitability and are clearly areas with potential for private investment. In December 1982 the Government announced nearly £600 million of naval orders. BS is anxious to increase the export share of its warship order book from around 20 per cent to 30 per cent, but many current customers are rapidly becoming competitors.

Merchant Yards: This market is very depressed and expected to remain so. The Merchant Yards are the division most affected by foreign competition. The situation is worst in the large yards, particularly Sunderland Shipbuilders, Austin and Pickersgill (Tyneside), Govan (Clyde) and Smiths Dock (Middlesbrough).

Offshore Yards: Charter rates for rigs are declining as a result of the world oil glut and orders are scarce. Camell Laird (Merseyside) and Scott Lithgow (Clyde) feature prominently in the BS recent announcement of jobs at risk (see below).

Ship Repairing: The slump in world shipping has hit the ship repair yards hard. They suffered major redundancies last year.

World Situation

The shipbuilding industry is in crisis everywhere. At the end of 1982 world forward orders for shipbuilding were down by 35 per cent on the end of 1981.

Japan: The Japanese industry accounts for more than half the world market but in 1982 its orders fell by 58 per cent.

Korea: The South Korean industry is now second only to Japan, in 1974 it ranked 70th in the world. It is often blamed by its western competitors for unfair competition. The Seoul government is accused of granting excessive subsidies and export credits to enable its yards to quote prices up to 35 per cent cheaper than European rivals. The Koreans however claim that their two largest yards, Daewoo and Hyundai, receive no direct government subsidy though they did benefit from an initial five year tax holiday. The Export Import Bank of Korea does grant export credit, but the terms are said to be less favourable than the Japanese offer. Korean yards say they are cheaper because their yards are more modern and efficient, because their local raw materials, particularly steel, are cheaper than in Europe, and because they have a cheap and disciplined workforce. The average working week in Korean shipyards is 60 hours and wages are about one-third of those paid in Japan. Despite all these advantages Korean yards experienced a 20 per cent drop in orders in 1982.

Europe: Most EEC shipowners place their orders for ships with their national yards. The figures are as follows, in percentage terms:-

	<u>1979.</u>	<u>1980</u>	<u>1981</u>
Germany	100	91.9	79.8
Belgium	91.4	100	94.6
Denmark	74.5	61.1	84.3
France	100	68.5	91.8
Greece	-	-	0.6
Ireland	52.6	5.7	80.9
Netherlands	77.1	60.2	60.6

(Source: European Parliament Written Answers)

Despite these figures the West European industry has been hit harder by the recession than its foreign rivals. West German shipbuilders lost about £220 million in 1982, Sweden and France are both trying to produce survival strategies for their yards, and in the Netherlands Rhine Schelde Verolme is in a perilous state and 30,000 jobs are at risk.

National aids to shipbuilding and shipowners are listed in Appendix A.

Manpower

BS workforce has been reduced from 87,500 at nationalisation in 1977 to around 63,000 today. In February and March this year 2,300 jobs were lost at BS; the breakdown was as follows:-

Merchant Shipbuilding

Austin and Pickersgill, Sunderland	200
Sunderland Shipbuilders, Sunderland	415
Clelands Shipbuilders, Wallsend	30
Swan Hunter Shipbuilders, Wallsend	500
Smith's Dock, Middlesbrough	32

Warship Building

Vickers Shipbuilding, Barrow	99
Vosper Thornycroft (UK), Portsmouth and Southampton	227

Engineering

Blackwall Engineering, Poplar, London	94
Wolsingham Steel, Wolsingham	229
Wallsend Slipway Engineers, Wallsend	11

Short-term workers (mainly Swan Hunter) 460

TOTAL 2,297

Threatened Redundancies: BS have warned that between 6-9,000 more redundancies are possible. 3,700 could be lost on the merchant side, 3,550 in offshore work, about 1,300 in warship yards and 300 in engineering. Scott Lithgow could lose 2,150 jobs, Govan 1,130 jobs and Cammell Laird 1,400. IT IS EMPHASISED THAT THESE FIGURES REPRESENT THE MAXIMUM NUMBER OF JOBS AT PRESENT AT RISK. BS HOPE THE ACTUAL NUMBER LOST WILL BE LESS.

