

Wh
28/6

DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB

Telex 8813148
 Telegrams Advantage London SW1
 Telephone Direct Line 01-212 3301
 Switchboard 01-212 7676

PS/Secretary of State for Trade and Industry

24 June 1983

Willie Rickett Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

mf

Dear Willie,

Robin Butler's letter of 23 June requested briefing for the Prime Minister's use, to mobilise public opinion in support of the Government's pressure on British Shipbuilders.

2 I attach a confidential background note on BS' as yet unpublished results for 1982/83, its request for crisis aid, and a line to take on BS' poor performance.

3 As the request arose partly in the context of my Secretary of State's informing the Prime Minister of delays on the ACL order at Swan Hunter, I have also included a confidential background note on this. However, I suggest that the Prime Minister should not explicitly refer to delays on this particular contract, which are not public knowledge, as this could damage BS's relations with the buyer.

4 My Secretary of State will be questioned orally about shipbuilding on 29 June. He will refer to the possibility of support for individual orders, on a case by case basis, along the lines agreed by Ministers collectively, and announced by Mr Jenkin on 12 May in answer to a written PQ. But, in advance of the E(NI) discussion of BS in mid-July, he will not be making any announcement about the fate of BS' request for crisis aid.

Yours ever,
 Caroline Varley

CAROLINE VARLEY
 Private Secretary



PRIME MINISTER'S QUESTIONS: 27 JUNE 1983

BRITISH SHIPBUILDERS

Line to Take

I know that British Shipbuilders is facing a very difficult market situation. And we are considering a request for special help for the industry, because of the difficulty of getting orders. But BS has got to put its own house in order. Performance in some parts of the business has been poor. BS has got to demonstrate that, recession or not, it is able to perform to time and to cost.

Department of Trade & Industry
27 June 1983



CONFIDENTIAL

Background

BS' REQUEST FOR CRISIS AID

The outgoing Chairman of BS, Sir Robert Atkinson, has asked for an emergency aid package totalling £150m over 2 years, to support merchant shipbuilding at almost its present capacity through the current recession.

BS has submitted a Corporate Plan setting out the case for assistance in more detail.

The Secretary of State for Trade & Industry regards this plan as unacceptable, and Sir Robert will be told of this on 29 June. Subject to colleagues' agreement at a forthcoming meeting of E(NI), he proposes to request the incoming Chairman, Mr Graham Day, to produce a plan for partial closure of BS' merchant shipbuilding activities, as a matter of extreme urgency.

However, some of BS' 'better' yards, that could be viable in the longer term, will start to run out of work very soon. Ministers agreed in May of this year that requests for assistance, on a case-by-case basis, to secure orders for such yards, could be considered.

The Secretary of State for Trade and Industry is prepared to use such assistance if necessary to prevent options being foreclosed, during the period before the partial closure plan is available to the Government.

The future of BS, and the fate of its request for crisis aid, is certain to be raised during oral questioning of the Secretary of State on Wednesday 29 June. The Secretary of State will not, in advance of discussion with his colleagues at E(NI), make any announcement on either crisis aid or the Corporate Plan. He will, however, refer to the possibility of case-by-case support, which his predecessor announced by written PQ on May 12.

Pay negotiations for the current year, due to be settled on 1 April, are hanging fire while BS waits for the Government's response to the crisis aid request. The management have said that no pay increase will be available at national level, although there may be some scope for self-financing local productivity deals. The unions have rejected this, and have also threatened industrial action against compulsory redundancies. BS have said 9000 jobs are at risk this year.



CONFIDENTIAL

Background

British Shipbuilders' (BS) 1982/3 Financial Results

BS 1982/3 Report and Accounts will be published in July. It is, however, already public knowledge that the Corporation has massively exceeded its loss target of £10m. Figures of around £100m appeared in the press some weeks ago. The final l o s s is likely to be about £115m.

This appallingly high figure is due only in part to the severe recession in both world merchant shipbuilding and offshore work which has cut the Corporation's current orderbooks. By far the greater part of it is due to the Corporation's dismal performance on existing contracts, in particular Scott Lithgow's performance on a BP tanker and offshore work; and Swan Hunter's (mainly on a BP tanker built there).

The Secretary of State for Trade and Industry intends to direct BS to publish its 1982/3 results on a basis which makes it quite clear where the losses arise. Hitherto, the fact that some shipyards that make big losses on merchant or offshore work also engage in profitable warshipbuilding has meant that the extent of merchant and offshore losses at particular yards has been masked.

Department of Trade & Industry
27 June 1983



CONFIDENTIAL

Background

ACL ORDER

This order, for one container ship, was placed by ACL Limited in July 1982 with Swan & Hunter on Tyneside at a price of £45m. The order was widely regarded as a replacement for the Atlantic Conveyor although the company had planned the purchase well before the Falklands operation.

The contract package involved a Government subsidy of £18m (40% of contract price) plus a contribution from the Department of Trade (acting as an agent for MOD) of £2.3m (5% of contract price) bringing the total Government contribution to about £20m (45% of contract price). The Department of Trade contribution was in part compensation for the loss of the Atlantic Conveyor.

There are heavy penalties for late delivery: £10,000 a day for the first 45 days and £15,000 a day thereafter, with an option for the buyer to cancel the contract for delays beyond 9 months.

British Shipbuilders are required to provide DTI with bi-monthly progress reports. The latest, covering the period February/March 1983, indicates that whereas 5% of the steel fabrication should have been completed, by end-March only about half that work had been done. The technical drawing programme was 10% behind schedule. BS have taken some steps to alleviate the drawing problem for which it appears the customer is at least partly responsible. But it is not clear that BS will succeed in absolving themselves from the blame for any resulting delivery delay. BS are being pressed for the next progress report.

British Shipbuilders' monitoring report for January - March 1983 indicates that they are providing for a £5.2m loss on this contract.

Department of Trade & Industry
27 June 1983

27 March 1983

11 12 1 2 3
4 5 6 7 8 9