Breakdown of BS employment by division and region:-

DIVISION

	July 1977	Nov 1978	Sept 1979	March 1981	March 1982	Feb 1983
Merchant	34,245	33,376	31,069	24,963	24,658	23,231
Warship	25,778	25,795	25,990	25,207	24,514	23,987
Shiprepair	9,017	8,933	6,333	4,323	3,854	2,667
Engineering	5,691	5,706	5,089	4,348	3,897	3,334
Offshore	12,703	12,600	11,215	8,974	8,918	9,099
Corporation	-	-	-	136	275	648
H.Q.	35	177	244	204	204	240
Total	87,469	86,587	79,940	67,975	66,320	63,206

REGION

	Dec 1978	Dec 1979	Dec 1980	Dec 1981	Feb 1983
Scotland	28	28	27	27	29
N.E. England	36	35	36	35	32
N.W. England	23	23	24	25	26
Rest of England	13	14	13	13	13
Total	100%	100%	100%	100%	100%

Shipbuilding Redundancy Payments Scheme: This was introduced in 1978, the present Government extended it in July 1982 so that it will run until 30th June 1985. It was also improved in order to give more help to those under 40. The savings in manpower were estimated at that stage to be £150 million. So far over 22,000 employees have benefitted from it to the tune of £62 million.

£m	1978	1979	1980	1981	1983 (Feb)
Feb. to April	-	4.7	15.5	20.1	7.3

BS Finances

- Under this Government BS had received, by September 1982:

- £600 million in loans and grants
- £418 million in public dividend capital
- £125 million from the intervention fund
- £51 million in special redundancy payments

- BS Financial Results:

	£m				
Year to April	1978	1979	1980	1981	1982
Turnover	497	842	813	899	1025
Trading Loss	104.5	49.4	109.9	41.4	19.8
Intervention Fund	19.3	10.6	31.2	38.9	46.1
Capital Expenditure	20.1	27.4	18.6	16.7	36.8
Public Dividend Capital -	-	-	236	110	107

- 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 results for the year to 31st March 1983 will not be available until the summer. BS's loss limit for 1982-3 was set at £10 million but half-year losses were £28 million and there has been much recent speculation that its losses for the whole year will be between £50-70 million. BS's EFL was set at £123 million for 1982-3 but was later increased to £160 million

- The Intervention Fund exists to help BS compete with cheap Far Eastern prices. The most notable recent example of its use was when the Government provided around £10 million in order to ensure that Cunard built the replacement for the Atlantic Conveyor, lost in the Falklands, at Swan Hunter instead of at Hyundai in Korea. The Koreans had quoted £30 million against BS's £40 million and the Korean price was estimated to be the same as BS's material costs alone. BS estimate that approximately 60 per cent of the cost of a ship is accounted for by outside contractors and suppliers, so the benefits of intervention fund spending are spread widely throughout the economy.

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

	Turnover £ 000	Trading profit (loss) £ 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>
	<u>395,759</u>	<u>(36,177)</u>
<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>
	<u>428,387</u>	<u>38,582</u>
<u>Engineering Division</u>		
Blackwall Engineering Ltd	1,829	17
BS (Engineering and Technical Services) Ltd	4,980	359
Britparts Ltd		
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>(233)</u>
	<u>71,372</u>	<u>(2,191)</u>

Shiprepair Division

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	8,401	(1,902)
	<u>53,189</u>	<u>(9,493)</u>

Offshore Division

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)

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 Kieth 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 some have taken their ~~cases~~ 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.

Some of the previous owners bought seven cases against the Government concerning the compensation paid before The European Commission of Human Rights. In January the Commission declared four of the seven cases admissible and they are now waiting to be heard.

The British Shipbuilders Bill

This bill has received its third reading in the Commons and is now in the Lords.

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, ^{giving/a} before 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 the 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.

Labour Policy

Labour say in their "New Hope for Britain" that they intend to ensure that British Shipbuilders remains a wholly nationalised concern, and intend to create a state owned shipping organisation to act as its customer. Labour will introduce protectionism in shipping "to protect our shipping and jobs from unfair competition" and will provide BS with "a new financial basis and adequate resources for investment". In short Labour propose to apply their usual remedy of state control, subsidy and protection with the sole aim of preserving jobs. Shipping and Shipbuilding are areas of intense international competition, and attempts by this country to opt out of that are likely to have particularly harmful effects on international trade and the viable jobs that depend on it. They say nothing about the fundamental problems that make our yards uncompetitive or how they would tackle them.

Appendix A

Direct Aid to Shipbuilding and Shipowners

<i>Direct Aid to Shipbuilding</i>	<i>Home Credit Scheme Aid to Shipowners</i>
<i>United Kingdom</i> Up to 17 per cent. of contract price (Includes 2 per cent Shipbuilders Relief)	Home Credit Scheme 80 per cent. over 8½ years at 7 per cent. (On orders placed in United Kingdom yards only)
<i>Belgium</i> Nil	Home Credit Scheme 70 per cent. over 15 years. Interest relief subsidy (maximum 3 percentage points)
<i>Denmark</i> Nil	Home Credit Scheme 80 per cent. over 12 years at 8 per cent. interest including 2 year grace period
<i>France</i> Up to 20 per cent. of contract price. (Excludes cost escalation insurance which benefit ranges from zero to 3 percentage points)	Home Credit Scheme 80 per cent. over 8½ years at 7½ per cent. interest.
<i>Germany</i> Nil	12½ per cent. investment grant. 4 per cent. interest subsidy. (The Investment Grant automatically reduces the amount of credit to which the Interest Subsidy applies.) Credit Guarantees at OECD terms.
<i>Ireland</i> Up to 30 per cent. of contract price. (Scheme expired 31 December 1980. No details of new scheme yet available.)	Home Credit Scheme 80 per cent. over 8½ years at 7½ interest.
<i>Italy</i> Up to 30 per cent. of contract price. (This relates to 1980 practices under an old scheme. A new scheme is believed to be under discussion with the EC Commission.)	Home Credit Scheme 70 per cent. over 15 years. Interest subsidy 50 per cent. of official rate.
<i>Netherlands</i> Up to 15 per cent. of contract price. (1980 scheme, no details of aid scheme for 1981-82 yet available.)	Home Credit Scheme 80 per cent. over 8½ years at minimum of 8 per cent. interest. Investment subsidy of 15 per cent. plus investment premium of 1.1 per cent. for 5 years.
<i>Finland</i> Nil	Home Credit Scheme 80 per cent. over period of construction (at least 2 years, normally not more than 8 years at 11 per cent. interest.
<i>Japan</i> Nil	Home Credit Scheme. * Government (Japanese Development Bank) loan of 60 or 70 per cent. over 13 years at 7½ per cent. interest including 3 year grace period. Further loan available from commercial banks, acting in conjunction with JDB, for 15 or 20 per cent. of contract over 8 years at 8½ per cent. interest. Supplementary provision in certain cases for interest subsidies of 2½ per cent. to 3½ per cent.
<i>Norway</i> Nil	80 per cent. of contract price over 8½ years plus interest subsidy of up to 5½ per cent.
<i>Spain</i> Up to 9½ per cent. of contract price	Home Credit Scheme. 85 per cent. over 12 years at 8 per cent. interest with up to 2 years grace period. (Smaller subsidy—70 per cent. of value at 8 per cent. for 5 years plus 1 year grace—available for conversions and major repair work.)
<i>Sweden</i> Nil	Credit guarantees of 90 per cent. of contract price for up to 15 years on commercial loans with 3 year grace period on capital repayments. Interest rate subsidy about 2½ per cent. available in certain cases.

Department of Industry, London,
July 1982

Note:

* The 70 per cent. and 20 per cent. loans are available only for LNG carriers. Other types of vessel attract the lower percentages.

Source: Hansard, Written Answers, 8th November 1982, Col. 71

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